


**Small & Mid Caps**

<b>Current price</b>	<b>€2.39</b>
<b>Target price</b>	<b>€3.00</b>
Market cap.	€27.72m
Free float	70%
Average daily trade	€54,841

# Heiler Software

HLR GR; HLR.DE

**Buy**  
(Initiation)

## In on the PIM boom

**The continued success of Heiler's PIM (Product Information Management) product PPM on international markets should drive a strong earnings turnaround this year. We are looking for an EPS CAGR of 88% over the next three years as brisk revenue growth pushes the EBIT margin into the mid-teens. We initiate coverage with a Buy recommendation and a €3.00 target price.**

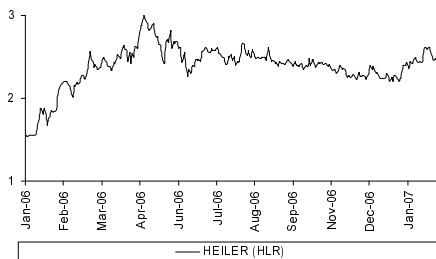
### News flow

- 13 March 2007 AGM
- 14 May 2007 Q2 2006/07 results
- 14 August 2007 Q3 2006/07 results

### Company profile

Heiler Software AG, founded in 1987, makes software which works on corporate SAP-based management systems that helps companies catalogue and display their products in Internet marketplaces and buy MRO (maintenance, repair and operations) materials from suppliers. Headquartered in Stuttgart, the company has US sales offices in Detroit, Minneapolis and Spokane.

### Price performance



Source: Bloomberg

### Highly successful PPM product

Through PPM, Heiler is in on the nascent boom in PIM (Product Information Management) software. The PIM market's high growth rate (Gardner forecast growth at a CAGR of 38% from c. \$275m in 2006 to \$1bn by 2010) is based on the immediate revenue benefits reported by corporate users.

### Traction with large clients

The best PIM suites such as Heiler's PPM, feature deeper industry specialisation than is on offer from enterprise application software generalists such as SAP and Oracle. We believe this has been the key to recent major customer wins such as General Electric and General Motors.

### Driving top line momentum

We expect PPM's continued success to drive revenue growth at a CAGR of 30% over the next three years. Overall revenue growth will be supported by particularly rapid growth on international markets such as the US where Heiler's sales have risen at a CAGR of over 150% during the last two years.

### Strong earnings turnaround now expected

Heiler's profitability was held back for several years by sluggish licensing growth and the high cost of developing PPM. PPM has driven licensing growth of 50% at Heiler in each of the last two financial years. We expect revenues to significantly outpace costs during the rest of this decade thereby propelling the EBIT margin to the 15% level.

### Key data

Year-end Sep	03/04	04/05	05/06A	06/07E	07/08E
Sales (€m)	5.3	5.7	8.7	11.8	15.1
EBITDA (€m)	-2.4	-1.6	-0.1	1.1	2.1
EBITA (€m)	-2.6	-1.8	-0.3	0.7	1.7
EBITA-margin (%)	-49.6	-30.7	-3.4	6.3	11.4
Free Cash Flow (€m)	-4.6	-0.2	-1.2	2.0	2.5
FCF margin (%)	-87.2	-3.6	-13.9	16.9	16.6
EPS as reported (€)	-0.45	-0.12	0.04	0.15	0.19
EPS adjusted (€)	-0.45	-0.12	0.04	0.15	0.19
DPS (€)	0.0	0.0	0.0	0.0	0.0
EV/sales (x)	2.6	2.4	1.6	1.1	0.9
EV/EBITDA (x)	-5.6	-8.5	-263.3	12.7	6.4
EV/EBITA (x)	-5.2	-7.7	-45.4	18.2	7.9
P/E (x)	-5.4	-19.2	56.2	16.0	12.9
Dividend yield (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Gearing (x)	-0.9	-0.9	-0.8	-0.9	-0.9
Net debt / EBITDA (x)	6.6	10.0	296.6	-16.2	-9.4

Source: Heiler, First Berlin Equity Research

**Analyst**  
**Markus Leucht**

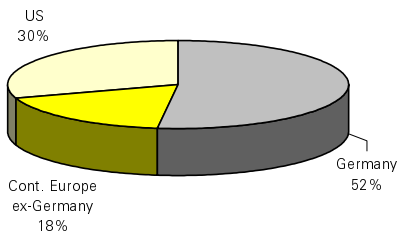
 Tel +49 (0)30 - 80 93 96 91  
 m.leucht@firstberlin.com

[www.cbksec.com/research/](http://www.cbksec.com/research/)  
[www.firstberlin.com](http://www.firstberlin.com)
**For important disclosure information please see page 19 - 20**

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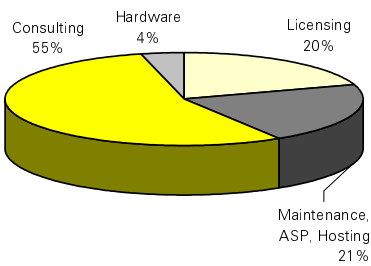
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**Heiler: Sales by region 2005/06**



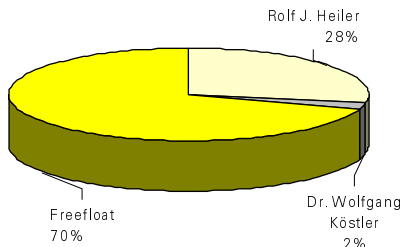
Source: Heiler

**Heiler: Sales by segment 2005/06**



Source: Heiler

**Heiler: Shareholders**



Source: Heiler

**Corporate management**

Investor relations contact:  
**Dr. Wolfgang A. Köstler**  
 +49 (0) 711 139 84-0

