May 5, 2006

HVB Equity Research

Member of UniCredit Group

Company Report | Software & IT Services

Outperform

Price on 05/04/06	**EUR 3.63**
High/Low (12M)	4.05/2.89
Price target	**EUR 4.30**

STOCK DATA

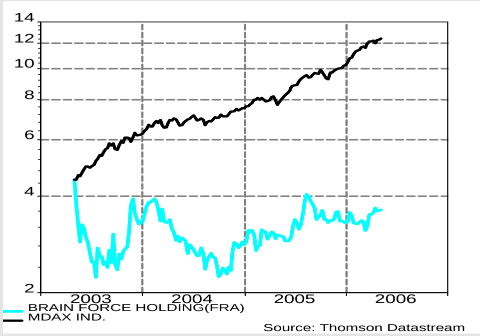
Reuters	BFCG.DE
Bloomberg	BFC GY
WPK	919331
Average daily volume (tds.)	46.9
Free float (%)	84.3

COMPANY DATA

Market capitalization (EUR mn)	55.9
No. of shares in issue (mn)	15.4
Capital subscribed (EUR mn)	10.3
Capital authorized (EUR mn)	–
Shareholders	Helmut Fleischmann and Helmut Fleischmann Private Foundation 15.7%

Annual general meeting	11-May-06
Q1	29-May-06
H1/Q2	28-Aug-06

PRICE CHART



RELATIVE PERFORMANCE (% CHG.)

	1M	3M	6M
DAX	4.5	1.3	-13.7
DJES50	5.1	3.6	-7.3
ES Tech.	4.8	-0.4	-10.6

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BRAIN FORCE HOLDING

WORTH AN INVESTMENT!

- **Initiation of coverage:** We are initiating our coverage of BRAIN FORCE HOLDING with an Outperform rating and a target price of EUR 4.30. The current stock price does not yet, in our opinion, reflect the successful implementation of the company's "build & buy" strategy.

- **BRAIN FORCE's business model is based on a build & buy strategy.** BRAIN FORCE has made as many as seven acquisitions since 1999; alongside the establishment and expansion of the products business, the primary objective was to promote the company's regional expansion. Among mid-sized businesses, therefore, BRAIN FORCE is one of the sector's consolidators.

- **Upside potential on the basis of a peer-group comparison and DCF model:** Both our peer-group comparison (upside of about 18%) and our DCF model reveal considerable upside (upside of about 18%).

	2004	2005	2006e	2007e
Sales (EUR mn)	64	77	89	98
% change	*7.2*	*18.9*	*16.6*	*10.0*
Net income (EUR mn)	2.0	3.1	3.4	4.4
% change	*-203.4*	*54.5*	*8.2*	*28.6*
EPS reported (EUR)	0.21	0.30	0.23	0.27
% change	*-152.2*	*40.9*	*-21.8*	*17.6*
EPS adjusted (EUR)	0.21	0.30	0.23	0.27
% change	*-152.2*	*40.9*	*-21.8*	*17.6*
EPS adj. pre-goodwill (EUR)	0.21	0.30	0.23	0.27
% change	*-247.0*	*40.9*	*-21.8*	*17.6*
CFPS (EUR)	0.45	0.70	0.49	0.51
% change	*87.8*	*55.1*	*-30.3*	*3.9*
Dividend (EUR)	0.06	0.08	0.07	0.08
EBITA margin (%)	3.7	4.7	5.1	6.1
CAGR (Sales; 04-07e)				15.1%
CAGR (EBITA; 04-07e)				35.8%
EV/sales	0.1	0.4	0.4	0.3
EV/EBITDA	2.1	5.4	4.2	2.9
EV/EBITA	3.6	9.1	7.1	4.6
EV/EBIT	3.6	9.1	7.1	4.6
P/E (EPS adj. pre-goodwill)	13.9	10.9	15.6	13.2
PEG ratio				1.5
P/CF	6.5	4.7	7.4	7.2
Div. yield (%)	2.0	2.5	1.9	2.1

Contents

Investment story

BRAIN FORCE's business model is based on a build & buy strategy. BRAIN FORCE has carried out as many as seven acquisitions since 1999; alongside the establishment and expansion of the product business, the primary objective was to promote the company's regional expansion. Among mid-sized businesses, therefore, BRAIN FORCE is one of the sector's consolidators. As a rule, BRAIN FORCE acquires profitable businesses rather than companies in need of restructuring. Target businesses should have revenues of between EUR 8 mn and EUR 18 mn (EUR 12-13 mn on average). In terms of content, apart from acquisitions to cover regional blank spaces, BRAIN FORCE's focus is on takeover targets that are solutions providers and offer products that complement its existing product portfolio. Other takeover candidates include companies with a strong sales & distribution organization in the regions not yet covered by BRAIN FORCE. The "build" component of BRAIN FORCE's strategy involves investment in organic growth. In this context, the focus of BRAIN FORCE is on: 1) further developing and standardizing the existing product portfolio; 2) extending product and solutions sales across all national companies so as to ensure effective market access for new products; and 3) establishing an indirect sales channel for products that can be marketed internationally (high ability to standardize required).

Value drivers

BRAIN FORCE operates its business in three divisions: Enterprise Services (traditional IT services), Business Solutions (product business) and Technology & Infrastructure. Apart from the Enterprise Services division (down 1.3% y-o-y), in fiscal 2005 BRAIN FORCE increased revenues significantly both in the Business Solutions division (up 29.1% y-o-y) and in the Technology & Infrastructure division (up 54.4% y-o-y), with company benefiting from the consolidation of two takeovers. Its operating margin was boosted by this trend, as the Business Solutions and Technology & Infrastructure divisions reported EBIT margins of about 9%, while the EBIT margin of the Enterprise Services division came to about 5%. We assume that in future BRAIN FORCE will try to further increase the contribution to revenues made by these two higher-margin divisions because we regard the margin potential in the Enterprise Services division as limited on the basis of the current business alignment (HVBe: 5-7%). We see further margin potential for the Enterprise Services division, for example in the build-up of services related to areas such as managed services (e.g. operating a network on behalf of customers) or outsourcing. We anticipate further takeovers to meet the objective of extending the Business Solutions and Technology & Infrastructure divisions, which will either improve the company's positioning in regional terms or round out its product portfolio. Moreover, we expect existing products to be increasingly marketed on a global level.

Valuation

We are commencing our coverage of BRAIN FORCE HOLDING with an Outperform rating and a target price of EUR 4.30. In 2005, BRAIN FORCE successfully implemented its build & buy strategy. We expect the company to benefit from this trend in 2006 as well and we project substantial revenue growth along with a further expansion of its margins. The current stock price does not yet, in our opinion, reflect this potential to a sufficient degree. Both our peer-group comparison (upside of about 18%) and our DCF model reveal considerable upside (upside of about 18%).

Valuation

Outperform rating – target price EUR 4.30

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Undervalued in comparison with the peer group

BRAIN FORCE is trading at a substantial discount to other IT services providers. In our opinion, BRAIN FORCE's current valuation discount to the other IT services providers also results from its relatively low EBIT margin of slightly less than 5% at present. For this reason, we think that the valuation should be geared to a greater extent to the multiples (EV/sales) of stocks such as itelligence and Cap Gemini, whose profitability is similar to BRAIN FORCE's. Our multiple-based approach is geared to the P/E (2007) figure; based on our current estimates, we still see considerable upside potential of about 18% at current prices in comparison with the average.

