

Date 05/02/2019

Recommendation:

Buy (previous: Buy)
PT: € 103.00 (prev.: € 123.00)

GK Software

Industry: Software
Segment: Prime Standard
ISIN: DE0007571424
Reuters: GKSG

Price (04/02/2019): € 71.00
Market Cap € 134m
EV € 138m
Ø-volume `000€ 110
52W High € 128.50
52W Low € 62.20

Financial Calendar

GB 2018 26/04/2019
Q1 2019 30/05/2019
AGM 2019 20/06/2019

Shareholder structure

GK Software Hldg. 49.7%
SAP SE 5.3%
R.Gläß 2.7%
S.Kronmüller 2.3%

Share performance



Daniel Grossjohann

dg@equits.de
+49 (0)69 95 41 16 08

Thomas J. Schiessle

ts@equits.de
+49 (0)69 95 45 43 60



EQUITS GmbH
Am Schieferstein 3
D-60435 Frankfurt

GK SOFTWARE SE

FY 2018: Record sales and US breakthrough achieved, margin target missed

The indications for 2018 show that although GK Software achieved record sales (€ 103 to 106 million; previous year € 90.45 million) and won several customers in the US market, EBITDA (€ 4 million to € 7 million) clearly fell short of expectations and the previous year's figure (€ 8.8 million). This was due, among other things, to investments in the product portfolio, which, at € 14 million, were higher than initially planned. In addition, shifts in the license business could also have played a role. In fiscal 2019, the focus will be on increasing profitability. The long-term targets (with a view to 2020) are not affected by the margin shortfall in 2018. We have adjusted our expectations in particular on the margin side, which reduces our price target. With 2019 EV/sales of only approx. 1.2, the GK Software share remains a clear buy as a high-growth technology company.

- ✓ The 2018 EBITDA margin (approx. 4% to 7%) was burdened, among other things, by higher than planned expenses for new and further development of mobile applications, AI applications and the expansion of Cloud4retail functionalities. Adjusted for this extraordinary additional expense, the EBITDA margin would have been 4% points higher.
- ✓ In our view, it was the right strategic move to conclude developments on new solutions/features in the run-up to central industry trade fairs (NRF (USA) 13.-15.1.19 and EuroCIS (Düsseldorf) 19.-21.2.19), even though this may have tied up productive capacity in the final quarter of 2018. At this year's EuroCIS, GK can now present not only the Frictionless Store solution based on the Mobile Consumer Assistant (MCA) for the first time, but also AIR (Artificial Intelligence for Retail), the first AI platform that is specifically tailored to the retail sector (dynamic pricing, personalization, fraud detection).
- ✓ The "IT Service" division, which recorded a decline in sales of around € 4 million, decided to concentrate on its core business. Service revenue not related to software development and support will be discontinued. This strengthens the concentration on the core business and should also have a positive impact on the margin. Existing contracts will continue to be fulfilled, so that the full effects of this decision will occur after the three- to four-year phase-out period.

Company outlook: The medium-term forecast, which implies sales of around € 135 million in 2020 (with a 15% EBIT margin in the core business), was confirmed.

Key figures - GK Software SE

	Sales	EBITDA	EBIT	EPS (adj.)	EV/Sales	P/E
2016 a	77.3	7.8	3.9	1.50	1.28	31.3
2017 a	90.5	8.8	5.0	2.05	2.03	46.2
2018 e	104.5	5.8	1.6	0.15	1.32	471.5
2019 e	119.4	13.4	9.0	2.84	1.16	25.0
2020 e	135.3	20.9	16.2	5.52	1.02	12.9