Reporting: Quarterly

Buyback programme: No

Management stock incentive: Yes

Employee share scheme: Yes

**Profit & loss**

Year-end Dec (€m)	03/04	04/05	05/06A	06/07E	07/08E
Sales	5.3	5.7	8.7	11.8	15.1
Gross profit	2.5	2.9	5.3	8.1	11.0
in %	46.7%	50.1%	60.5%	68.0%	73.0%
EBITDA	-2.4	-1.6	-0.1	1.1	2.1
in %	-45.5%	-27.9%	-0.6%	9.0%	14.2%
EBIT	-2.6	-1.8	-0.3	0.7	1.7
in %	-49.6%	-30.7%	-3.4%	6.3%	11.4%
EBT	-2.3	-1.4	0.1	1.7	2.2
in %	-43.2%	-23.7%	1.5%	14.7%	14.3%
Tax	-2.6	0.0	0.3	0.0	0.0
in %	-114.9%	-1.0%	-259.6%	0.0%	0.0%
Net profit	-4.9	-1.4	0.5	1.7	2.2
in %	-92.9%	-24.0%	5.5%	14.7%	14.3%
EPS (€)	-0.45	-0.12	0.04	0.15	0.19
Growth	175.5%	72.1%	134.2%	252.2%	23.7%

Source: Heiler, First Berlin Equity Research

**Balance sheet**

Year-end Dec (€m)	03/04	04/05	05/06A	06/07E	07/08E
Fixed assets	1.5	1.2	4.0	3.7	3.2
Net working assets	0.5	0.0	-0.4	-0.4	-0.5
Balance sheet total	20.2	18.7	21.2	22.9	25.7
Net debt (liquidity)	-16.7	-16.1	-15.3	-17.3	-20.1
Financial liabilities	0.1	0.8	1.3	1.3	1.7
Shareholders' funds	18.4	17.1	18.6	20.4	22.5

Source: Heiler, First Berlin Equity Research

**Cash flow statement**

Year-end Dec (€m)	03/04	04/05	05/06A	06/07E	07/08E
Capex	-0.1	-0.1	-2.7	-0.5	-0.6
Net operating cash flow	-4.5	-0.1	1.5	2.5	3.1
Free cash flow	-4.6	-0.2	-1.2	2.0	2.5
Dividend	0	0	0	0	0

Source: Heiler, First Berlin Equity Research

**Key ratios**

Year-end Dec	03/04	04/05	05/06A	06/07E	07/08E
Net debt/equity (incl. GW) (%)	-87.0	-93.7	-82.2	-85.2	-89.5
Interest cover (x)	-17.5	-11.7	-1.9	4.8	9.8
Dividend cover (x)	0.0	0.0	0.0	0.0	0.0
Equity ratio (with goodwill) (%)	91.1	91.8	88.1	89.0	87.6
ROE (with goodwill) (%)	-23.7	-7.7	2.7	8.9	10.1
Post-tax RoCE (%)	0.0	-9.1	-3.2	3.4	7.1
Sales/employee (€m)	64.0	69.2	104.8	142.7	181.6
EBITDA/employee (€m)	-29.1	-19.3	-0.6	12.9	25.7
Net working assets/sales (%)	10.1	-0.5	-4.1	-3.0	-3.0
Operating CF/Capex (%)	n.a.	n.a.	n.a.	n.a.	n.a.
NBV per share (with goodwill) (€)	1.7	1.6	1.7	1.8	1.9
EV incl pensions/sales (x)	2.6	2.4	1.6	1.1	0.9
EV incl pensions/EBITDA (x)	-5.6	-8.5	-263.3	12.7	6.4
EV incl pensions/EBIT (x)	-5.2	8.2	8.5	11.0	12.1

Source: Heiler, First Berlin Equity Research

## Investment summary

### *On time for the boom*

The release of Heiler's Premium Product Manager 3.0 (PPM 3.0) in May 2005 was perfectly timed to catch the start of the boom in Product Information Management (PIM) software. Clients are attracted by the high and rapid return on investment of PIM software, which is a proven aid in the sales process.

### *Industry-specific solutions key to success in PIM*

The key to success in PIM is the ability to offer industry-specific solutions. We believe these were crucial in recent key client wins such as General Electric and General Motors. Heiler developed PPM industry-specific solutions over a multi-year period during the early part of this decade and in this respect has an advantage over much larger competitors such as SAP and Oracle.

### *International revenues tripled in 2005/06*

The success of PPM is also the story of Heiler's successful internationalisation. In 2005/06 the proportion of revenues generated outside Germany rose to 47% from 22%, growing by 224%. Heiler is currently increasing the resources devoted to its international marketing efforts to capture this demand. The management board has been expanded to three persons through the appointment of a sales and marketing manager. Meanwhile last year the group opened two new sales offices in Minneapolis and Spokane to add to its existing office in Detroit.

### *We forecast 3-year revenue and EPS and CAGR of 30% and 88% respectively*

PPM continues to transform Heiler's prospects. The product was primarily responsible for pulling Heiler's operating loss margin up from -49.6% in the financial year 2003/04 to close to breakeven for 2005/06. We expect PPM's competitive advantage combined with the group's internationalisation efforts to drive revenues at a CAGR of 30% over the next three years. From the end of the current financial year we expect revenues to outpace costs (in particular R&D and Sales & Marketing) at an accelerating rate. We forecast the EBIT margin to reach 15% by 2010 and EPS to grow at a CAGR of 88% over the next three years.

DCF analysis shows that Heiler is modestly valued relative to its growth prospects. We initiate coverage with a Buy recommendation and a €3.00 target price.

## On the brink of a successful turnaround

### *Introduction of PPM responsible for improved performance*

Heiler Software listed on the Frankfurt Stock Exchange's Neuer Markt in November 2000. At the time of its listing the company was focused on products for digital market places which facilitate so-called e-procurement. The market for these products was difficult in the years following the bursting of the technology bubble and the group recorded several years of losses. In addition the company continued to spend heavily on R&D. The company has generated operating losses every year since the IPO. However, the company's operating loss margin has been narrowing steadily since 2002/03 and we expect the group to show positive EBIT in the current financial year. The main driver behind the group's improved performance has been the introduction of the new product information management release PPM.