VALUATION OVERVIEW: EUROPEAN IT SERVICES PEER GROUP

		Price on	EV/sales		EV/EBIT		P/E	
		04-May-06	2006e	2007e	2006e	2007e	2006e	2007e
ALTEN	EUR	30.68	1.7	1.5	12.1	10.8	19.8	17.7
ALTRAN TECH.	EUR	11.85	1.2	1.1	14.2	11.6	21.2	16.5
ATOS ORIGIN	EUR	58.50	0.8	0.7	9.5	8.8	14.3	12.9
CAP GEMINI	EUR	45.60	0.8	0.7	15.1	11.8	26.1	20.1
GFI INFORMATIQUE	EUR	6.87	0.6	0.6	10.3	9.0	14.3	12.1
IDS SCHEER	EUR	17.97	1.5	1.4	14.1	11.5	25.0	20.0
INDRA SISTEMAS	EUR	16.42	1.6	1.5	13.7	12.2	20.8	18.4
ITELLIGENCE	EUR	3.73	0.5	0.5	11.1	8.4	18.7	14.3
LOGICACMG	GBp	191.50	1.0	0.9	11.6	10.0	18.7	15.9
SOPRA GROUP	EUR	73.95	1.0	0.9	12.4	11.2	19.9	17.4
TIETOENATOR	EUR	24.73	1.1	1.1	11.2	9.9	15.9	13.5
XANSA	GBp	92.50	0.9	0.8	15.6	12.7	20.2	15.4
Average			**1.1**	**1.0**	**12.6**	**10.7**	**19.6**	**16.2**
BRAIN FORCE HOLDING	EUR	3.63	0.4	0.3	7.1	4.6	15.6	13.2

Sources: I/B/E/S, HVB Global Markets Research

DCF Valuation

DCF model: target price of EUR 4.30

Our DCF model is based on the following assumptions. We project a revenue CAGR (2005-2015) totaling some 9%. For EBIT, we have assumed a disproportionately high growth rate of 18% during the same period, equivalent to an increase in the EBIT margin from 4.7% to 10.6%. BRAIN FORCE's hybrid business model consisting of conventional IT services in combination with the products business should, in our opinion, allow it to reach these margin targets. We have projected a long-term FCF growth rate of 3% and a WACC of some 10%. Terminal value accounts for roughly 14% of the enterprise value.

DCF model

		2006e	2007e	2008e	2009e	2010e	2011e	2012e	2013e	2014e	2015e
Sales	EUR mn	89.4	98.3	110.1	121.1	130.8	139.9	149.7	160.2	169.8	180.0
NOPAT	EUR mn	3.1	4.0	4.9	5.9	6.8	7.9	9.0	10.3	11.6	12.9
EBIT	EUR mn	4.6	6.0	7.3	8.7	10.2	11.8	13.5	15.4	17.3	19.2
Eliminations	EUR mn	0	0	0	0	0	0	0	0	0	0
Taxes	EUR mn	-1.5	-2.0	-2.4	-2.9	-3.4	-3.9	-4.5	-5.1	-5.7	-6.3
Plus Depreciation & amortization	EUR mn	3.3	3.3	3.5	3.6	3.6	3.5	3.5	3.4	3.3	3.4
Minus increase in NWC	EUR mn	-1.8	-1.9	-2.2	-2.4	-2.6	-2.7	-2.9	-3.1	-3.3	-3.5
Minus Capital Expenditures	EUR mn	-2.1	-2.2	-2.4	-2.5	-2.7	-2.8	-3.0	-3.1	-3.3	-3.4
Minus Minorities	EUR mn	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.3	-0.3	-0.3
Free cash flow (FCF)	EUR mn	2.4	3.0	3.7	4.4	5.0	5.2	5.3	5.5	5.6	5.8
Years		0	1	2	3	4	5	6	7	8	9
Cash value of terminal value	EUR mn	8.6									
Share of terminal value in enterprise value	%	14.4									
Long-term growth rate of FCF	%	3.0									
Enterprise Value	EUR mn	59.3									
Net debt	EUR mn	-6.5									
Value of total equity	**EUR mn**	**65.8**									
Fair value per share	**EUR**	**4.27**									
WACC	%	10.2									

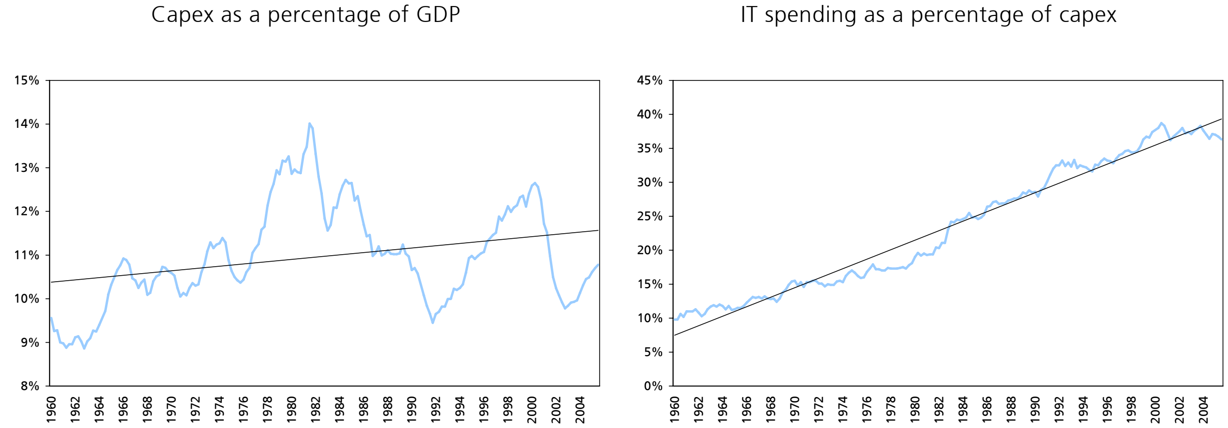
Source: HVB Global Markets Research

IT services: sustained recovery expected

Recovery of corporate IT spending continues

Total capex continues to recover from its low in Q1/03. In the wake of the bursting of the tech bubble, capex in the U.S. also slumped. It reached its low in Q1/03 and has recorded a persistent recovery since then. This trend is benefiting both software vendors and IT services companies.

UNITED STATES: SUSTAINED RECOVERY OF IT SPENDING



Source: Bureau of Economic Analysis

Gradual growth of IT services market xpected

Gartner Group projects a CAGR (2004-2009e) of 5.5% for the global IT services market. This growth rate is, however, distorted by the depreciation of the USD. Gartner roughly assumes that only about 4.9% of the reported market growth in 2005 (6%) resulted from organic growth. The segments with the greatest growth potential are process management with a CAGR of 8.9%, IT management services (CAGR of 6.0%) and development & integration (CAGR 5.3%). In view of projected market growth in the mid-single digits, it becomes apparent that providers of IT services are capable of reporting above-average growth rates primarily if they are able to capture market share from their rivals.