Source: Company Data, EQUITS

Appendix

Income Statement	2015	2016	2017	2018e	2019e	2020e
Sales	62.602	77.333	90.452	104.494	119.406	135.324
Change in finished goods	0.000	0.000	0.000	0.000	0.000	0.000
Other own costs capitalized	0.525	0.382	0.000	0.000	0.000	0.000
Other operating income	1.726	1.769	5.197	6.004	6.860	7.775
Total performance	64.853	79.483	95.649	110.497	126.266	143.099
Cost of material	-8.266	-7.681	-8.530	-10.053	-10.864	-11.753
Gross profit	56.587	71.802	87.119	100.444	115.401	131.346
Personnel expenses	-39.668	-47.669	-57.809	-70.252	-76.524	-81.774
Other operating expenses	-14.742	-16.330	-20.537	-24.395	-25.493	-28.708
EBITDA	2.177	7.803	8.773	5.798	13.385	20.863
Depreciation/amortisation	-3.453	-3.861	-3.780	-4.230	-4.429	-4.624
EBIT	-1.276	3.942	4.993	1.567	8.955	16.239
Financial result	-0.107	-0.491	-0.653	-1.248	-1.210	-1.135
Non operating result before taxes	0.000	0.000	0.000	0.000	0.000	0.000
EBT	-1.383	3.452	4.340	0.320	7.745	15.104
Non operating result after taxes	0.000	0.000	0.000	0.000	0.000	0.000
Taxes	-0.117	-0.626	-0.456	-0.082	-2.324	-4.532
Minority interest	0.000	0.000	0.002	0.052	0.052	0.052
Net result	-1.500	2.826	3.885	0.290	5.473	10.624
Adjustments	0.00	0.00	0.00	0.00	0.00	0.00
Adjusted net result	-1.500	2.826	3.885	0.290	5.473	10.624
Average number of shares	1.89	1.89	1.90	1.93	1.93	1.93
Average number of shares (dil.)	1.97	2.00	1.95	1.95	1.95	1.95
EPS	-0.79	1.50	2.05	0.15	2.84	5.52
Adjusted EPS	-0.79	1.50	2.05	0.15	2.84	5.52
Adjusted EPS (diluted)	-0.76	1.41	2.00	0.15	2.80	5.44
DPS	0.00	0.00	0.00	0.00	0.43	1.10

Source: EQUI.TS; company data

Cash Flow Statement	2015	2016	2017	2018e	2019e	2020e
Net cash provided by operating activities	2.196	3.699	15.224	1.144	6.319	11.425
Net cash used in investing activities	-18.583	-5.099	-9.278	-8.926	-4.199	-4.681
Net cash provided by financing activities	12.574	-2.119	19.121	-2.000	-2.000	-2.821
Change in cash and securities	-3.813	-3.519	25.067	-9.781	0.120	3.923
Cash and secur. at the end of the period	7.377	6.017	30.479	20.697	20.817	24.740

Source: EQUI.TS; company data

Balance Sheet	2015	2016	2017	2018e	2019e	2020e
Long term assets	30.944	32.736	39.575	44.271	44.041	44.097
Intangible assets	25.190	23.828	25.359	24.459	23.559	22.959
Tangible assets	5.753	8.902	14.183	19.779	20.449	21.105
Financial assets	0.002	0.007	0.033	0.033	0.033	0.033
Current assets	33.074	33.963	61.424	55.342	59.391	67.507
Inventories	1.655	1.180	0.990	1.144	1.307	1.482
Accounts Receivables	19.100	21.512	22.839	26.385	30.150	34.170
Other current assets	4.943	5.254	7.116	7.116	7.116	7.116
Cash and securities	7.377	6.017	30.479	20.697	20.817	24.740
Other assets	3.742	4.915	5.599	5.599	5.599	5.599
Total assets	67.760	71.615	106.598	105.212	109.030	117.204
Equity	28.967	31.654	38.669	38.907	44.328	54.080
Reserves	28.967	31.654	37.598	37.823	43.231	52.969
Minorities	0.000	0.000	1.071	1.084	1.098	1.111
Provisions	4.081	3.222	3.226	3.316	3.411	3.510
Liabilities	32.085	33.183	59.364	57.649	55.951	54.274
Interest bearing liabilities	14.723	14.763	32.323	30.323	28.323	26.323
Accounts Payables	2.091	2.187	1.835	2.120	2.423	2.746
Other non-interest bearing liabilities	15.271	16.233	25.206	25.206	25.206	25.206
Other liabilities	2.628	3.555	5.340	5.340	5.340	5.340
Total equity and liabilities	67.760	71.615	106.598	105.212	109.030	117.204