### *PPM accounts for 60% of licensing in first full year after launch*

Although Premium Product Manager 3.0 (PPM 3.0) was only launched in May 2005, it and its successor product PPM 4.0 already accounted for around 60% of licensing in the financial year 2005/06. PPM is Heiler's most successful product to date, generating more customers in a shorter space of time than any predecessor. The product has achieved several prestigious customer wins including General Motors and General Electric.

The success of PPM has allowed Heiler to accelerate the internationalisation of its business. Heiler founded a US subsidiary, Heiler Software Corporation, in Detroit in 2001. Last year the group added new offices in Minneapolis and Spokane. The group's US sales more than tripled in financial year 2005/06 while growth in continental Europe ex-Germany was also strong at over 150%. The company recently appointed a third management-board member to continue the international sales push.

High sales and marketing and R&D costs means that Heiler made a small operating loss in 2005/06. We expect continued rapid licensing growth (five year CAGR of 34%) and

revenue growth (five year CAGR of 23%) to push the EBIT margin to 15% by the end of this decade.

## The market for e-procurement products.

*E-procurement market divides into two segments – buy side and sell side*

Heiler is active within the market for e-procurement software. The e-procurement software market divides into two segments Supply Relationship Management (SRM) and Product Information Management (PIM). In simple terms SRM caters to the buy side of the supply chain and PIM caters to the sell side. Heiler's software covers both SRM and PIM. Heiler's products are designed to be used in conjunction with SAP products. SAP named the Heiler Consulting Group its official service partner in 2003 and designated it a 'Special Expertise' partner in 2005.

E-procurement is a niche within the much larger Enterprise Application Software Market: This larger market is dominated by SAP, Oracle and Microsoft. According to SAP, the Enterprise Application Software Market was worth approximately \$17bn in 2006.

*Buy side software market growing at 8% p.a.*

Within e-procurement, the worldwide market for SRM was worth \$1.56bn in 2006 according to the ARC Advisory Group. This segment is expected to grow at a CAGR of 8.2% over the next five years to \$2.3bn by 2011. Within the context of the software market, SRM is a mature segment having coming to the fore in the 1990s.

*Gardner forecast 38% CAGR for sell side (PIM) software to 2010*

The market for PIM at c. \$275m in 2006 is still much smaller than for SRM, but is much faster growing. Gardner forecast growth at a CAGR of 38% to \$1bn by 2010. Oracle, SAP, IBM and i2, offer PIM as part of their so-called master data management tools. The strategy of the smaller independent players such as Heiler and the US companies Comergent Technologies Inc. and FullTilt Solutions Inc. has been to differentiate themselves from the majors by offering industry-specific solutions. This strategy has been very successful. In recent quarters Heiler and its two independent competitors have been able to show average licensing growth in the high double-digits.

The market for PIM is still at a very early stage of its development and its further development should be able to support strong revenue growth at Heiler for several years to come.

## The product portfolio: both buy- and sell-side of the supply chain

Heiler's product portfolio addresses both the buy side of the supply chain through its SRM product family and the sell side through its PIM products

### Buy side – purchasing is the key to profitability

*Savings through timely, efficient processes and structured purchasing*

The increased transparency of global markets means suppliers and buyers need to familiarise themselves with the digital management of product data. Ever-shortening product life cycles and increasing product ranges only increase the magnitude of product data in the digital universe. A maker of document printers can offer up to 200 different toners for a DAX-listed company; the number of potential suppliers can be in the thousands; and collectively, they can supply more than a million products. For this reason, using a catalogue system yields substantial savings through timely, efficient processes and structured purchasing. For a big corporation, a coordinated purchasing strategy raises buying power.

Corporate buyers in a value chain must integrate a vast number of suppliers and product lines into their purchasing plans. It makes sense to use software to digitise and optimise these processes. Idle costs for buyers are usually caused by 'maverick buying' from employees, time-consuming administrative tasks, an excess of suppliers and misplaced orders.

A catalogue for corporate buyers integrates the individual catalogues of multiple suppliers into an internal procurement system. This comprehensive catalogue is fed into a proprietary procurement system and fine-tuned to address the different needs, languages

and priorities of corporate departments within an organisation, which are often spread globally.

### Heiler's buy-side products

Heiler's SRM solution focuses on these so-called corporate 'buy sides'. Purchasing and ordering processes are simplified using digital search functions and relevant product comparisons. Target groups are large enterprises with annual turnovers greater than \$1bn which operate on an SAP system. Heiler's software streamlines their procurement processes.

**Premium Business Catalogue** is a search engine for purchasers and consumers. It combines input from different suppliers into a multi-supplier catalogue. For purchasers, this software makes processes more transparent and allows them to buy at lower prices. A company can define budgets and sectors for users and divisions, resulting in more efficient buying.

**Premium Content Manager** is a catalogue-maintenance system. Used by corporate purchasing departments, the principal benefit of this software is the administrative automation, management and integration of catalogue maintenance into in-house procurement systems.

### Sell side

Information flow along a corporate value chain is often interrupted. Product attributes may be delivered late, in the wrong format or with critical content missing. Product data may be stored in incompatible formats and may originate from different, uncoordinated sources such as enterprise resource planning (ERP) and database systems. A sell-side customer's typical needs include coping with decentralised product data, classifying and managing that data, and finally, synchronising and publishing the data in different distribution and marketing channels.

Companies that produce and market goods have information spread over many different departments. Information gathered from production, marketing and logistics departments can be integrated into a firm's distribution and marketing strategy with the help of a product information system that collects, merges and administers this information in a central data base.

Coordinating multiple distribution channels and standards is the chief benefit of a product information management system (PIM). Formats and classification standards can vary according to customer, marketplace and procurement platform. A variety of standards can be used simultaneously by different software solution providers.

In an entirely web-based company such as Amazon, standardised products are offered at standard conditions, but in B2B, more differentiated requirements prevail. Purchasing organisations negotiate special discounts and master agreements with preferred suppliers. To create an optimised environment, distribution hubs have to be served from a central database. This is the purpose of a PIM system, such as that offered by Heiler.

