

BRAIN FORCE HOLDING

Buy

EUR 3.16

(Reuters: BFCG.DE; Bloomberg: BFC GY; WPK: 919331)

Knut Woller, CEFA, +49 (0) 89 378-11381

knut.woller@hvb.de

Disappointing start – the worst should be behind

Performance (05/08/07)	1W	1M	3M
Absolute (%)	-1.3	-5.6	-6.5
Relative vs. Euro STOXX 50 (%)	-1.7	-8.9	-10.9

Recommendation

New: Buy	Previous: Buy
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Price target

New: EUR 3.85	Previous: EUR 4.20
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Market cap. (EUR mn)	48.6
Free float (%)	84.3
Capital subscribed (EUR mn)	15.4
No. of shares in issue (mn)	15.4
Shareholders	Helmut Fleischmann and Helmut Fleischmann Private Foundation 15.7%

Annual general meeting	May-08
Q1	29-May-07
H1/Q2	27-Aug-07

	2006	2007e	2008e
Sales (EUR mn)	89	105	111
EBITDA (EUR mn)	7	10	12
EBITA (EUR mn)	3	5	7
EBIT (EUR mn)	3	5	7
Net income (EUR mn)	4.2	3.8	5.0
EPS reported (EUR)	0.30	0.25	0.32
EPS adj. pre-goodwill (EUR)	0.30	0.25	0.32
P/E (EPS adj. pre-goodwill)	10.7	12.7	9.8
EV/sales	0.4	0.4	0.3
EV/EBITDA	5.0	3.6	2.4
EV/EBITA	11.1	7.0	4.5
Dividend (EUR)	0.10	0.10	0.11
Div. yield (%)	3.1	3.2	3.5

Today, BRAIN FORCE HOLDING reported preliminary Q1 results that were below our estimates: Total revenues increased by 6% y-o-y to EUR 23.6 mn (HVBe: EUR 25.9 mn). Since BRAIN FORCE HOLDING still benefited from the consolidation effects of SYSTEM in Q1/07, this implies that revenues were down y-o-y organically, in our view.

EBIT was negative at EUR 0.7 mn (HVBe: EUR +0.7 mn). The last time BRAIN FORCE reported a negative Q1 was in 2003. The EBIT decline looks dramatic in a y-o-y comparison (Q1/06: EUR 1.2 mn; margin: 5.3%), but it should be kept in mind that Q1/06 was an extraordinarily strong start. Q1 EBIT margins of 2004 (2.6%) and 2005 (2.5%) seem to better reflect seasonal patterns of the company, in our view. BRAIN FORCE cited earnings delays as the culprit for the negative EBIT (e.g. development delays of new functionality of its software solutions).

The company maintained its full year guidance, but it seems to be difficult to achieve on an organic basis, in our view. Total revenues are expected to be EUR 116 mn (prev. HVBe: EUR 110 mn), EBITDA of EUR 11.5 mn (prev. HVBe: EUR 11.1 mn) and EBIT of EUR 6.4 mn (prev. HVBe: EUR 6.0 mn). Our estimates were thus already below the guidance of the company and the trend of the license business in H2 will be the major factor for the achievability of the full year targets, in our view.

We have lowered our estimates for 2007 and 2008. We think that the full year guidance of the company could still be achieved if things work out perfectly. Nevertheless, we have taken a more conservative stance following the soft start in Q1/07.

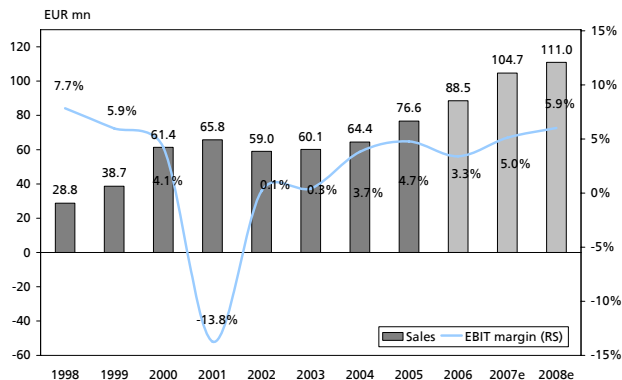
CHANGES TO ESTIMATES

		2007e		2008e	
		prev.	new	prev.	new
Revenues	EUR mn	109.6	104.7	116.2	111.0
y-o-y	%	24	18	6	6
EBIT	EUR mn	6.0	5.2	6.9	6.6
EBIT margin	%	5.4	5.0	6.0	5.9
EPS	EUR	0.29	0.25	0.34	0.32

Source: HVB Global Research

The worst should be behind – some positives: The operating cash flow increased by EUR 0.3 mn y-o-y to EUR 0.7 mn in Q1/07 (3% of revenues). In addition, the company indicated that some major contracts are close to being signed and the order backlog increased from EUR 25.6 mn in Q4/06 to EUR 27.9 mn in Q1/07. These factors lead us to the conclusion to expect an acceleration of the revenue and earnings momentum from Q2 onwards.

SALES AND EBIT TREND



Sources: Company data, HVB Global Research

We lower our price target from EUR 4.20 to EUR 3.85 and maintain our Buy rating. We continue to see upside for the stock despite our lowered earnings estimates. We expect that the operating trends should improve from Q2 on. Our new price target of EUR 3.85 implies a target P/E of roughly 15 (2007e). Our target P/E amounts to a discount of ca. 15% compared to the average of our European IT services panel (industry multiples have risen recently). Given the recent negative track record regarding quarterly results, we think that a slight discount is justified.

This analysis was prepared by Mr. Knut Woller, CEFA and was published the first time on 05/09/2007
 Responsibility for its preparation lies with: Bayerische Hypo- und Vereinsbank AG, Am Tucherpark 16, 80538 Munich, Germany
 Regulatory authority: "BaFin" – Bundesanstalt für Finanzdienstleistungsaufsicht, Lurgiallee 12, 60439 Frankfurt, Germany

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Company	Date	Product	Rating	Price target
BRAIN FORCE HOLDING	11/27/2006	CF	Buy	4.20
BRAIN FORCE HOLDING	08/08/2006	CF	Buy	4.60
BRAIN FORCE HOLDING	06/22/2006	CF	Buy	4.80
BRAIN FORCE HOLDING	05/08/2006	CF	Outperform	4.40
BRAIN FORCE HOLDING	05/05/2006	CR	Outperform	4.30

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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Company	Key
BRAIN FORCE HOLDING	3

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Core hold: We recommend to hold the respective instrument for investors who already have exposure.

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Sources: Thomson Financial Datastream, company data, HVB Global Research