IT SERVICES MARKET BY SEGMENT: GLOBAL, 2003-09E (USD MN)

	2003	2004	2005e	2006e	2007e	2008e	2009e	CAGR (04-09e)
Hardware Maintenance and Support	80,804	84,754	85,943	86,036	87,611	89,502	91,534	1.6%
Software Support	43,741	47,574	50,237	52,223	54,892	57,858	61,158	5.2%
Consulting	41,985	44,972	47,303	49,195	51,664	54,186	56,819	4.8%
Development and Integration	161,031	174,861	187,321	195,367	205,543	215,779	226,200	5.3%
IT Management Services	134,080	147,602	156,485	163,738	173,956	185,298	197,297	6.0%
Process Management	75,232	82,721	90,123	97,636	106,339	116,048	126,767	8.9%
Total	**536,872**	**582,485**	**617,411**	**644,195**	**680,006**	**718,671**	**759,773**	**5.5%**

Source: Gartner Group (12/2005)

North America as the most important IT services market

North America accounted for about 44% of the global IT services market in 2005. Gartner Group expects this percentage to increase to roughly 46% in 2009. For the period 2004 through 2009, Gartner Group projects a compound annual growth rate (CAGR) of 6.5% in North America. The projected market volume comes to about USD 347.3 bn. North America thus remains the world's most important IT services market, followed by Western Europe (about 32% in 2005). Unlike the North American region, Gartner projects only a relatively low CAGR of 2.8% for this region (2004-2009e), a reflection of the persistently muted prospects for GDP growth in Western Europe's major economies.

IT SERVICES MARKET BY REGION: GLOBAL, 2003-09E (USD MN)

	2003	2004	2005e	2006e	2007e	2008e	2009e	CAGR (04-09e)
North America	240,502	253,344	269,402	286,719	305,384	325,396	347,316	6.5%
Latin America	17,414	19,096	21,120	23,378	25,680	28,390	31,394	10.5%
Western Europe	168,338	189,868	196,346	197,519	203,717	210,439	217,605	2.8%
Eastern Europe	3,817	4,200	4,298	4,293	4,435	4,588	4,755	2.5%
Middle East and Africa	6,577	7,388	7,730	7,816	8,177	8,576	9,020	4.1%
Japan	72,725	77,579	83,702	86,853	91,904	97,172	101,867	5.6%
Asia & Pacific	27,498	31,010	34,813	37,618	40,708	44,110	47,817	9.0%
Total	**536,872**	**582,485**	**617,411**	**644,195**	**680,006**	**718,671**	**759,773**	**5.5%**

Source: Gartner Group (12/2005)

Growth should continue

Most of the providers we cover have returned to a growth course. Most providers had to report a decline in revenues in the wake of the technology downturn, but they benefited from a recovery in demand in subsequent years. In line with the recovery in revenues, the margin situation of most providers has stabilized again.

OVERVIEW OF IT SERVICES COMPANIES

		1999	2000	2001	2002	2003	2004	2005
Atos-Origin								
Revenues	EUR mn	2727	2830	3038	3043	3035	5249	5459
Operating margin	%	8	6	9	9	8	7	8
Number of employees		24429	26442	27440	27606	27677	45800	47814
Revenues/employee	EUR '000	112	107	111	110	110	115	114
CAP Gemini								
Revenues	EUR mn	7674	8471	8416	7047	5754	6291	6954
Operating margin	%	10	11	5	2	3	1	3
Number of employees		39210	50249	59906	54882	49805	57387	61036
Revenues/employee	EUR '000	196	169	140	128	116	110	114
Brain Force								
Revenues	EUR mn	39	61	66	59	60	64	77
Operating margin	%	6	4	-14	0	0	4	5
Number of employees*		239	273	542	530	598	614	740
Revenues/employee	EUR '000	162	225	121	111	101	105	104
Number of employees**		484	771	823	750	855	856	1104
Revenues/employee	EUR '000	80	80	80	79	70	75	70
IDS Scheer								
Revenues	EUR mn	87	126	160	181	221	280	318
Operating margin	%	14	10	5	13	13	12	10
Number of employees		726	1032	1381	1379	1639	1945	2297
Revenues/employee	EUR '000	120	122	116	132	135	144	138
itelligence								
Revenues	EUR mn	112	149	183	159	146	131	139
Operating margin	%	10	-1	-4	-1	-3	4	4
Number of employees		863	1189	1541	1460	1232	943	981
Revenues/employee	EUR '000	130	125	119	109	118	139	142

* Number of employees excl. freelancers

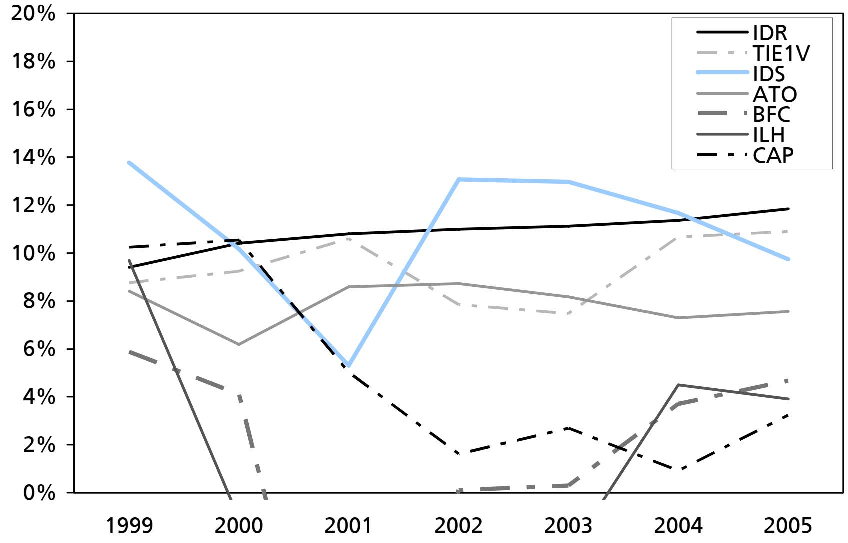
** Number of employees incl. freelancers

Sources: Company data, HVB Global Markets Research

Turnaround vs. margin strength

Essentially, IT services providers can be divided into two camps: high margin vs. turnaround. We still consider providers such as Cap Gemini, BRAIN FORCE and itelligence to be turnaround stories, whereas companies such as Atos-Origin, Tietoenator, Indra Sistemas and IDS Scheer have demonstrated margin growth both during the downturn and in the wake of the recovery in demand. In relative terms, smaller providers such as IDS Scheer benefited from their focus on specialist segments of the IT services market, while larger providers such as Tietoenator and Indra Sistemas benefited from their local focus.