### Heiler's sell-side products

Like most software providers in its industry, Heiler used to focus on buy-side software. As more and more purchase departments began using software, pressure rose on suppliers to deliver their product information in a range of digital formats. To meet this demand, Heiler has developed software that distributes information in different formats and standards.

Distribution methods are also changing in ways that increase the demand for the kind of management software made by Heiler. The efficiency of the Internet as a way to market and distribute goods is causing more companies to eliminate old distributors entirely and sell directly to consumers through so-called direct distribution. Hilti, a German tool maker, is an example of one company that is now selling its merchandise directly over the Internet.

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*Meeting demand for suppliers to deliver product information in a range of digital formats*

**Premium Product Manager (PPM)** is Heiler's PIM software. Version 3.0 was launched in May 2005 and was later followed by version 4.0. PPM is Heiler's most successful product launch to date, generating more new customers in a shorter time than any predecessor. Heiler's PIM system is ideally suited for companies with accelerated growth. These tend to be recently merged businesses or companies that are exploring new markets and distribution channels. The systems can also be used profitably in market sectors where rigorous legal restrictions require accurate product information.

Unlike giants of the enterprise application software industry Oracle and SAP, Heiler has developed a series of specific solutions that target defined customer groups and sectors, where the benefits of product information systems are high. Examples include electrical engineering companies with their many suppliers, high-tech companies with short product life cycles, suppliers from different geographic regions, and medical technology firms that have high requirements on product data and content.

## PIM sector specialisation generates competitive advantage

Heiler's product development and distribution focuses on identifying sectors and industries where the benefits of PIM systems can easily be demonstrated. The result is sector-specific solutions with high degrees of specialisation. This strategy provides Heiler with a competitive advantage over generalist providers such as IBM, Oracle and SAP. Although these companies may enter this market, we believe they lack the specialisation required to challenge Heiler's range of targeted niche products.

*PIM solutions generate rapid ROI*

While the advantages of buy-side solutions to corporate buyers tend to be abstract and only become clear over the long term, sell-side solutions typically generate immediate benefits in revenues and margins. Besides internal savings, the centralised management of product data also makes it easy to create new formats and catalogues in short periods of time, lowering barriers to new markets and customers. We believe Heiler's PPM Product has a significant competitive advantage and that it has the potential to generate further strong revenue growth.

## Revenue by category

Most software companies divide their revenues into the categories licensing, maintenance, hosting/ASP (application service provision), and consulting. Licensing income not only drives all the other revenue categories but is also the highest margin element in a software company's revenue. So high licensing growth is considered the most important metric for a software company. If licensing income growth outpaces the other components of a software company's income (particularly maintenance and consulting), it is generally considered a sign of health. This is the case at Heiler.

### Licensing

Licensing fell 32% y-o-y in 2003/04 which was the year before the introduction of PPM 3.0. In 2004/05, the year when PPM 3.0 was launched, licensing rose 50% y-o-y. Licensing rose by a further 50% y-o-y in 2005/06.

In 2005/06, the first full year after its introduction, PPM 3.0 already accounted for 60% of licensing. The introduction of PPM 3.0 was the main driver behind the margin rise to 60.4% in 2005/06 from 46.7% in 2003/04.

### ASP/Hosting

In recent years, ASP has gained increasing importance in the software industry. ASP entails renting rather than selling software to customers. ASP fees and margins are less than those from direct licensing, but revenues are made on a more regular basis. ASP recognises the tight budgets of many companies and their inability to make large investments in IT expertise and corporate structures. Hosting involves the client buying licensing software, but running it on Heiler's on-premise servers. ASP/Hosting revenues

*PIM introduction behind 13 point jump in gross margin in 2005/06*

*ASP/Hosting income developing in line with licensing*

rose at a CAGR of 48% from 2003/04 to 2005/06, only slightly below the equivalent figure for licensing of 50%.

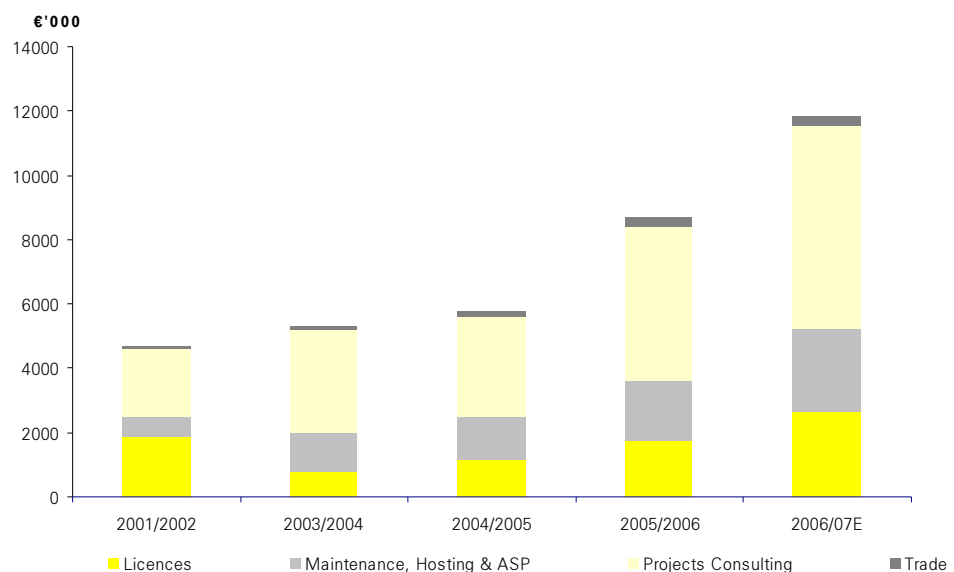
## Maintenance

Maintenance involves the sale of after-sales support and product upgrades to existing users of the software products. Maintenance revenues grew at a CAGR of 24% from 2003/04 to 2005/06 - well short of the growth in licensing.

