

# BRAIN FORCE HOLDING

Buy

EUR 2.89

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

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## Q3 below our expectations – but operating cash flow trend a positive surprise

Performance (11/24/06)	1W	1M	3M
Absolute (%)	1.8	-4.3	-4.3
Relative to Euro STOXX 50 (%)	2.6	-5.1	-11.3

Rating	
New: Buy	Previous: Buy

Price target	
New: EUR 4.20	Previous: EUR 4.60

Market cap. (EUR mn)	44.5
Free float (%)	84.3
Capital subscribed (EUR mn)	15.4
Number of shares (mn)	15.4
Shareholders	Helmut Fleischmann and Helmut Fleischmann private foundation 15.7%

Annual general meeting	09-May-07
Q4	27-Mar-07
Q1	May-07

	2005	2006e	2007e
Sales (EUR mn)	77	90	110
EBITDA (EUR mn)	6	7	10
EBITA (EUR mn)	4	3	6
EBIT (EUR mn)	4	3	6
Net income (EUR mn)	3.1	2.9	4.5
EPS reported (EUR)	0.30	0.21	0.29
EPS adj. pre-goodwill (EUR)	0.30	0.21	0.29
P/E (EPS adj. pre-goodwill)	10.9	13.9	10.0
EV/sales	0.4	0.4	0.3
EV/EBITDA	5.4	5.1	2.9
EV/EBITA	9.1	11.0	5.0
Dividend (EUR)	0.08	0.09	0.09
Div. yield (%)	2.5	3.1	3.1

**The company's Q3/06 results fell short of our expectations.** Revenues declined about 2% y-o-y to EUR 20.3 mn (HVBe: EUR 22.8 mn). EBITDA came to EUR 0.5 mn (margin: 2.5%) and EBIT stood at EUR -0.3 mn (margin: -1.7%). Both figures were below our estimates of EUR 0.8 mn (margin: 3.5%) and EUR -0.03 mn (margin: -0.1%), respectively. At EUR -0.6 mn, net income also stayed shy of our expectation of EUR -0.04 mn. The company's order intake amounted to EUR 26.6 mn (Q1/06: EUR 24.7 mn; Q2/06: EUR 20.6 mn). According to our estimates, SYSTEAM probably contributed EUR 9 mn to this total. This means that Q3 showed the sequential decline in order backlog characteristic of BRAIN FORCE HOLDING.

**Segments: After adjustment for non-recurring effects, both Enterprise Services and Technology & Infrastructure recorded advances:** Revenues in the Enterprise Services segment went down 2% y-o-y to EUR 8.3 mn. EBIT decreased from EUR 0.4 mn (margin: 5.1%) in Q3/05 to EUR -0.1 mn (margin: -1.8%) in Q3/06. One reason for the reduced margin was a write-down on receivables necessary in the wake of BenQ Mobile's insolvency. We think that BRAIN FORCE HOLDING wrote down some EUR 1 mn (total volume: EUR 1.4 mn) in Q3/06. The Business Solutions segment recorded a revenue decline of 3% y-o-y to EUR 5.7 mn in Q3/06. Nevertheless, EBIT rose from EUR 0.3 mn (margin: 5.5%) in Q3/05 to EUR 0.4 mn (margin: 7.8%). The performance of the Technology & Infrastructure segment also showed a downward trend, with revenues falling by about 3% y-o-y to EUR 6.3 mn. After adjustment for non-recurring effects in Q3/05 (sale of a license to KEMP), revenues in this segment presumably would have seen an advance in the low double-digit range. EBIT declined from EUR 1.4 mn (margin: 20.9%) to EUR 0.2 mn (margin: 2.8%), which was due to the above-mentioned special effect, among other things.

**Sustained positive trend of the company's operating cash flow.** On a year-on-year basis, the operating cash flow improved from EUR -2.2 mn (9M/05) to EUR 3.2 mn (9M/06). This corresponds to about 5.0% of the company's revenues and is an improvement both on a sequential basis (H1/06: roughly 4.5%) and compared to

the previous years (ratio between operating cash flow and revenues: 2% in 2002, 3% in 2003, 1% in 2004, and 2% in 2005). We think that the full-year 2006 operating cash flow will be on the order of 4% of revenues (with burdens resulting from BenQ Mobile's insolvency). In our view, this means that BRAIN FORCE HOLDING is on the right track. The equity capital ratio stood at 61.1% (Q2/06: 62.4%), up from 50.5% at year-end 2005. Liquid funds including securities held as current assets decreased from EUR 22.6 mn at the end of Q2/06 to EUR 14.6 at the end of Q3/06, which was attributable to the payout of the SYSTEAM purchase price of approximately EUR 8 mn. We think that a continuation of BRAIN FORCE HOLDING's buy-and-build strategy should thus also be possible without any further capital increase.

**Adjustment of our estimates:** After weaker-than-anticipated Q3/06 results, we have adjusted our estimates as follows:

#### CHANGES IN OUR ESTIMATES

		2006e		2007e	
		prev.	new	prev.	new
Revenues	EUR mn	93.4	90.4	114.0	109.6
<i>y-o-y</i>	%	22.0	18.0	22.0	21.3
EBIT	EUR mn	3.7	3.1	6.9	5.9
EBIT margin	%	4.0	3.4	6.0	5.4
EPS	EUR	0.25	0.21	0.32	0.29

Source: HVB Global Research

**No update of the company's annual guidance:** BRAIN FORCE HOLDING did not include any update of its full-year guidance in its Q3/06 results presentation. So far, the company has expected revenues (excl. SYSTEAM) of EUR 90 mn and EBIT of EUR 4.5 mn. With Q3/06 results falling short our estimates, although partly because of non-recurring factors, we have become more cautious with respect to the full-year results, as described above.

**We have reduced our price target from EUR 4.60 to EUR 4.20 but have retained our Buy rating.** The reduction in our estimates has prompted us to lower our price target for BRAIN FORCE HOLDING to EUR 4.20. We think that the stock is clearly undervalued at its current price level. In our view, the negative news (burdens resulting from the BenQ Mobile's insolvency) have been factored in at the current stock price level.

This analysis was prepared by Mr. Knut Woller, CEFA and was published the first time on 11/27/2006  
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Company	Date	Product	Rating	Price target
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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