TREND OF EBIT MARGINS, SELECTED IT SERVICES PROVIDERS



Source: Company data

BRAIN FORCE HOLDING: The company's history and strategy

History

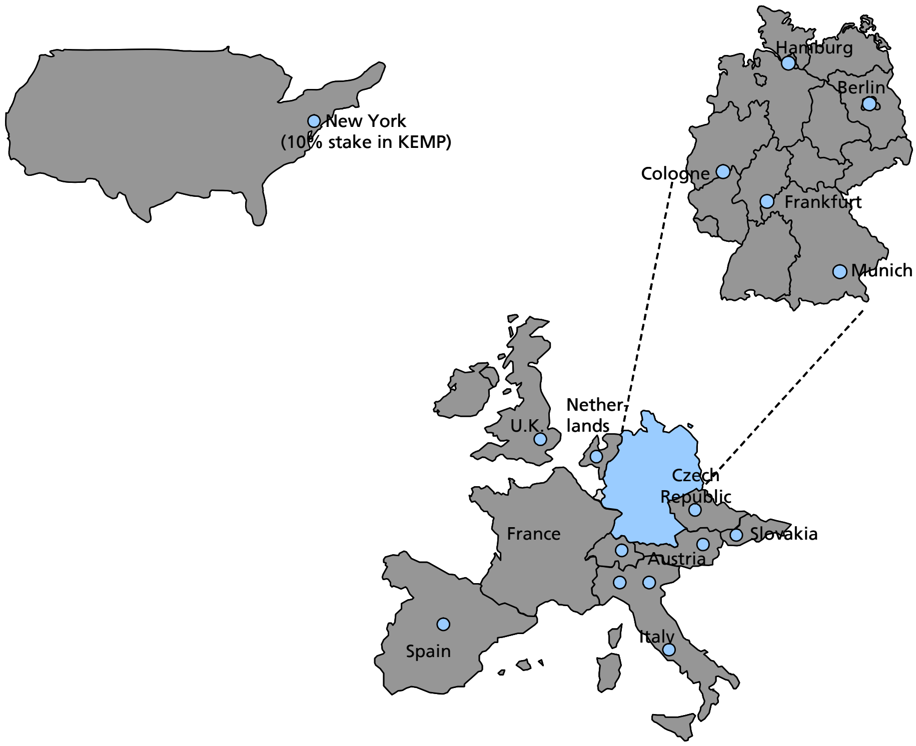
BRAIN FORCE HOLDING can look back on a 20-year history. The company's roots date back to the 1980s. The following are a few highlights of the company's history:

- **1983:** BRAIN FORCE Software GmbH established in Munich.
- **1987:** BRAIN FORCE Software Österreich established in Vienna.
- **1996:** BRAIN FORCE Software Österreich becomes the parent company.
- **1997:** BRAIN FORCE Software Amsterdam B.V. established (first subsidiary in a foreign language-speaking country).
- **1999:** IPO of BRAIN FORCE Software on the Neuer Markt in Frankfurt.
- **2000:** Takeover of TEMA Studio di Informatica S.p.A. in Milan and GMRS GmbH in Munich.
- **2002:** BRAIN FORCE Software Ltd. established in Cambridge and takeover of beusen Solutions GmbH in Berlin.
- **2003:** Following share swap, 77.05% stake acquired in NSE Software AG (now BRAIN FORCE Financial Solutions). Purchase price: EUR 2.5 mn.
- **2004:** Two capital increases carried out for a total nominal amount of EUR 5.4 mn.
- **2005:** BRAIN FORCE Software AG renamed BRAIN FORCE Holding. Takeover of VAI (Netherlands) for EUR 7.2 mn as well as INDIS (Italy) for EUR 1.8 mn. BRAIN FORCE also acquires a 10% stake in Kemp Inc. (United States) with an option to increase the holding to 30%.
- **2006:** Capital increase by a nominal EUR 5.1 mn to finance further acquisitions.

Core market is Germany

BRAIN FORCE generates about 50% of its revenues in Germany, but the foreign proportion should rise in the medium term. Due to consolidation of the acquired INDIS and VAI businesses in H1/06, the proportion of revenues generated in Germany will drop below 50%. The revenues generated outside Germany split mainly between three countries: Italy (about 28% of total revenues in 2005), Austria (about 16% of total revenues in 2005) and the Netherlands (about 4% of total revenues in 2005). Other regions account for the remaining 2% or so. We think that BRAIN FORCE will, in the context of its build & buy strategy, attempt in the future to further increase the proportion of revenues generated outside Germany. When looking at the company's regional footprint, we could imagine that BRAIN FORCE is thinking about market entry or expanding its market position especially in the following areas: Scandinavia, Eastern Europe and the U.K.

WHERE BRAIN FORCE HOLDING IS LOCATED: THERE ARE STILL BLANK SPOTS ON THE EUROPEAN MAP



Sources: Company data, HVB Global Markets Research

The build & buy strategy

BRAIN FORCE's business model is based on a build & buy strategy. BRAIN FORCE has made as many as seven acquisitions since 1999, which, along with setting up and expanding the product business, have primarily served the objective of regional expansion. Among medium-sized enterprises, BRAIN FORCE is thus one of the consolidators in the business. BRAIN FORCE normally does not acquire businesses in need of an overhaul, but rather profitable companies. Takeover targets must generate EBIT margins of about 5% in the enterprise services segment and about 10% in the solutions businesses. The targets are, in terms of revenues, sized between EUR 8 and 18 mn (an average of EUR 12 to 13 mn). The purchase prices normally range between multiples of 0.5 and 0.7 of sales. In terms of substance, BRAIN FORCE is focused, along with covering blank spots on the regional map, on takeover targets that are positioned as solution providers with products that complement BRAIN FORCE 's existing product portfolio. Also considered are companies that have a strong sales organization in regions that BRAIN FORCE does not currently cover. The "build" component of BRAIN FORCE's strategy is comprised of capital investment in organic growth. BRAIN FORCE pursues the following main aims in this respect: **1)** Further development and standardization of the existing product portfolio. **2)** Expansion of product and solution sales in all national companies to guarantee effective market access for new products. **3)** Setting up an indirect sales channel for products that can be marketed internationally (requires possibility of a high degree of standardization).

A look at the capital increase

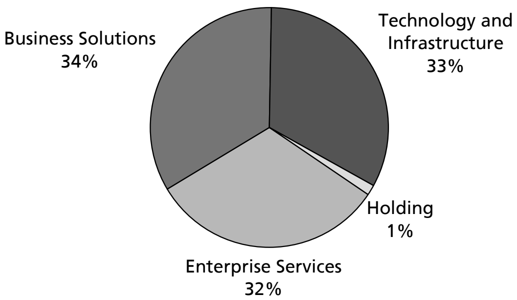
The funds provided by the last increase in capital extend the company's scope for further takeovers. BRAIN FORCE successfully completed a capital increase by a nominal amount of EUR 5.1 mn on April 5. Two institutional investors (Karl-Friedrich Kalmund and March.sixteen Financial Services) subscribed to the majority of the newly issued equity (about 4.1 mn shares). The issue price was EUR 3.10, meaning that BRAIN FORCE took in about EUR 15.9 mn. The free float came to about 84% after the capital increase. Likewise, in the wake of this move, the "war chest" for acquisitions including available credit lines rose to about EUR 27 mn.

Employees: Large proportion of freelancers

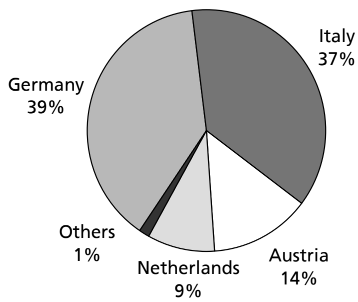
BRAIN FORCE's staff features a large proportion of freelancers. BRAIN FORCE employed more than 1100 people at the end of 2005. We regard the large proportion of freelancers as a special feature of BRAIN FORCE's business model: 300 freelancers as opposed to 814 full-time employees. By using freelancers, BRAIN FORCE is endeavoring to be able to respond more flexibly to the respective demand situation and to benefit from brokering IT staff. A look at the breakdown of the staff by division shows that all the operating segments have roughly equal numbers of employees (Business Solutions about 34%, Enterprise Services about 32% as well as Technology and Infrastructure about 33%) and that the overarching holding company, which is responsible for the company's strategic direction, has about 1% of the employees. The two charts below provide an overview of the staffing by region and the split by individual divisions.