## Consulting

Consulting mainly involves Heiler installing its software on a client's premises. Consulting grew at a CAGR of 26% over the period 2003/04 to 2005/06. Consulting is low-margin relative to licensing and maintenance income. We are encouraged to hear from management that the company plans to leave an increasing proportion of its consulting business to partners, as this implies overall margins will rise.

CHART 1: Sales breakdown



Source: Heiler, First Berlin Equity Research estimates

## Licensing income revives in Q1

### Market relief after weak H2

Overall revenues rose by 16.5% to €2.51m in Q1 2006/07 driven primarily by a 37.2% increase in licensing income to €0.89m. This figure came as a relief to the market which had been unsettled by a 17% y-o-y decline in licensing revenues in H2 2005/06. Management states that licensing growth in Q1 2006/07 was founded both on additional licensing purchases from existing clients and on demand from new clients, primarily in Germany and the US. Increases in licensing income in 2004/05 and in the first half of 2005/06 pushed maintenance income 63% higher to €0.4m. Consulting sales rose by only 5% y-o-y due to the conclusion of an implementation project for a big customer.

Strong licensing growth caused the gross margin to jump to 67.5% from 61.0%. But EBIT margin only showed a small improvement to 3.2% from 2.4%. This gross margin improvement was mostly eaten up at EBIT margin level by increasing R&D and sales and marketing costs. R&D costs rose y-o-y to 24.0% from 21.1% of sales partly due to the consolidation of OKS Software (see below). Sales and marketing costs rose y-o-y to 24.0% from 21.6% of sales due to the group's increasing internationalisation efforts.

## Investments in growth

### OKS software

*Acquisition adds capability in unstructured information*

After the two companies announced a strategic partnership in March 2006, Heiler acquired 100% of OKS in May for 0.44m new shares and €1.68m cash. The OKS acquisition supports Heiler's efforts to offer comprehensive software for PIM. Until now, Heiler's PIM software has been primarily based around structured information. OKS's Media Asset Management (MAM) system will enable Heiler to combine unstructured information such as pictures, audio and video files with structured product information (text). OKS will be able to capitalise on Heiler's large loss carry-forwards and so its profits will not be heavily diluted by taxation.

### New offices in Minneapolis and Spokane

Amid increased demand for its PIM and procurement software in the United States, Heiler expanded its distribution and support in North America by adding offices in Minneapolis and Spokane to augment its existing US base in Detroit. Given its greater pressure on costs, the US is more advanced in adopting PIM solutions than Europe. Heiler's US customers include General Electric, General Motors, Reynolds & Reynolds and other early adopters. Many reasons exist for customers in America appearing more willing to use Heiler's products: strong competitive pressure, the vast size of the country which makes distribution and logistics essential in the value chain, and the linguistic homogeneity of the market.

### Sales and marketing capacity

*Plans to hire additional 15-20 sales, consulting and support staff this year*

The development of Heiler's distribution structure was management's top priority in 2006. Management still views lack of sales and marketing capacity as the major 'bottle neck' in the company's efforts to raise revenues. Heiler plans to hire an additional 15-20 staff in sales, consulting and support this year. Geographic expansion should continue to deliver growth. Following the recent expansion of sales and support activities in the US, we expect further strong sales growth from North America. In Western Europe, France, the Benelux countries and the United Kingdom remain relatively untapped by PIM products and so should offer strong potential. We expect Heiler to target resources on the development of these markets next.

### Strong balance sheet

Heiler had a net cash position of €14.2m at the end of Q1 2006/07 down from €15.3m at the end of full year 2005/06. This reduction was caused primarily by an increase in working capital in connection with the group's rising revenues.

*Consolidated equity equivalent to 91% of balance sheet total at end of Q1*

The group's cash position was equivalent to 69% of the balance sheet total at the end of Q1 2006/07. Despite recent losses, consolidated equity of €18.9m is equivalent to 91% of the balance sheet total. The group has accumulated tax loss carry-forwards of over €18m. Against this background the deferred tax asset in the balance sheet of €1.2m is very conservative. Deferred tax assets could easily be worth €6m.

## Sales and earnings forecast

### Licensing-driven revenue growth

Heiler's future largely depends on licensing revenue growth. Although increasing consulting revenues have improved capacity usage and covered fixed costs, licensing will continue to be the main profit generator and growth driver.

The recovery in licensing growth in Q1 2006/07 after the decline in H2 2005/06 was a great relief to the market. Following conversations with management, we are convinced licensing income will continue to rebound. Management says that it expects licensing growth to be much less volatile this year than was the case in 2005/06.

Several factors are driving demand for Heiler's PIM products. The market for PIM software is young and fast growing. The attraction of PIM software is that it offers rapid and tangible return on investment in the form of a real impact on sales numbers. Buy-side software improves internal efficiency but does not spur sales growth. Until now, sell-side software has proved more attractive to clients than buy-side software.

We believe Heiler and other independent competitors, such as US companies Comergent Technologies Inc. and FullTilt Solutions, will take market share from larger players, such as SAP and Oracle, which have not invested so heavily in industry-specific solutions.

For full year 2006/07 we expect licensing and maintenance income growth of 50% and 40% respectively to drive overall revenue growth of 36%. We expect PPM to be the main growth driver, although management tells us that the group's buy-side products have also been generating increased interest in recent quarters. The group's EBIT margin should reach 6.3% for the full year 2006/07 as revenue growth again boosts the gross margin but also begins to outpace the increase in sales and marketing expenditure.

For the three-year period beginning 2006/07 we forecast overall revenues to grow at a CAGR of 30.0%. We expect the group's EBIT margin to climb to 11.4% in 2007/08 and 14.0% in 2008/09. For 2009/10 and beyond we expect 15.0%. We think this level of profitability is realistic for Heiler because the company has a demonstrably successful product in a fast-growing market. Moreover, for the time being at least, there are only a small number of similarly-sized competitors with comparable products.

