

# HEILER SOFTWARE AG

## GERMANY / SOFTWARE

Primary exchange: Frankfurt  
Symbol: HLR

Prime Standard  
ISIN: DE0005429906

RATING: Buy

PRICE TARGET: €3.00

RISK RATING: High

### ON TRACK FOR FULL YEAR EBIT MARGIN OVER 5%

#### COMPANY PROFILE

Heiler Software AG, founded in 1987, is a leading provider of electronic catalogue management systems and content services for eProcurement. The company has its main offices in Stuttgart and Detroit and employed 87 people at 31 March 2008.

#### KEY POINTS

**Fiscal Q2 licensing above our expectations** Heiler yesterday published fiscal Q2 results (see table overleaf). Sales and licensing income were above our expectations but EBIT, at breakeven, was below our forecast because of a decline in the gross margin to 51.1% (Q2 2006/07: 56.9%). However, as we had anticipated, operating expenses as a percentage of sales fell – from 61.6% to 50.4%.

**On track for FY EBIT margin over 5%** The company attribute the decline in the gross margin to expenses incurred in building up the consulting business, including the increased use of implementation partners. Management expect the gross margin to rebound to c. 60% in H2. This should allow the company to report a full-year EBIT margin above 5%. Our forecast is 6%.

**Several new client wins in Q2** Client wins in fiscal Q2 included Bene, Leuze electronic, Matthes, Puridiom, Newell Rubbermaid, Valenite and Van Dyk.

**Good start to fiscal Q3 – slowing economic growth not felt so far** The company tells us that Q3 has started well. The second half of Heiler's fiscal year is traditionally stronger than the first half and we do not expect this year to be an exception. Management tell us that they have yet to notice any impact from slowing economic growth on the business.

#### RECOMMENDATION

Fiscal Q2 results confirm our positive view on Heiler. We expect licensing to grow at a CAGR of 30% during fiscal 2006/07-2008/09 and the EBIT margin to reach double digits in fiscal 2008/09. Despite this, the stock is trading at a prospective P/E of under 14x. We reiterate our Buy recommendation and price target of €3.00.

#### RISKS

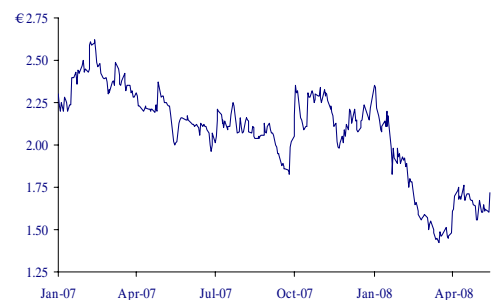
Risks include but are not limited to acceptance of Heiler's products by the market, rising competition from other niche competitors, duplication of Heiler's best-selling software as generic versions in software suites sold by far larger global competitors, and failure of the company's ongoing turnaround.

IMPORTANT DISCLOSURES ARE AT THE BACK OF THIS REPORT

#### TRADING DATA

Market capitalisation (14.05.08)	€19.98m
Shares outstanding	11.62m
Closing price (14.05.08)	€1.72
52-week range	€1.42 / 2.35
Free float (according to company)	70%
Average daily share volume (year)	16,164

#### STOCK OVERVIEW



Source: Bloomberg & First Berlin

#### FINANCIAL HISTORY & PROJECTIONS

	FY 06/07	FY 07/08E	FY 08/09E	FY 09/10E
Revenue €m	10.23	13.64	17.77	23.10
Yr/Yr growth	17.6%	33.3%	30.3%	30.0%
Operating profit €m	-0.17	0.82	2.07	3.00
Operating margin	-1.7%	6.0%	11.6%	13.0%
Net income €m	0.78	1.46	2.72	3.38
EPS €	0.07	0.13	0.23	0.29
P/E	25.6	13.7	7.4	5.9

#### COMPANY DATA (as of 31 March 2008)

Liquid assets	€13.69m
Current assets	€17.93m
Intangible assets	€2.52m
Total assets	€22.30m
Current liabilities	€2.65m
Shareholders' equity	€19.46m