EMPLOYEES BY DIVISION AND REGION

Employees (excl. freelancers) by division (2005)



Employees (excl. freelancers) by region (2005)



Sources: Company data, HVB Global Markets Research

Three business divisions: Enterprise Services, Business Solutions and Technology & Infrastructure

BRAIN FORCE operates its business in three divisions: Enterprise Services (conventional IT services), Business Solutions (product business) and Technology & Infrastructure. Apart from the Enterprise Services division (down 1.3% y-o-y), in fiscal 2005 BRAIN FORCE increased revenues significantly both in the Business Solutions division (up 29.1% y-o-y) and in the Technology & Infrastructure division (up 54.4% y-o-y), with the company benefiting from the consolidation of two takeovers. The operating margin benefited from this trend as both Business Solutions and Technology & Infrastructure recorded EBIT margins of some 9%, in contrast to the Enterprise Services division (with an EBIT margin of around 5%). We assume that, in the future, BRAIN FORCE will try to further increase the contribution to revenues made by these two higher-margin divisions because we regard the margin potential in the Enterprise Services division as limited on the basis of the current business alignment (HVBe: 5-7%). We see further margin potential for the Enterprise Services division, for example, in the build-up of services related to areas such as managed services (e.g. operating a network on behalf of customers) or outsourcing. We anticipate further takeovers to meet the objective of extending the Business Solutions and Infrastructure & Technology divisions, which will either improve the company's positioning in regional terms or round out its product portfolio. Moreover, we expect existing products to be increasingly marketed on a global level.

Extension of higher-margin contribution to revenues

Reduction of dependency on conventional IT services by means of takeovers: In fiscal 2005, BRAIN FORCE took over two companies: VAI BV (Netherlands) and INDIS S.p.A. (Italy). As a result of these takeovers, the contributions to revenues made by the two divisions Business Solutions and Technology & Infrastructure increased substantially, from 53% in H1/05 to around 61% in H2/05. BRAIN FORCE has thus succeeded in reducing its dependency on conventional IT service business, which generate the lowest margins within the group.

Enterprise Services

The Enterprise Services division accounted for some 42% of revenues in fiscal 2005.

- **Revenue and earnings trends:** BRAIN FORCE had to record a slight drop in revenues in the Enterprise Services division of 1.3% y-o-y, from EUR 32.9 mn to EUR 32.5 mn, in fiscal 2005. In contrast to revenues, the EBIT margin grew from 3.9% to 5.1%. The main reason for the decline in reported revenues was a top-line decrease of some EUR 1.5 mn in Austria, which was only partially offset by a EUR 1.1 mn increase in Germany. In Austria, the expiration of a major project at the end of 2004 proved a negative factor because BRAIN FORCE was unable to gain sufficient follow-up projects fast enough. Since the company gained two major new customers from the banking sector in H2/05, we project revenues to increase again year on year in fiscal 2006 (HVBe: up 10.6% y-o-y to EUR 35.9 mn in 2006). We believe that the Enterprise Services division has potential for further development.

- **Solutions on offer:** Pure services (consulting, development, integration, migration, rollout, operation, support and maintenance).

- **Competitors:** The competitors in this segment include conventional IT services companies.

Business Solutions

The Business Solutions division accounted for some 30% of revenues in fiscal 2005.

- **Revenue and earnings trends:** In the Business Solutions division, by contrast, BRAIN FORCE raised revenues by 29.1% y-o-y, from EUR 17.8 mn to EUR 23.0 mn, in fiscal 2005. Here the company also benefited from the takeover of the Italian company INDIS (a supplier of the ERP software Visual Space) in 06/2005, which was consolidated from H2/05. Nevertheless, organic top-line growth came to 17.5% for the Business Solutions division. At 9.0%, the division's EBIT margin was virtually unchanged year on year (2004: 8.9%). In fiscal 2005, BRAIN FORCE succeeded in raising its revenues in the larger regions (Germany, Italy and Austria). For fiscal 2006, we project an increase in revenues of 9.9% y-o-y to EUR 25.3 mn.

- **Solutions on offer:** Includes banking solutions, business process outsourcing, ERP & CRM systems (incl. the INDIS takeover) and financial solutions. Products: Visual Space – ERP for smaller SMEs (INDIS), optimizing pension provisioning (showing pension-provisioning shortfalls) and financial services (BRAIN FORCE FINAS).

- **Competitors:** Competitors for the FINAS product and modules of this product include, among others, SAP, Update Software, Oracle (Siebel) as well as FJH and Elaxy. The competitors for the Visual Space product include SAP, Sage or Exact Software, in addition to smaller local ERP players.

Technology & Infrastructure

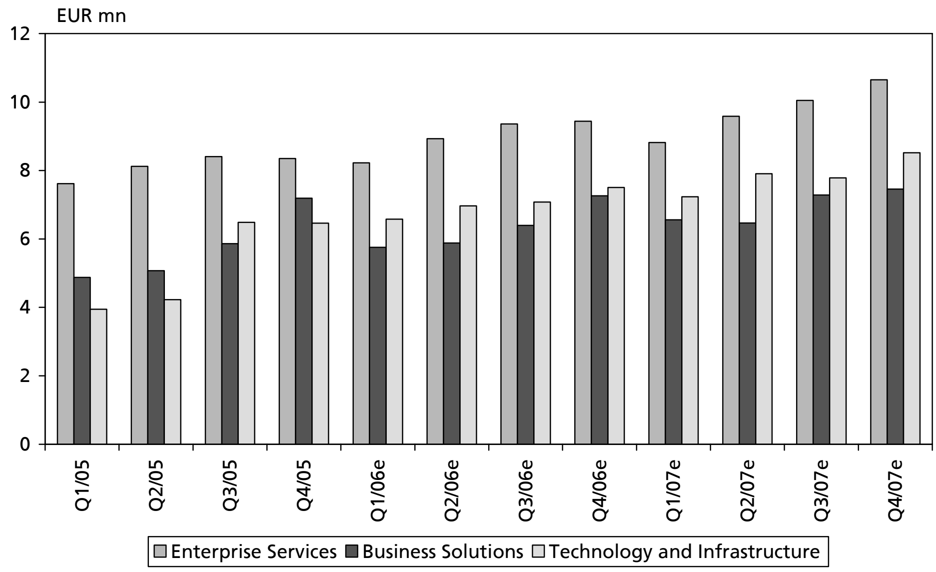
The Technology & Infrastructure division accounted for some 28% of revenues in fiscal 2005.

- **Revenue and earnings trends:** In the Technology & Infrastructure division, BRAIN FORCE increased revenues by 54.4% y-o-y, from EUR 13.7 mn to EUR 21.1 mn, in fiscal 2005. Here the company also benefited from the takeover of the Dutch company VAI in 06/2005, which was consolidated from 08/05. Nevertheless, organic top-line growth came to 30.0% y-o-y for the Technology & Infrastructure division. The division's EBIT margin improved by 1.8 pp y-o-y, from 7.1% to 8.9%, in 2005. Revenue growth was recorded in all the larger regions (Germany, Italy, Netherlands and Austria). For fiscal 2006, we project a y-o-y increase of 33.2% in this division's sales to EUR 28.1 mn.

- **Solutions on offer:** The Technology & Infrastructure division has the following solutions on offer: Migration Out Of The Box (which roughly means changing over to a new operating system such as Windows XP), Packaging Robot (speeding up the process of software packaging on the basis of best practices) and Net Organizer (which is the follow-up product from beusenKNV and provides information on the current utilization of network resources).