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*Three year EPS CAGR of  
88% in prospect*

We expect this combination of fast revenue growth and expanding margins to produce an EPS CAGR of 88% for the three-year period 2006/07 to 2008/09.

## Valuation

We have based our valuation of Heiler primarily on a DCF valuation as we think that peer group analysis yields only imprecise insights. However, for illustrative purposes we have provided a peer group valuation comparison.

Using First Berlin methodology, which takes into account company-specific risk factors, we derived a cost-of-equity (COE) of 13.9% for Heiler. Given our expectation the company will stay cash positive in the long term, WACC is equal to COE.

*DCF model yields valuation of €3.00 per share*

Using the assumptions detailed in table 3 our DCF model yields a valuation for Heiler of €34.8m (€3.00 per share).

TABLE 1: Heiler – DCF valuation

€m	06/07E	07/08E	08/09E	09/10E	10/11E	11/12E	12/13E	13/14E
Net sales	11.8	15.1	18.9	22.2	25.7	28.7	30.9	33.4
NOPLAT	0.7	1.7	2.6	3.0	3.5	3.9	3.3	3.6
+ depreciation & amortis. (excl. GW)	0.3	0.4	0.5	0.6	0.7	0.8	0.9	0.9
= net operating cash flow	1.1	2.1	3.2	3.6	4.2	4.7	4.1	4.5
- total investments (Capex and WC)	-0.5	-0.5	-0.6	-0.7	-0.8	-0.9	-0.9	-1.0
Capital expenditure	-0.5	-0.6	-0.8	-0.8	-0.9	-1.0	-1.0	-1.1
working capital	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
+/- others (incl. adj. on net interest, provisions, other non cash items)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
= Free cash flow (FCF)	0.5	1.6	2.5	2.9	3.4	3.8	3.2	3.5
PV of FCF's	0.5	1.3	1.7	1.8	1.8	1.8	1.3	1.3

€m	
PVs of FCFs in explicit period	16.1
PVs of FCFs in terminal period	4.4
Enterprise Value (EV)	20.5
(Net cash)/net debt	14.2
Minorities	0.0
Shareholder value	34.8

**Value per share (EUR) 3.00**

WACC	13.9%
cost of equity	13.9%
pre-tax cost of debt	6.0%
normal tax rate	29.0%
after-tax cost of debt	3.7%
share of equity	100.0%
share of debt	0.0%
<b>Terminal growth</b>	<b>2.0%</b>
<b>Terminal margin</b>	<b>10.0%</b>

Sensitivity analysis Fair value per share

	Terminal margin (%)						
	7.0%	8.0%	9.0%	10.0%	11.0%	12.0%	13.0%
9.9%	3.6	3.7	3.8	3.9	4.0	4.1	4.2
10.9%	3.4	3.5	3.5	3.6	3.7	3.8	3.8
11.9%	3.2	3.3	3.3	3.4	3.4	3.5	3.6
12.9%	3.0	3.1	3.1	3.2	3.2	3.3	3.3
13.9%	2.9	2.9	3.0	<b>3.0</b>	3.0	3.1	3.1
14.9%	2.8	2.8	2.8	2.9	2.9	2.9	2.9
15.9%	2.7	2.7	2.7	2.7	2.8	2.8	2.8
16.9%	2.6	2.6	2.6	2.6	2.6	2.7	2.7

Source: Heiler, First Berlin Equity Research

We would like to have included Heiler's US competitors, Comergent Technologies and FullTilt Solutions in our peer group analysis. However, neither of these companies is quoted. Comergent is a subsidiary of AT&T, while FullTilt is privately owned. Instead we have opted for Heiler's German peers. The table shows that at our target price of €3.00 Heiler is more expensive on a 2007 EV/EBIT basis than its fastest growing peer, Doccheck. However, in our forecasts, Heiler's sales will grow at over 32% in the next two years whereas the equivalent figure for Doccheck is only approx. 16%. On this basis we find a premium valuation for Heiler justified.

TABLE 2: Peer group comparison

	Share price	Currency	YE	Mkt Cap (m)	(Net cash)/debt (m)	EV (m)	2006-08 sales CAGR (%)	EV/Sales '06	EV/Sales '07E	EV/Sales '08E	EV/EBIT '06	EV/EBIT '07E	EV/EBIT '08E
Utimaco Safeware AG	12.83	EUR	Jun	189.18	-30.43	158.75	7.89%	3.2	2.8	2.7	28.5	16.0	12.3
Doccheck AG	4.52	EUR	Dec	26.69	-15.44	11.25	15.92%	0.9	0.8	0.7	12.5	9.4	7.5
PSI AG	4.41	EUR	Dec	53.42	-15.67	37.75	5.33%	0.3	0.3	0.3	18.0	8.8	4.9
Atoss Software AG	9.90	EUR	Dec	39.85	-11.66	28.19	8.29%	1.3	1.2	1.1	10.4	9.4	8.1
Softm Software AG	5.02	EUR	Dec	24.54	-0.04	24.50	5.23%	0.3	0.3	0.3	15.3	11.1	7.4
Mean								1.2	1.1	1.0	16.9	11.0	8.0
Median								0.9	0.8	0.7	15.3	9.4	7.5
Heiler (at current share price)	2.39	EUR	Sep	27.72	-14.24	13.48	31.61%	1.5	1.1	0.9	53.9	14.2	6.1
<i>Premium/Discount to mean value</i>								<i>30.7%</i>	<i>7.3%</i>	<i>-10.7%</i>	<i>218.2%</i>	<i>29.5%</i>	<i>-24.5%</i>
Heiler (at target share price)								2.4	1.7	1.4	82.2	21.6	9.3
<i>Premium/Discount to mean value</i>								<i>99.3%</i>	<i>63.6%</i>	<i>36.1%</i>	<i>385.2%</i>	<i>97.5%</i>	<i>15.1%</i>

Source: IBES, First Berlin Equity Research

## Risks

We believe Heiler offers specialised niche software that promises steady, profitable growth. Compared with SAP and Oracle, Heiler can deliver better value for money to this select group of clients and thus exploit its competitive advantage. Currently, the PIM market is too small, specialised and fragmented to be served by a generalist provider such as Oracle and SAP. However, if the market continues to grow at or near current rates, it may attract increased resources from bigger players such as Oracle and SAP.