#### ANALYST INFORMATION

Simon Scholes  
Tel +49 (0)30 - 91 68 41 05

s.scholes@firstberlin.com  
Fax +49 (0)30 - 80 93 96 87


**Q2 AND H1 2006/07 RESULTS, Q2 AND H1 2007/08 ESTIMATES VS. RESULTS**

All figures in €m	Q2 06/07A	H1 06/07A	Q2 07/08E	H1 07/08E	Q2 07/08A	H1 07/08A
Sales	2.1	4.6	2.9	5.8	3.0	5.9
chg. (%)	-7.9%	3.9%	34.8%	24.3%	40.1%	26.7%
License income	0.5	1.3	0.6	1.4	0.7	1.5
chg. (%)	-16.5%	12.8%	33.3%	1.7%	63.6%	11.9%
EBIT	-0.1	0.0	0.1	0.0	0.0	-0.1
margin (%)	-4.6%	-1.1%	1.8%	-0.8%	0.7%	-1.3%
Net income	0.1	0.5	0.2	0.3	0.2	0.2
margin (%)	3.5%	11.2%	7.4%	4.8%	5.4%	3.8%
EPS (€)	0.01	0.04	0.02	0.02	0.01	0.02

Source: company, First Berlin estimates



## FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target	Interim high	% change to high
Initial Report	12 December 2005	€1.52	Buy	€1.90	-	-
2...10	↓	↓	↓	↓	↓	↓
11	8 February 2008	€1.87	Buy	€3.00	€1.89	1.1%
12	14 February 2008	€1.78	Buy	€3.00	€1.78	0.0%
13	9 May 2008	€1.61	Buy	€3.00	€1.72	6.8%
14	Today	€1.72	Buy	€3.00	-	-

Source: Bloomberg & First Berlin

Simon Scholes

First Berlin  
Equity Research GmbH

Lennéstrasse 9  
10785 Berlin

Tel. +49 (0)30 - 91 68 41 05

Fax +49 (0)30 - 80 93 96 87

info@firstberlin.com

www.firstberlin.com

### FIRST BERLIN POLICY

In an effort to assure the independence of First Berlin research neither analysts nor the company itself trade or own securities in subject companies. In addition, Analysts' compensation is not directly linked to specific financial transactions, trading revenue or asset management fees. Analysts are compensated on a broad range of benchmarks. Furthermore, First Berlin receives no compensation from subject companies in relation to the costs of producing this report.

### ANALYST CERTIFICATION

I, Simon Scholes, certify that the views expressed in this report accurately reflect my personal and professional views about the subject company; and I certify that my compensation is not directly linked to any specific financial transaction including trading revenue or asset management fees; neither is it directly or indirectly related to the specific recommendation or views contained in this research. In addition, I possess no shares in the subject company.

### INVESTMENT RATING SYSTEM

First Berlin's investment rating system includes an investment recommendation and a risk rating. Our recommendations, which are a function of our expectation of total return (forecast price appreciation and dividend yield) in the year specified, are as follows:

BUY: Expected return greater than 15%

HOLD: Expected return between 0% and 15%

SELL: Expected negative return

Our risk ratings are Low, Medium, High and Speculative and are determined by ten factors: corporate governance, quality of earnings, management strength, balance sheet and financing risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, company size, free float and other company specific risks. These risk factors are incorporated into our valuation models and are therefore reflected in our price targets. Our models are available upon request to First Berlin clients.

Up until 30 June 2005, First Berlin's investment rating system was five tiered and was a function of our expectation of return (forecast price appreciation and dividend yield) over the specified year. Our investment ratings were as follows: STRONG BUY: expected return greater than 20%, BUY: expected return greater than 10%, HOLD: fairly valued, REDUCE: expected return between -10% and 0%, SELL: expected return to depreciate by more than 15%. In addition, we had a SPECULATIVE BUY recommendation for stocks which we projected had the potential to give a return of 50% or more but which we also expected to be exceptionally volatile (movement up or down of 50% or more). Our risk ratings were Low, Medium, High and Speculative and were a reflection of expected price volatility, the strength of the balance sheet and the predictability of earnings.

### ADDITIONAL DISCLOSURES

This report is not constructed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer would be illegal. We are not soliciting any action based upon this material. This material is for the general information of clients of First Berlin. It does not take into account the particular investment objectives, financial situation or needs of individual clients. Before acting on any advice or recommendation in this material, a client should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should be relied upon as such. Opinions expressed are our current opinions as of the date appearing on this material only; such opinions are subject to change without notice.

Copyright © 2008 First Berlin Equity Research GmbH. All rights reserved. No part of this material may be copied, photocopied or duplicated in any form by any means or redistributed without First Berlin's prior written consent. The research is not for distribution in the USA or Canada. When quoting please cite First Berlin as the source. Additional information is available upon request.