- **Competitors:** In analyzing BRAIN FORCE's competitors, one must distinguish between the individual products: the competitors for the Net Organizer include, for example, FNT 6000, Steinmayr GmbH, IEEF with InfoCable or Siemens with the products FM32 and Condis. The competitors for VIA, acquired last year, include such vendors as Baramundi, Matrix42, Enteo, Landesk, among others. For the INKAS product, we count as competitors global players such as Siemens (HiPatch Manager), Ericsson (D.N.A.), together with Alcatel (MD-Manager) and SMEs such as Alwin Pro, X-Bill and TABS.

REVENUES OF THE BRAIN FORCE DIVISIONS (QUARTER BY QUARTER: Q1/05-Q4/07E)

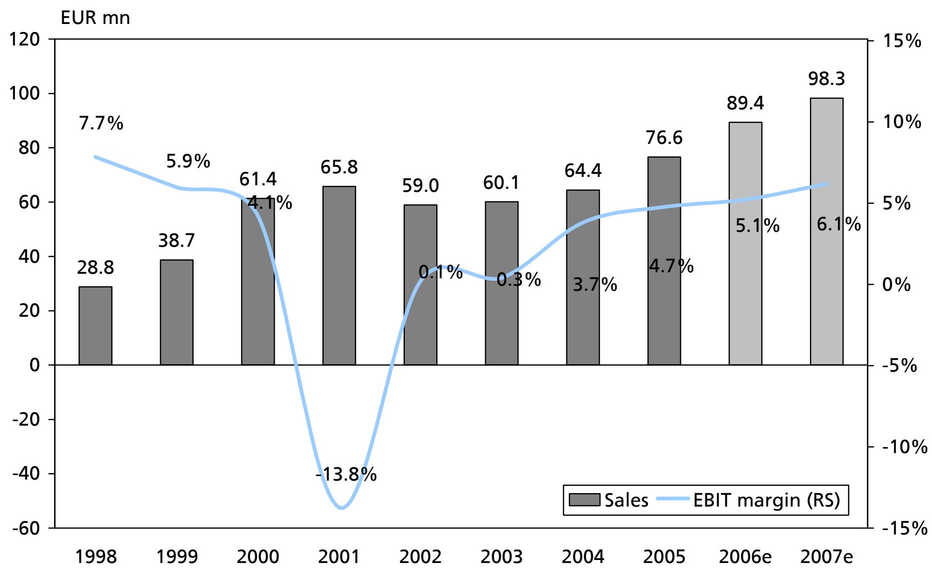


Sources: Company data, HVB Global Markets Research

Discussion of income statement trends

For BRAIN FORCE, the focus is on profitable growth. For the forecast period (through 2007), we project substantial revenue growth (CAGR 2005-07 of 13%) and only a modest improvement in the margin (EBIT) from 4.7% in 2005 to 6.1% in 2007. We currently expect the most significant revenue growth in the Technology & Infrastructure division from EUR 21.1 mn in 2005 to EUR 31.4 mn in 2007, with a slight increase in the EBIT margin from 8.9% to 9.7% over the same period. For the Business Solutions division, we project an increase in revenues from EUR 23.0 mn to EUR 27.8 mn and an improvement in the EBIT margin from 9.0% to 9.7%. As we see it, the Enterprise Services division will continue to record the lowest EBIT margin in the group, although we anticipate the largest increase here, up from the current 5.1% to 6.9% in 2007. Revenues should grow from EUR 32.5 mn to EUR 39.1 mn by 2007. On the basis of the recent capital increase, we expect BRAIN FORCE to make further acquisitions, which imply additional revenue potential. The company's most recent track record with INDIS and VAI has been promising, with the result that we currently assume that future takeovers will serve to raise earnings as well.

REVENUE AND EBIT MARGIN TRENDS: 1998 TO 2007E



Sources: Company data, HVB Global Markets Research

Guidance vs. HVBe

BRAIN FORCE is forecasting a substantial increase in 2006 revenues while improving the margin at the same time. Accordingly, the company projects an increase in revenues of around 17% year on year, from EUR 76.6 mn to EUR 90 mn (HVBe: EUR 89.4 mn). Organic revenue growth is likely to be around 10% y-o-y. The remaining around 6 mn can be attributed to the consolidation of INDIS and VAI. The current order backlog of EUR 21.3 mn (Q4/05) should help BRAIN FORCE to meet this target. Some EUR 3.7 mn of the order backlog is accounted for by maintenance revenues and the remaining around EUR 18 mn by the conventional services. The revenue growth target is to be met while the EBIT margin at the same time has been raised from 4.7% in 2005 to around 5% in 2006, which is in line with our estimates (HVBe: 5.1%).

TREND IN THE INCOME STATEMENT: GUIDANCE VS. HVB ESTIMATES

		2006e		2007e	
		BRAIN FORCE	HVBe	BRAIN FORCE	HVBe
Sales	**EUR mn**	**90**	**89.4**	**n/a**	**98.3**
EBITDA	EUR mn	9	7.9	n/a	9.3
EBIT	EUR mn	4.5	4.6	n/a	6.0

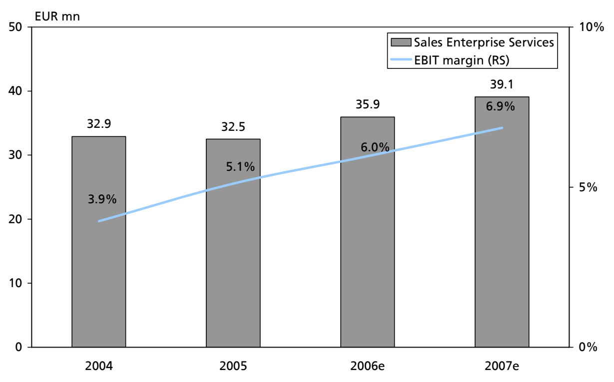
Sources: Company data, HVB Global Markets Research

Enterprise Services has the lowest margin in the group

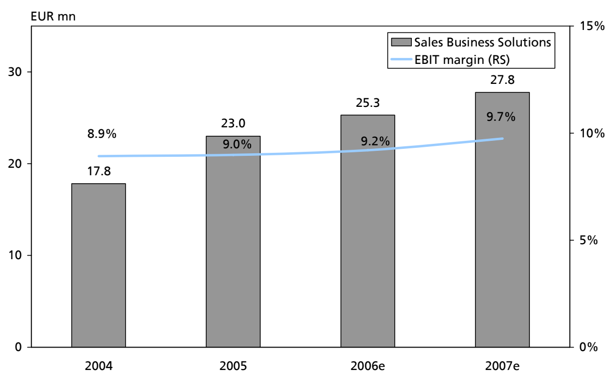
We expect the most significant increase in margin in the Enterprise Services division. With an EBIT margin of 5.1%, the largest source of revenues, the Enterprise Services division, earns the lowest margin in the BRAIN FORCE group. We anticipate an increase in the EBIT margin to 6.9% in 2007 thanks to the increasing share of higher-end services. By contrast, in the case of the two divisions with the highest margins, Business Solutions and Technology & Infrastructure, we forecast only a slight improvement in the operating margin of 0.7 pp and 0.8 pp, respectively. For both divisions, we forecast an increasing share of licensing and maintenance revenues, meaning that a slight increase in the operating margin seems a realistic assumption.

