

BRAIN FORCE HOLDING

Buy

EUR 3.13

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

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

knut.woller@hvb.de

Acquisition of SYSTEAM makes strategic sense – Upgrade to Buy

Performance (06/21/06)	1W	1M	3M
Absolute (%)	13.9	-10.3	-7.1
Relative to Euro STOXX 50 (%)	10.6	-7.6	1.3

Rating

New: Buy	Previous: Outperform
-----------------	----------------------

Price target

New: EUR 4.80	Previous: EUR 4.40
----------------------	--------------------

Market cap. (EUR mn)	48.2
Free float (%)	84.3
Capital subscribed (EUR mn)	10.3
Number of shares (mn)	15.4
Shareholders	Helmut Fleischmann and Helmut Fleischmann private foundation 15.7%

Annual general meeting	May-07
H1/Q2	28-Aug-06
9M/Q3	27-Nov-06

	2005	2006e	2007e
Sales (EUR mn)	77	95	117
EBITDA (EUR mn)	6	9	11
EBITA (EUR mn)	4	5	7
EBIT (EUR mn)	4	5	7
Net income (EUR mn)	3.1	3.8	4.9
EPS reported (EUR)	0.30	0.27	0.31
EPS adj. pre-goodwill (EUR)	0.30	0.27	0.31
P/E (EPS adj. pre-goodwill)	10.9	11.8	10.1
EV/sales	0.4	0.4	0.3
EV/EBITDA	5.4	3.9	2.8
EV/EBITA	9.1	6.5	4.3
Dividend (EUR)	0.08	0.07	0.08
Div. yield (%)	2.5	2.2	2.5

BRAIN FORCE HOLDING today announced the acquisition of the German IT services provider SYSTEAM. SYSTEAM was established in 1990 and posted FY 2005 sales of around EUR 17 mn with a headcount of roughly 110. According to BRAIN FORCE, SYSTEAM is profitable. The acquisition of SYSTEAM is in line with the acquisition strategy of BRAIN FORCE, according to which targets should generate sales of EUR 8-18 mn and usually be profitable. According to BRAIN FORCE, SYSTEAM complements its own service offering in the field of managed services. In light of SYSTEAM's business (managed services and sales of third party products), we assume that the EBIT margin of SYSTEAM is probably between the EBIT margin of the Enterprise Services segment (2005: 5.1%) and Business Solutions (2005: 9.0%) at BRAIN FORCE (HVBe: around 7%).

We assume an attractive purchase price. According to our estimates, the purchase price for SYSTEAM should be in a range of 0.5-0.7x (EV/sales) and should be paid in cash (HVBe: around EUR 10 mn). Given the profitability levels we have assumed for SYSTEAM, we think the purchase price is attractive. We assume that SYSTEAM has no net debt.

Estimates raised following the acquisition. We have raised our estimates for BRAIN FORCE following the acquisition (consolidation of SYSTEAM from Q4/06 – we have assumed that SYSTEAM will be integrated into the Enterprise Services segment at BRAIN FORCE).

ESTIMATE CHANGES

		2006e		2007e	
		prev.	new	prev.	new
Sales	EUR mn	90.6	94.6	99.7	116.6
	%	18.3	23.5	10.0	23.3
EBIT	EUR mn	5.1	5.3	6.1	7.1
EBIT margin	%	5.4	5.5	5.9	5.9
EPS	EUR	0.26	0.27	0.28	0.31

Source: HVB Global Markets Research

Following the recent pullback in the stock price and the acquisition of SYSTEAM, we are upgrading BRAIN FORCE HOLDING from Outperform to Buy. In the wake of the acquisition and the upward revision to our estimates, we are raising our price target for BRAIN FORCE from EUR 4.40 previously to EUR 4.80. This translates into a P/E of around 16x (2007). Our price target is also supported by our DCF model.