## Appendix I: Financial information

TABLE 3: Heiler – Profit and loss statement (IFRS)

€m	03/04	04/05	05/06A	06/07E	07/08E	08/09E	09/10E
<b>Sales</b>	<b>5.3</b>	<b>5.7</b>	<b>8.7</b>	<b>11.8</b>	<b>15.1</b>	<b>18.9</b>	<b>22.2</b>
y-o-y	12.2%	8.1%	51.4%	36.2%	27.2%	25.6%	17.5%
Cost of goods sold	2.8	2.9	3.4	3.8	4.1	4.5	5.1
<b>Gross profit</b>	<b>2.5</b>	<b>2.9</b>	<b>5.3</b>	<b>8.1</b>	<b>11.0</b>	<b>14.4</b>	<b>17.1</b>
Gross margin	46.7%	50.1%	60.5%	68.0%	73.0%	76.0%	77.0%
R&D costs	2.0	2.0	2.1	2.5	3.0	3.8	4.4
Sales and marketing costs	2.1	1.5	2.6	3.7	4.8	6.2	7.3
General and administrative costs	1.1	1.1	1.2	1.3	1.5	1.9	2.2
Other operating income/expenses	0.1	0.1	0.3	0.2	0.1	0.2	0.2
Total operating expenses	5.4	4.8	6.1	7.6	9.4	12.1	14.2
<b>EBIT</b>	<b>-2.6</b>	<b>-1.8</b>	<b>-0.3</b>	<b>0.7</b>	<b>1.7</b>	<b>2.6</b>	<b>3.3</b>
EBIT margin	-49.6%	-30.7%	-3.4%	6.3%	11.4%	14.0%	15.0%
<b>Net financial items</b>	<b>0.3</b>	<b>0.4</b>	<b>0.4</b>	<b>1.0</b>	<b>0.4</b>	<b>0.7</b>	<b>0.8</b>
<b>EBT</b>	<b>-2.3</b>	<b>-1.4</b>	<b>0.1</b>	<b>1.7</b>	<b>2.2</b>	<b>3.3</b>	<b>4.1</b>
EBT margin	-43.2%	-23.7%	1.5%	14.7%	14.3%	17.4%	18.4%
Income taxes	-2.6	0.0	0.3	0.0	0.0	0.0	-0.4
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>-4.9</b>	<b>-1.4</b>	<b>0.5</b>	<b>1.7</b>	<b>2.2</b>	<b>3.3</b>	<b>3.7</b>
Net income margin	-92.9%	-24.0%	5.5%	14.7%	14.3%	17.4%	16.6%
EPS	-0.45	-0.12	0.04	0.15	0.19	0.28	0.32
<b>EBITDA</b>	<b>-2.4</b>	<b>-1.6</b>	<b>-0.1</b>	<b>1.1</b>	<b>2.1</b>	<b>3.2</b>	<b>3.9</b>
<b>EBITDA margin</b>	<b>-45.5%</b>	<b>-27.9%</b>	<b>-0.6%</b>	<b>9.0%</b>	<b>14.2%</b>	<b>16.8%</b>	<b>17.8%</b>

Source: Heiler, First Berlin Equity Research

TABLE 4: Heiler – Balance sheet (IFRS)

€m	03/04	04/05	05/06A	06/07E	07/08E	08/09E	09/10E
<b>Assets</b>							
Cash and cash equivalents	16.9	16.2	15.4	17.5	20.3	23.6	27.3
Accounts receivable	1.4	1.1	1.5	1.5	1.9	2.4	2.8
Other current assets	0.4	0.2	0.2	0.2	0.3	0.4	0.4
<b>Current assets</b>	<b>18.7</b>	<b>17.5</b>	<b>17.2</b>	<b>19.2</b>	<b>22.5</b>	<b>26.4</b>	<b>30.5</b>
Property, plant and equipment	0.2	0.2	0.3	0.5	0.6	0.7	0.8
Goodwill	0.0	0.0	2.2	2.2	2.2	2.2	2.2
Non-goodwill intangibles	0.1	0.0	0.2	0.3	0.4	0.5	0.6
Financial assets	0.00	0.00	0.01	0.01	0.01	0.01	0.01
Deferred tax claims and others	0.9	0.9	1.2	0.7	0.0	0.0	0.0
Other non-current assets	0.4	0.1	0.0	0.0	0.0	0.0	0.0
<b>Non-current assets</b>	<b>1.5</b>	<b>1.2</b>	<b>4.0</b>	<b>3.7</b>	<b>3.2</b>	<b>3.4</b>	<b>3.6</b>
<b>Total assets</b>	<b>20.2</b>	<b>18.7</b>	<b>21.2</b>	<b>22.9</b>	<b>25.7</b>	<b>29.8</b>	<b>34.2</b>
<b>Equity and liabilities</b>							
Provisions	0.0	0.1	0.1	0.1	0.1	0.1	0.2
Short term debt	0.00	0.01	0.00	0.00	0.00	0.00	0.00
Accounts payable	0.3	0.3	0.3	0.3	0.3	0.4	0.5
Deffered Income	0.7	0.3	0.6	0.6	0.8	1.0	1.2
Other current liabilities	0.0	0.7	1.2	1.2	1.5	1.8	2.2
<b>Current liabilities</b>	<b>1.0</b>	<b>1.4</b>	<b>2.2</b>	<b>2.2</b>	<b>2.7</b>	<b>3.4</b>	<b>4.0</b>
Long-term debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred taxes	0.0	0.0	0.2	0.2	0.3	0.3	0.4
Pension provisions	0.1	0.1	0.1	0.2	0.2	0.2	0.3
Other provisions	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other non-current liabilities	0.2	0.0	0.0	0.0	0.0	0.0	0.0
<b>Non-current liabilities</b>	<b>0.4</b>	<b>0.2</b>	<b>0.3</b>	<b>0.4</b>	<b>0.5</b>	<b>0.6</b>	<b>0.7</b>
<b>Total liabilities</b>	<b>1.5</b>	<b>1.5</b>	<b>2.5</b>	<b>2.5</b>	<b>3.2</b>	<b>4.0</b>	<b>4.7</b>
Minority interests	0	0	0	0	0	0	0
Subscribed capital	11.0	11.0	11.6	11.6	11.6	11.6	11.6
Capital reserve	25.1	25.2	25.9	25.9	25.9	25.9	25.9
Loss carryforward / retained earnings	-17.8	-19.5	-19.0	-17.3	-15.1	-11.8	-8.1
<b>Shareholders' equity</b>	<b>18.4</b>	<b>17.1</b>	<b>18.6</b>	<b>20.4</b>	<b>22.5</b>	<b>25.8</b>	<b>29.5</b>
<b>Total liabilities and equity</b>	<b>19.9</b>	<b>18.7</b>	<b>21.2</b>	<b>22.9</b>	<b>25.7</b>	<b>29.8</b>	<b>34.2</b>
Net debt incl. pension liabilities	-16.0	-16.1	-15.3	-17.3	-20.1	-23.4	-27.0
Equity ratio cum goodwill	92.6%	91.8%	88.1%	89.0%	87.6%	86.6%	86.3%
Gearing	-0.87	-0.94	-0.82	-0.85	-0.90	-0.91	-0.92