OVERVIEW OF THE DIVISIONS: REVENUE AND PROFITABILITY TREND

Enterprise Services: lowest margin in the group

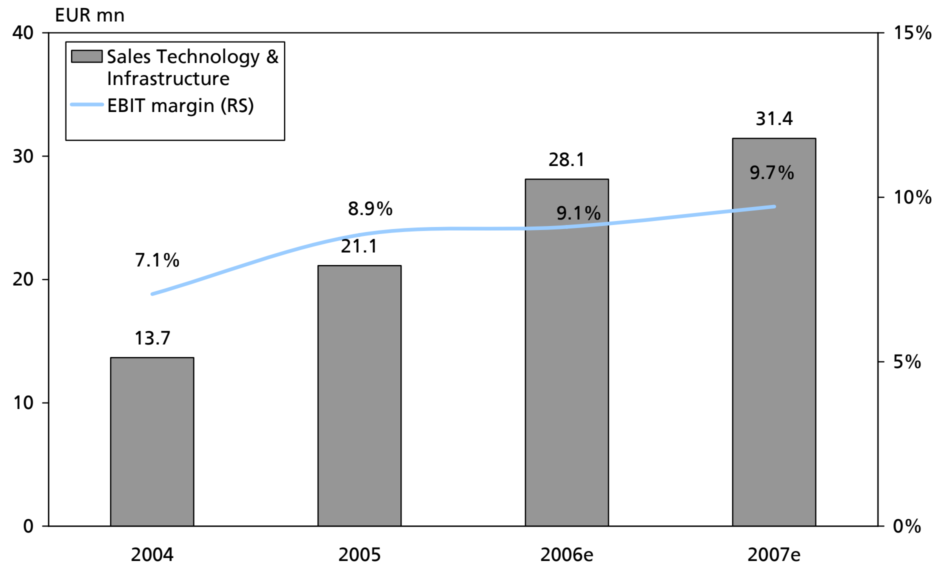


Business Solutions: slight margin increase projected



Sources: Company data, HVB Global Markets Research

TECHNOLOGY & INFRASTRUCTURE: SUSTAINED HIGH MARGIN PROJECTED



Sources: Company data, HVB Global Markets Research

Segment results

		2004	2005	2006e	2007e
Group					
Sales	**EUR mn**	**64.4**	**76.6**	**89.4**	**98.3**
Sales growth	*%*	*7.2*	*18.9*	*16.6*	*10.0*
EBIT	**EUR mn**	**2.4**	**3.6**	**4.6**	**6.0**
EBIT margin	*%*	*3.7*	*4.7*	*5.1*	*6.1*
Enterprise Services					
Sales	**EUR mn**	**32.9**	**32.5**	**35.9**	**39.1**
Sales growth	*%*	*n/a*	*-1.3*	*10.6*	*8.7*
as a percentage of sales	*%*	*51.1*	*42.4*	*40.2*	*39.8*
EBIT	**EUR mn**	**1.3**	**1.7**	**2.1**	**2.7**
EBIT margin	*%*	*3.9*	*5.1*	*6.0*	*6.9*
Business Solutions					
Sales	**EUR mn**	**17.8**	**23.0**	**25.3**	**27.8**
Sales growth	*%*	*n/a*	*29.1*	*9.9*	*9.8*
as a percentage of sales	*%*	*27.7*	*30.0*	*28.3*	*28.2*
EBIT	**EUR mn**	**1.6**	**2.1**	**2.3**	**2.7**
EBIT margin	*%*	*8.9*	*9.0*	*9.2*	*9.7*
Technology and Infrastructure					
Sales	**EUR mn**	**13.7**	**21.1**	**28.1**	**31.4**
Sales growth	*%*	*n/a*	*54.4*	*33.2*	*11.8*
as a percentage of sales	*%*	*21.2*	*27.6*	*31.5*	*32.0*
EBIT	**EUR mn**	**1.0**	**1.9**	**2.6**	**3.1**
EBIT margin	*%*	*7.1*	*8.9*	*9.1*	*9.7*
Holding					
Sales	**EUR mn**	**0**	**0**	**0**	**0**
Sales growth	*%*	*n/a*	*n/a*	*n/a*	*n/a*
as a percentage of sales	*%*	*0*	*0*	*0*	*0*
EBIT	**EUR mn**	**-1.5**	**-2.0**	**-2.5**	**-2.4**
EBIT margin	*%*	*n/a*	*n/a*	*n/a*	*n/a*

Note: Due to a new segment breakdown in the company's reporting, the data are available only starting with 2004

Consolidated income statement

		2003	2004	2005	2006e	2007e
Sales	**EUR mn**	**60.1**	**64.4**	**76.6**	**89.4**	**98.3**
Changes in inventory	EUR mn	-0.2	0.1	0	1.0	1.0
Internally produced and capitalized assets	EUR mn	1.1	1.7	1.3	1.4	1.4
Total output	EUR mn	61.0	66.2	78.0	91.8	100.7
Cost of materials	EUR mn	-42.0	-46.2	-53.4	-62.6	-68.2
as a percentage of total output	*%*	*69.0*	*69.8*	*68.5*	*68.2*	*67.8*
Personnel expenses	EUR mn	-10.9	-10.8	-12.8	-14.8	-16.1
as a percentage of total output	*%*	*17.9*	*16.3*	*16.4*	*16.1*	*16.0*
Other operating income	EUR mn	0.8	1.1	0.9	1.1	1.4
as a percentage of total output	*%*	*1.4*	*1.7*	*1.2*	*1.1*	*1.4*
Other operating expenses	EUR mn	-5.8	-6.2	-6.7	-7.6	-8.5
as a percentage of total output	*%*	*9.6*	*9.3*	*8.5*	*8.3*	*8.4*
EBITDA	**EUR mn**	**3.0**	**4.1**	**6.0**	**7.9**	**9.3**
as a percentage of total output	*%*	*5.0*	*6.4*	*7.9*	*8.8*	*9.4*
Depreciation (without goodwill amortization)	EUR mn	-1.6	-1.7	-2.5	-3.3	-3.3
as a percentage of total output	*%*	*2.6*	*2.6*	*3.2*	*3.6*	*3.3*
EBITA	**EUR mn**	**1.4**	**2.4**	**3.6**	**4.6**	**6.0**
as a percentage of total output	*%*	*2.4*	*3.7*	*4.7*	*5.1*	*6.1*
Goodwill amortization	EUR mn	-1.3	0	0	0	0
as a percentage of total output	*%*	*-2.1*	*0*	*0*	*0*	*0*
EBIT	**EUR mn**	**0.2**	**2.4**	**3.6**	**4.6**	**6.0**
as a percentage of total output	*%*	*0.3*	*3.7*	*4.7*	*5.1*	*6.1*
Write-downs on financial and current assets	EUR mn	0	0.6	0	0	0
Income from investments	EUR mn	0.4	0.4	0	0	0
Net interest income	EUR mn	-0.2	0	0.1	0.4	0.5
as a percentage of total output	*%*	*-0.3*	*0*	*0.1*	*0.5*	*0.5*
Earnings from ordinary activities	**EUR mn**	**0.4**	**3.4**	**3.7**	**5.1**	**6.5**
as a percentage of total output	*%*	*0.7*	*5.1*	*4.7*	*5.5*	*6.5*
Reported non-recurrent result	EUR mn	0	0	0	0	0
Earnings before income taxes	**EUR mn**	**0.4**	**3.4**	**3.7**	**5.1**	**6.5**
as a percentage of total output	*%*	*0.7*	*5.1*	*4.7*	*5.5*	*6.5*
Income taxes	EUR mn	-2.4	-1.3	-0.5	-1.7	-2.1
Income tax rate	*%*	567.3	39.7	14.9	33.0	33.0
Net income	**EUR mn**	**-2.0**	**2.0**	**3.1**	**3.4**	**4.4**
as a percentage of total output	*%*	*-3.2*	*3.1*	*4.0*	*3.7*	*4.3*
Earnings before minorities	EUR mn	-2.0	2.0	3.1	3.4	4.4
as a percentage of total output	*%*	*-3.2*	*3.1*	*4.0*	*3.7*	*4.3*
Minority interests	EUR mn	0	-0.3	-0.1	-0.1	-0.1
Earnings after minority interests	**EUR mn**	**-2.0**	**1.8**	**3.0**	**3.3**	**4.2**
EPS reported	**EUR**	**-0.41**	**0.21**	**0.30**	**0.23**	**0.27**
EPS adjusted	**EUR**	**-0.41**	**0.21**	**0.30**	**0.23**	**0.27**
Goodwill per share	EUR	0.26	0	0	0	0
Adjusted EPS before goodwill	**EUR**	**-0.14**	**0.21**	**0.30**	**0.23**	**0.27**