This analysis was prepared by Mr. Knut Woller, CEFA and was published the first time on 06/22/2006
 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

Important notices acc. § 4/ 4; 4 Fin AnV:

Company	Date	Product	Rating	Price target
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

Other important notices:

- Key 1a: Bayerische Hypo- und Vereinsbank AG and/or a company affiliated with it pursuant to § 15 AktienG (German Stock Corporation Act) owns at least 5% of the capital stock of the company.
- Key 1b: The analyzed company owns at least 5% of the capital stock of Bayerische Hypo- und Vereinsbank AG and/or a company affiliated with it pursuant to § 15 AktienG (German Stock Corporation Act).
- Key 2: Bayerische Hypo- und Vereinsbank AG and/or a company affiliated with it pursuant to § 15 AktG (German Stock Corporation Act) belonged to a syndicate that has acquired securities of the analyzed company within the twelve months preceding publication.
- 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.
- Key 4: The analyzed company and Bayerische Hypo- und Vereinsbank AG and/or a company affiliated with it pursuant to § 15 AktG (German Stock Corporation Act) concluded an agreement on services in connection with investment banking transactions in the last 12 months, in return for which the Bank received a consideration or promise of consideration.
- Key 5: The analyzed company and Bayerische Hypo- und Vereinsbank AG and/or a company affiliated with it pursuant to § 15 AktG (German Stock Corporation Act) have concluded an agreement on the preparation of analyses.

Company	Key
BRAIN FORCE HOLDING	3

Significant financial interest:

Bayerische Hypo- und Vereinsbank AG and companies affiliated with it regularly trade shares of the analyzed company. Analyses may refer to one or several companies and to the securities issued by them. The author's remuneration has not been, and will not be, geared to the recommendations or views expressed in this study, neither directly nor indirectly. In some cases, the analyzed issuers have actively supplied information for this analysis. To prevent or remedy conflicts of interest, Bayerische Hypo- und Vereinsbank AG has established the organizational arrangements required from a legal and supervisory aspect, adherence to which is monitored by its Compliance department.

The prices used in the analysis are the closing prices of the Xetra system or the closing prices of official trading on the Frankfurt Stock Exchange or the closing prices on the relevant local stock exchanges. In the case of unlisted stocks, the average market prices based on various major broker sources (OTC market) are used.

Our recommendations are based on information available to the general public that we consider to be reliable but for the completeness and accuracy of which we assume no liability. We reserve the right to modify the views expressed herein at any time and without notice. Moreover, we reserve the right not to update this information or to discontinue it altogether without notice. The investment possibilities discussed in this report may not be suitable for certain investors depending on their specific investment objectives and time horizon or in the context of their overall financial situation. In particular the risks associated with an investment in the securities or the financial instruments under discussion are not explained in its entirety. This information is given without any warranty on an "as is" basis and should not be regarded as a substitute for obtaining individual advice. Please contact your bank's investment advisor for individual explanations and advice. Provision of this information shall not be construed as constituting an offer to enter into a consulting agreement.

You will find an overview of the breakdown in absolute and relative terms of our investment ratings on our website www.hvb.de under the heading "Disclaimer."

Our investment ratings are in principle judgments relative to an index as a benchmark. Our ratings are as follows: Buy, Outperform, Neutral, Underperform and Sell. Outperform/Underperform ratings mean that we expect a stock to outperform or underperform the benchmark by more than 5%. Similarly, a Buy or Sell rating is based on the assumption of outperformance or underperformance of more than 10%, including an absolute component (i.e. projected absolute gains or losses). The benchmark for the stocks covered in this publication is the Euro STOXX 50.

Issuer level:

- Marketweight:** We recommend to have the same portfolio exposure in the name as the respective reference index (the iBoxx index universe for high-grade names and the ML EUR HY index for sub-investment grade names)
- Overweight:** We recommend to have a higher portfolio exposure in the name as the respective reference index (the iBoxx index universe for high-grade names and the ML EUR HY index for sub-investment grade names)
- Underweight:** We recommend to have a lower portfolio exposure in the name as the respective reference index (the iBoxx index universe for high-grade names and the ML EUR HY index for sub-investment grade names)

Instrument level:

- Core hold:** We recommend to hold the respective instrument for investors who already have exposure.
- Sell:** We recommend to sell the respective instrument for investors who already have exposure.
- Buy:** We recommend to buy the respective instrument for investors who already have exposure.

Note on what the evaluation of equities is based:

Company valuations are based on the following valuation methods: Multiple-based models (P/E, P/cash flow, EV/sales, EV/EBIT, EV/EBITA, EV/EBITDA), peer-group comparisons, historical valuation approaches, discount models (DCF, DVM, DDM), break-up value approaches or asset-based evaluation methods. Furthermore, recommendations are also based on the Economic profit approach. Valuation models are dependent on macroeconomic factors, such as interest rates, exchange rates, raw materials, and on assumptions about the economy. Furthermore, market sentiment affects the valuation of companies. The valuation is also based on expectations that might change rapidly and without notice, depending on developments specific to individual industries. Our recommendations and price targets derived from the models might therefore change accordingly. The investment ratings generally relate to a 6 to 9-month horizon. They are, however, also subject to market conditions and can only represent a snapshot. The ratings may in fact be achieved more quickly or slowly than expected, or need to be revised upward or downward.