Source: EQUI.TS; company data

Key Ratios	2015	2016	2017	2018e	2019e	2020e
Ratios for corporate valuation						
EV/Sales	1.19	1.28	2.03	1.32	1.16	1.02
EV/EBITDA	34.17	12.67	20.90	23.79	10.30	6.61
EV/EBIT	-58.32	25.08	36.72	87.99	15.40	8.49
P/E reported	-43.72	31.27	46.22	471.48	24.99	12.87
P/E clean	-43.72	31.27	46.22	471.48	24.99	12.87
PCPS	24.45	15.24	23.50	29.66	13.68	8.91
Price-to-book ratio	2.26	2.79	4.78	3.62	3.16	2.58
Profitability ratios						
EBITDA margin	3.5%	10.1%	9.7%	5.5%	11.2%	15.4%
EBIT margin	-2.0%	5.1%	5.5%	1.5%	7.5%	12.0%
Pre tax margin	-2.2%	4.5%	4.8%	0.3%	6.5%	11.2%
Net margin	-2.4%	3.7%	4.3%	0.3%	4.6%	7.9%
Free-cash-flow-margin	n.m.	0.7%	n.m.	n.m.	4.9%	7.9%
ROE	-5.0%	9.3%	11.0%	0.6%	13.0%	21.5%
Productivity ratios						
Sales/employees (in EUR '000)	84.7	94.4	94.1	100.6	109.4	118.1
Personnel expenses/employees (in '000)	53.7	58.2	60.2	67.6	70.1	71.4
Net result/employees (in '000)	-2.0	3.5	4.0	0.3	5.0	9.3
Number of employees	739	819	961	1039	1091	1146
Financial ratios						
Equity ratio	42.7%	44.2%	36.3%	37.0%	40.7%	46.1%
Gearing	133.9%	126.2%	175.7%	170.4%	146.0%	116.7%
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.6%	1.6%
Cash-flow ratio						
Cash-flow per share	1.42	3.07	4.02	2.39	5.19	7.97
Free-Cash-flow per share	-8.45	0.27	-0.27	-2.24	3.01	5.54
Other ratios						
Depreciation/Sales	5.5%	5.0%	4.2%	4.0%	3.7%	3.4%
Capex/Sales	29.8%	6.8%	9.0%	8.5%	3.5%	3.5%
Working Capital/Sales	29.8%	26.5%	24.3%	24.3%	24.3%	24.3%
Tax rate	-8.5%	18.1%	10.5%	25.5%	30.0%	30.0%

Source EQUITS

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Authors of this financial analysis: Daniel Großjohann, Analyst, and Thomas Schießle, Analyst.

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Company	Analyst		Rating	Price Target
GK SOFTWARE AG	D.Grossjohann/T.Schießle	06/12/2017	Buy	€ 136.00
GK SOFTWARE AG	D.Grossjohann/T.Schießle	07/05/2018	Buy	€ 155.80
GK SOFTWARE AG	D.Grossjohann/T.Schießle	06/06/2018	Buy	€ 155.80
GK SOFTWARE AG	D.Grossjohann/T.Schießle	05/09/2018	Buy	€ 146.00
GK SOFTWARE AG	D.Grossjohann/T.Schießle	03/12/2018	Buy	€ 123.00
GK SOFTWARE AG	D.Grossjohann/T.Schießle	05/02/2019	Buy	€ 103.00

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Furthermore, discussions were held with the Management for the purpose of preparing the company study. The analysis was provided to the issuer prior to publication; no substantial changes were made afterwards.

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3. Date of initial/original publication of the financial analysis:

(05/02/2019)

4. Date and time of the prices of financial instruments disclosed therein:

(Closing price on 04/02/2019)

5. Updates:

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