

OPPENHEIM COMPANY NEWS

29.03.2006

AC - SERVICE

ACV G. DE

Price: €7.60

Buy

2005 results meet expectations, outlook surprises

Fair value: €9.00

Yr. end	2004	2005	2006e	2007e
Sales	44.5	45.7	67.0	74.0
Net Profit	-2.2	1.4	1.2	2.9
adj. EPS	-0.27	0.27	0.23	0.56
PER		19.7	33.5	13.5
EV/EBITDA	2.5	2.7	5.1	3.8
EBIT margin %	-2.0	3.4	4.2	6.7
Yield %	0.0	3.4	2.0	4.9

Under review

Market Cap.: €39.32m

Free Float: 45.0%

EPS CAGR 03-2007: 11.0%

in EUR million	Q4 2005		Q4 2004	% change y-o-y	2004	2005e		% change y-o-y
	expected	reported				expected	reported	
Revenue	12.1	12.4	11.6	7.1%	44.5	45.4	45.7	2.7%
EBITA	0.34	0.22	-1.41	n.m.	-0.9	1.67	1.55	n.m.
EBITA margin	2.8%	1.8%	-12.2%		-2.0%	3.7%	3.4%	
Net Income	0.32	0.83	-1.78	n.m.	-2.23	0.91	1.42	n.m.
EPS, EUR	0.06	0.16	-0.34	n.m.	-0.43	0.18	0.27	n.m.

Investment case:

We maintain a **buy** rating for AC-Service, with a preliminary fair value of €9, after the company reported satisfactory results for 2005. An outlook was announced for the next three years with the company expecting to benefit strongly from its latest acquisition in SAP-related services.

Facts:

_____ 2005 results mainly met our expectations, with EBITA margin slightly lagging our 2005 target. By segment, IT Outsourcing (Managed IT Services) generated the highest revenue (€16.2m, -21% y-o-y), but booked the lowest operating margin (1.1%) among the AC-Service divisions. HR Services managed a nice end of the year, with relatively low revenue (€1.1m or -11% y-o-y), but a strongly improved operating margin of 11.9% after a loss in 2004. SAP Consulting revenue grew strongly, aided by some consolidation effects, while operating margin has dropped to 1.9%. Net earnings were supported by the low tax rate (most likely due to loss carry-forwards).

_____ Following an acquisition in early 2006, AC-Service has announced a rather upbeat outlook for the next three years. In the best case, the company expects revenue to reach €85m in 2008 (CAGR of 23%) and EBITA margin to be at 8.2% (currently, at 3.4%). The targets are clearly affected by the acquisition of All for One Systemhaus GmbH, specializing in SAP-related services for mid-market firms. AC-Service paid €5.35m for the acquisition (about 0.67x 2005 revenue) and has financed the deal with debt. Net cash at the end of 2005 (pre-acquisition) accumulated to €8.7m.

Assessment:

_____ We are quite intrigued by the company's outlook. We do see a chance for AC-Service to become one of the important market players in SAP-related services for mid-market. SAP has been relying on regional partners to promote its Business One and mySAP All-in-One products. Having already established a reputation of a

reliable (even if small) partner, AC-Service together with its new acquisition can gain more weight in the German-speaking countries. Therefore, we believe that the guidance should be feasible to achieve.

Valuation:

_____ Our preliminary calculations based on a revised forecast indicate a fair value of €9. At this price, AC-Service stock would be traded at an EV/EBITDA 2006e of 5.9 as compared to peers' 7.7. Currently, the stock is trading at EV-EBITDA 2006e of 5.1.

Conclusion and performance trigger:

_____ We believe that AC-Service has an exciting year ahead and we expect more information from management on current business development (an analysts' meeting will take place today at 11 am CET). The stock should react positively to the news as the impact of the latest acquisition now becomes visible.

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The ratings are based on the analysts' expectations for the stock's absolute change in stock price over a period of 6 to 9 months. The change in stock price results from the difference between the current share price and the analysts' performance expectations, which are generally based on a fair value calculation.

Along with the expected high change in value, the STRONG BUY and SELL ratings also reflect the high degree of security which the analyst has in the given fair value.

Rating: Potential for change in stock price % (Difference between share price and performance expectations)

STRONG BUY (> 20%); BUY (> 10%); NEUTRAL (0% to 10%); REDUCE (< 0%); SELL (< -10%)

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