Cash flow statement

		2003	2004	2005	2006e	2007e
Net income	**EUR mn**	**-2.0**	**2.0**	**3.1**	**3.4**	**4.4**
Depreciation charges on fixed assets	EUR mn	2.8	1.1	2.5	3.3	3.3
Changes in pension provisions	EUR mn	0.3	0.3	1.6	0.3	0.3
Changes in other long term provisions	EUR mn	0.1	0	0.8	-0.2	-0.1
- Changes in trade receivables	EUR mn	0	-2.7	-7.3	-1.2	-0.5
- Changes in receivables and other assets	EUR mn	0.1	0.5	-2.9	1.3	0.3
- Changes in deferrals	EUR mn	1.2	-0.1	-1.5	0.3	0.2
- Changes in advance received	EUR mn	-0.1	-0.1	0	0	0
Changes in other short term provisions	EUR mn	0.4	0	2.4	-0.5	-0.4
Changes in trade accounts payable	EUR mn	0.2	0.2	2.1	0.4	0.4
Changes in other liabilities	EUR mn	1.3	-0.2	2.3	0.4	0.4
Cash flow from operations	**EUR mn**	**4.3**	**1.0**	**3.1**	**7.5**	**8.2**
Asset disposals (without leasing)	EUR mn	0	3.2	0.1	-0.2	-0.2
Capital spending on fixed assets	EUR mn	-2.6	-2.2	-7.8	-2.1	-2.2
Capital spending on financial assets	EUR mn	-0.3	-3.2	-0.3	0	0
Acquisitions / Consolidation	EUR mn	-2.6	0	-4.7	0	0
Cash flow from investments	**EUR mn**	**-5.5**	**-2.1**	**-12.7**	**-2.3**	**-2.4**
Free cash flow	**EUR mn**	**-1.1**	**-1.1**	**-9.7**	**5.2**	**5.8**
Receipts from capital increases	EUR mn	2.1	15.5	0.1	15.9	0
Inflow/outflow from interest-bearing debt	EUR mn	-0.4	-0.5	3.7	-0.9	-0.8
Changes in marketable securities	EUR mn	0	-3.9	3.9	0	0
Less previous year’s dividend	EUR mn	0	0	-0.5	-0.8	-1.0
Adjustment factors	EUR mn	1.3	0.2	-0.3	0.8	1.0
Cash flow from the financing sector	**EUR mn**	**2.9**	**11.3**	**6.9**	**15.0**	**-0.8**
Changed parity relations, consolidation- and others effects	EUR mn	0	0	0	0	0
Cash and cash equivalents on 1/1	**EUR mn**	**2.5**	**4.3**	**14.6**	**11.8**	**32.0**
Changes in cash and cash equivalents	**EUR mn**	**1.8**	**10.2**	**-2.8**	**20.3**	**5.0**
Cash and cash equivalents at FY end	**EUR mn**	**4.3**	**14.6**	**11.8**	**32.0**	**37.0**

Consolidated balance sheet

		2003	2004	2005	2006e	2007e
ASSETS						
Fixed assets	**EUR mn**	**10.1**	**10.6**	**20.7**	**19.7**	**18.8**
Intangible assets	EUR mn	8.2	8.9	18.3	16.9	15.6
Property, plant and equipment	EUR mn	1.2	1.0	1.5	2.0	2.4
Financial assets	EUR mn	0.7	0.7	0.9	0.9	0.9
Current assets	**EUR mn**	**20.6**	**37.1**	**40.7**	**60.8**	**66.0**
Inventories	EUR mn	0.1	0.3	0.3	0.3	0.3
Accounts receivable	EUR mn	14.8	17.5	24.8	26.0	26.5
Other assets	EUR mn	1.4	0.9	3.8	2.5	2.2
Marketable securities and cash	EUR mn	4.3	18.5	11.8	32.0	37.0
Deferred charges	**EUR mn**	**0.7**	**0.8**	**2.3**	**2.0**	**1.8**
Balance sheet total	**EUR mn**	**31.5**	**48.5**	**63.6**	**82.5**	**86.7**
EQUITY AND LIABILITIES						
Equity	**EUR mn**	**12.7**	**29.9**	**32.1**	**51.4**	**55.8**
Capital subscribed	EUR mn	4.8	10.3	10.3	15.4	15.4
Capital surplus	EUR mn	5.4	15.5	15.6	26.4	26.4
Earnings reserves	EUR mn	1.7	3.5	5.8	9.2	13.6
Net disposable profit	EUR mn	0	0	0	0	0
Differences due to currency translation	EUR mn	0	0	0	0	0
Minorities	EUR mn	0.7	1.0	0.4	0.4	0.4
Special reserves for the year	EUR mn	0	0	0	0	0
Provisions	**EUR mn**	**2.8**	**3.1**	**7.9**	**7.6**	**7.4**
Pension provisions	EUR mn	1.9	2.2	3.8	4.1	4.4
Other provisions	EUR mn	0.9	1.0	4.1	3.5	3.0
Liabilities	**EUR mn**	**15.9**	**15.5**	**23.6**	**23.5**	**23.5**
Liabilities due to banks	EUR mn	2.9	2.5	6.2	5.3	4.5
Trade payable	EUR mn	5.3	5.5	7.6	8.0	8.4
Other liabilities	EUR mn	7.7	7.5	9.8	10.2	10.6
Deferred charges	**EUR mn**	**0**	**0**	**0**	**0**	**0**
Balance sheet total	**EUR mn**	**31.5**	**48.5**	**63.6**	**82.5**	**86.7**

This analysis was prepared by Mr. Knut Woller, CEFA and was published the first time on 05/05/2006
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Regulatory authority: "BaFin" – Bundesanstalt für Finanzdienstleistungsaufsicht, Lurgiallee 12, 60439 Frankfurt, Germany

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Initiation of coverage

CF: Company Flash, CR: Company Report, CU: Company Update, EV: E-Valuation, GD: German Daily, LP: Local Product, MSC: Mid Caps/Small Caps, SF: Sector Flash, SP: Sector Preview, SR: Sector Report, WP: Company Weekly Preview

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Key 3: Bayerische Hypo- und Vereinsbank AG and/or a company affiliated with it pursuant to § 15 AktG (German Stock Corporation Act) administers the securities issued by the analyzed company on the stock exchange or on the market by quoting bid and ask prices.

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Company	**Key**
BRAIN FORCE HOLDING	3

Parts of the analysis were made available to the analyzed company prior to publication and was subsequently revised afterwards.

Significant financial interest:
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