Source: Heiler, First Berlin Equity Research

TABLE 5: **Heiler – Cash flow statement**

€m	03/04	04/05	05/06A	06/07E	07/08E	08/09E	09/10E
+ Net profit	-4.9	-1.4	0.5	1.7	2.2	3.3	3.7
+ Depreciation and amortisation	0.7	0.7	0.7	0.8	0.9	0.9	1.0
<b>Operating cash flow</b>	<b>-4.3</b>	<b>-0.7</b>	<b>1.2</b>	<b>2.5</b>	<b>3.0</b>	<b>4.2</b>	<b>4.7</b>
- Change in net working assets	-0.3	0.6	0.3	0.0	0.1	0.1	0.1
<b>Net operating cash flow</b>	<b>-4.5</b>	<b>-0.1</b>	<b>1.5</b>	<b>2.5</b>	<b>3.1</b>	<b>4.3</b>	<b>4.8</b>
- Capital expenditure	-0.1	-0.1	-2.7	-0.5	-0.6	-0.8	-0.8
<b>Free cash flow</b>	<b>-4.6</b>	<b>-0.2</b>	<b>-1.2</b>	<b>2.0</b>	<b>2.5</b>	<b>3.6</b>	<b>3.9</b>
<b>Change in net liquidity</b>	<b>3.2</b>	<b>0.0</b>	<b>0.7</b>	<b>-2.0</b>	<b>-2.8</b>	<b>-3.2</b>	<b>-3.6</b>
Cash, start of the year	-19.3	-16.0	-16.1	-15.3	-17.3	-20.1	-23.4
Cash, end of the year	-16.0	-16.1	-15.3	-17.3	-20.1	-23.4	-27.0
Cash flow per share in €	-0.2	-0.2	-0.6	0.3	0.4	0.7	0.8
Net operating cash flow margin	-85.1%	-2.4%	17.7%	21.4%	20.7%	22.9%	21.4%
Free cash flow margin	-87.2%	-3.6%	-13.9%	16.9%	16.6%	18.9%	17.7%

Source: Heiler, First Berlin Equity Research

## Appendix II: Management

The CEO and founder of Heiler Software, Rolf J Heiler, was born in Stuttgart in 1959. Mr Heiler graduated from the University of Stuttgart in 1982 in Business Management, majoring in IT and process organisation. Mr Heiler became an independent consultant at the age of 21, founding Heiler Software in 1987. In its early years, the company focused on the programming of custom individual solutions as well as on the development of solutions for SAP AG. Since its stock market listing in 2000 the company has specialised in e-procurement and product information management. At 31 December 2006, Mr Heiler held 3,324,299 shares (28.7%) in Heiler.

Dr Wolfgang Köstler, born in 1963, was appointed chief financial officer of Heiler in 2001 and is responsible for controlling, finances, human resources and M&A. Dr Köstler previously headed corporate M&A at Deutsche Bahn AG and held several management positions at BASF. He has a PhD in economics and social sciences from the University of Mannheim. At 31 December 2006 Dr Köstler held 200,000 shares (1.81%) in Heiler.

In January 2007, Heiler appointed Frank Schmidt to the management board as head of distribution and marketing. The aim of his appointment is to place more resources behind the company's successful internationalisation programme. Before joining Heiler, Mr Schmidt was Managing Director at Atos Origin GmbH and a member of Atos Origin's Central Europe management team.

TABLE 6: **Stock rating allocation**

	<b>Buy</b>	<b>Hold</b>	<b>Sell</b>
No. of companies under coverage with this rating	41	38	7
% of companies under coverage with this rating	48%	41%	8%

Source: Commerzbank Corporates & Markets

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**Commerzbank Corporates & Markets****Frankfurt**

Commerzbank AG

DLZ - Gebäude 2, Händlerhaus  
Mainzer Landstraße 153  
60327 Frankfurt  
Tel: + 49 69 136 44440  
Fax: + 49 69 136 40357

**London**

Commerzbank AG

London Branch  
60 Gracechurch Street,  
London  
EC3V 0HR  
Tel: + 44 20 7653 7000  
Fax: + 44 20 7653 7400

**New York**

Commerzbank Capital

Markets Corp.  
2 World Financial Center, 31st floor  
New York,  
NY 10281-1050  
Tel: +1 212 703 4000  
Fax: +1 212 703 4201