Note on the bases of valuation for interest-bearing securities:

Trading recommendations for fixed-interest securities mostly focus on the credit spread (yield difference between the fixed-interest security and the relevant government bond or swap rate) and on the rating views and methodologies of recognized agencies (S&P, Moody's, Fitch). Depending on the type of investor, investment ratings may refer to a short period or to a 6 to 9-month horizon. Please note that the provision of securities services may be subject to restrictions in certain jurisdictions. You are required to acquaint yourself with local laws and restrictions on the usage and the availability of any services described herein. The information is not intended for distribution to or use by any person or entity in any jurisdiction where such distribution would be contrary to the applicable law or provisions.

Notice to U.K. residents:

This report is intended for clients of Bayerische Hypo- und Vereinsbank AG who are market counterparties or intermediate customers (both as defined by the "FSA," the Financial Services Authority) and is not intended for use by any other person, in particular, private customers as defined by the FSA Rules. This report is not to be construed as a solicitation to buy or an offer to sell any securities. The information in this publication is based on carefully selected sources believed to be reliable, but we do not make any representation with respect to its completeness or accuracy. All opinions expressed in this report reflect our assessment at this time and are subject to change without notice.

We and/or other members of Bayerische Hypo- und Vereinsbank Group may take a long or short position and buy or sell securities mentioned in this publication. We and/or members of Bayerische Hypo- und Vereinsbank Group may act as investment bankers and/or commercial bankers for issuers of securities mentioned, be represented on the board of such issuers and/or act as "market makers" for such securities. The Bank and its affiliates may also, from time to time, have a consulting relationship with a company mentioned in this report.

The investment opportunities discussed in this report may be unsuitable for certain investors depending on their specific investment objectives and financial position.

Investors are recommended to obtain the advice of their banker/broker about investments prior to entering into them.

Bayerische Hypo- und Vereinsbank AG London branch is regulated by the FSA.

Notice to U.S. residents:

The information contained in this report is intended solely for institutional clients of Bayerische Hypo- und Vereinsbank AG, New York Branch ("HypoVereinsbank") and HVB Capital Markets, Inc. ("HVB Capital" and, together with HypoVereinsbank, "HVB") in the United States, and may not be used or relied upon by any other person for any purpose. Such information is provided for informational purposes only and does not constitute a solicitation to buy or an offer to sell any securities under the Securities Act of 1933, as amended, or under any other U.S. federal or state securities laws, rules or regulations. The investment opportunities discussed in this report may be unsuitable for certain investors depending on their specific investment objectives, risk tolerance and financial position.

In jurisdictions where HVB is not registered or licensed to trade in securities, commodities or other financial products, transactions may be executed only in accordance with applicable law and legislation, which may vary from jurisdiction to jurisdiction and may require that a transaction be made in accordance with applicable exemptions from registration or licensing requirements.

The information in this publication is based on carefully selected sources believed to be reliable, but HVB does not make any representation with respect to its completeness or accuracy. All opinions expressed herein reflect HVB's judgment at the original time of publication, without regard to the date on which you may receive such information, and are subject to change without notice.

HVB may have issued other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. These publications reflect the different assumptions, views and analytical methods of the analysts who prepared them. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is provided in relation to future performance.

HVB and any company affiliated with it may, with respect to any securities discussed herein: (a) take a long or short position and buy or sell such securities; (b) act as investment and/or commercial bankers for issuers of such securities; (c) act as market makers for such securities; (d) serve on the board of any issuer of such securities; and (e) act as paid consultant or advisor to any issuer.

The information contained herein may include forward-looking statements within the meaning of U.S. federal securities laws that are subject to risks and uncertainties. Factors that could cause a company's actual results and financial condition to differ from expectations include, without limitation: political uncertainty, changes in general economic conditions that adversely affect the level of demand for the company's products or services, changes foreign exchange markets, changes in international and domestic financial markets and in the competitive environment, and other factors relating to the foregoing. All forward-looking statements contained in this report are qualified in their entirety by this cautionary statement.

Sources: Thomson Financial Datastream, HVB Global Markets Research