

Date 09/09/2015

Recommendation:

Buy (previous: Buy)

PT: € 45.00 (previous: € 46.00)

GK Software

Industry: Software

Segment: Prime Standard

ISIN: DE0007571424

Reuters: GKSG

Price (08/09/2015): € 31.00

Market Cap € 59 Mio.

EV € 70 Mio.

Ø-volume `000€ (100 days) 46.2

52W High 42.28

52W Low 30.20

Financial Calendar

EKF 2015 24/11/2015

Q3-Report 26/11/2015

Shareholder structure

GK Software Hldg. 49.8%

SAP AG 5.3%

R.Gläß 3.3%

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 1
D-60435 Frankfurt

GK SOFTWARE AG

1st half of 2015: Sales + 33%, some pressure on margins due to internationalisation

GK Software remains on track for growth. Having acquired seven international projects for new customers and continued to maintain its solid established customer base, the company increased its revenues for the first half of the year by approximately one third, as compared to the previous year, to € 26.9 million (with the DBS asset deal playing only a minor role in this context). However, EBIT fell to € -2.3 million (first six months of 2014: € -1.3 million) as a result of, among other things, the costs incurred in connection with the internationalisation of the company, which GK considers to be of greater significance in strategic terms than any short-term development of its margins. This notwithstanding, its goal over the medium term is to regain the margin level enjoyed by it in the past (>15%), together with 50% higher sales in the GK/Retail segment than in 2014. Although we believe the course set by the company to be in the best interests of its shareholders viewed over the long term, we are lowering our margin projections for 2015. With its EV/sales ratio of approx. 1.3, GK performs rather well on a peer group comparison.

- ✓ The strong growth in sales experienced in the first half of 2015 was attributable to the performance in both quarters (Q1: +39%; Q2: +28%). The company acquired a total of seven international projects for new customers (in North America, UAE, Russia, Poland and the UK), three of which can be termed mid-sized. By intensifying its international activities, GK is attempting to actively exploit the impending upheaval in the omni-channel retailing context and thus secure market share over the long term – even at the cost of temporarily negative EBIT margins. The company's partnership with SAP, which has meanwhile led to the acquisition of 29 projects for new customers, has proven to be the most important mainstay of the expansion – even though the trade has continued to struggle since 2012 in the face of strategic factors and an absence of "beacon" projects with definitive IT-related orientation with regard to the "omni-channel" retailing context.

Outlook: GK Software is adhering to its previous projections for the year ahead. The GK/Retail business is expected to undergo considerable expansion in 2015, with sales set to increase by 50% over the next 3-4 years as compared to the figures reported in 2014 (€ 31.6 million). Service revenues (2014: € 11.9 million) are set to experience some organic growth this year, while SQRS revenues are likely to fall further from their 2014 level of just over € 1 million. The company is reckoning with results in a negative amount in the current business year in the wake of its allocation of priority to the development of new target markets.

Key figures - GK Software AG

| | Sales | EBITDA | EBIT | EPS (adj.) | EV/Sales | P/E |
|--------|-------|--------|------|------------|----------|---------|
| 2013 a | 42.5 | 3.3 | 1.0 | 0.34 | 1.08 | 93.50 |
| 2014 a | 44.6 | 0.0 | -3.0 | -0.99 | 1.61 | -42.38 |
| 2015 e | 54.4 | 3.5 | -0.2 | -0.25 | 1.28 | -125.23 |
| 2016 e | 60.9 | 7.6 | 3.4 | 0.93 | 1.14 | 33.35 |
| 2017 e | 64.9 | 11.0 | 6.6 | 2.16 | 1.07 | 14.37 |

Source: Company Data, EQUI.TS GmbH

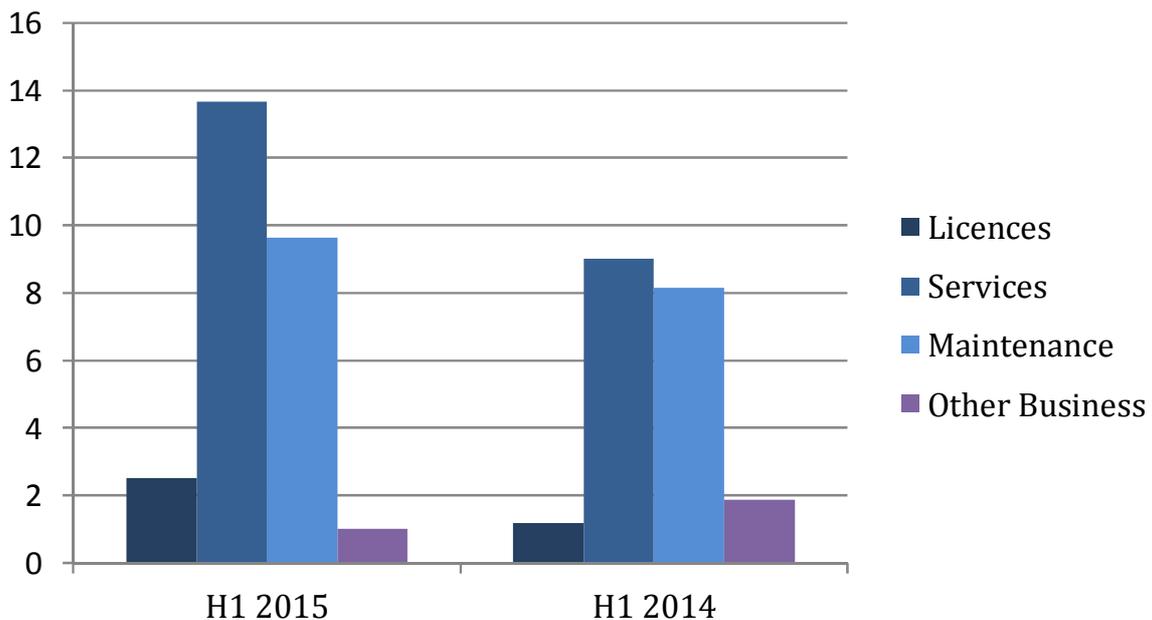
Well-filled order book

GK has a well-filled order book comprising projects from both its direct sales and its partnered sales activities, and it is currently extensively involved in negotiations with potential customers in Germany and abroad. It remains to be seen when the contracts in specific tender procedures will actually be awarded, however we believe that the company's well-filled order book will have a tangible effect on its revenues in 2015 and 2016.

Considerable growth in licensing and service revenues

The licensing business amounted to € 2.5 million in the first six months of the year, an increase of 113% over the equivalent period of the previous year due, among other things, to the acquisition of seven international projects for new customers. Service revenues increased by 52% to over € 13.6 million, while those of the maintenance business grew by 18%, the primary driver of this growth being the number of installations, which increased by approximately 10% to more than 205,000 productive systems (checkouts, portable devices, servers) during the reporting period alone (H1 2015).

Chart 01: Sales Mix: First Six Months of 2015 vs First Six Months of 2014



Source: Company data, EQUITS GmbH

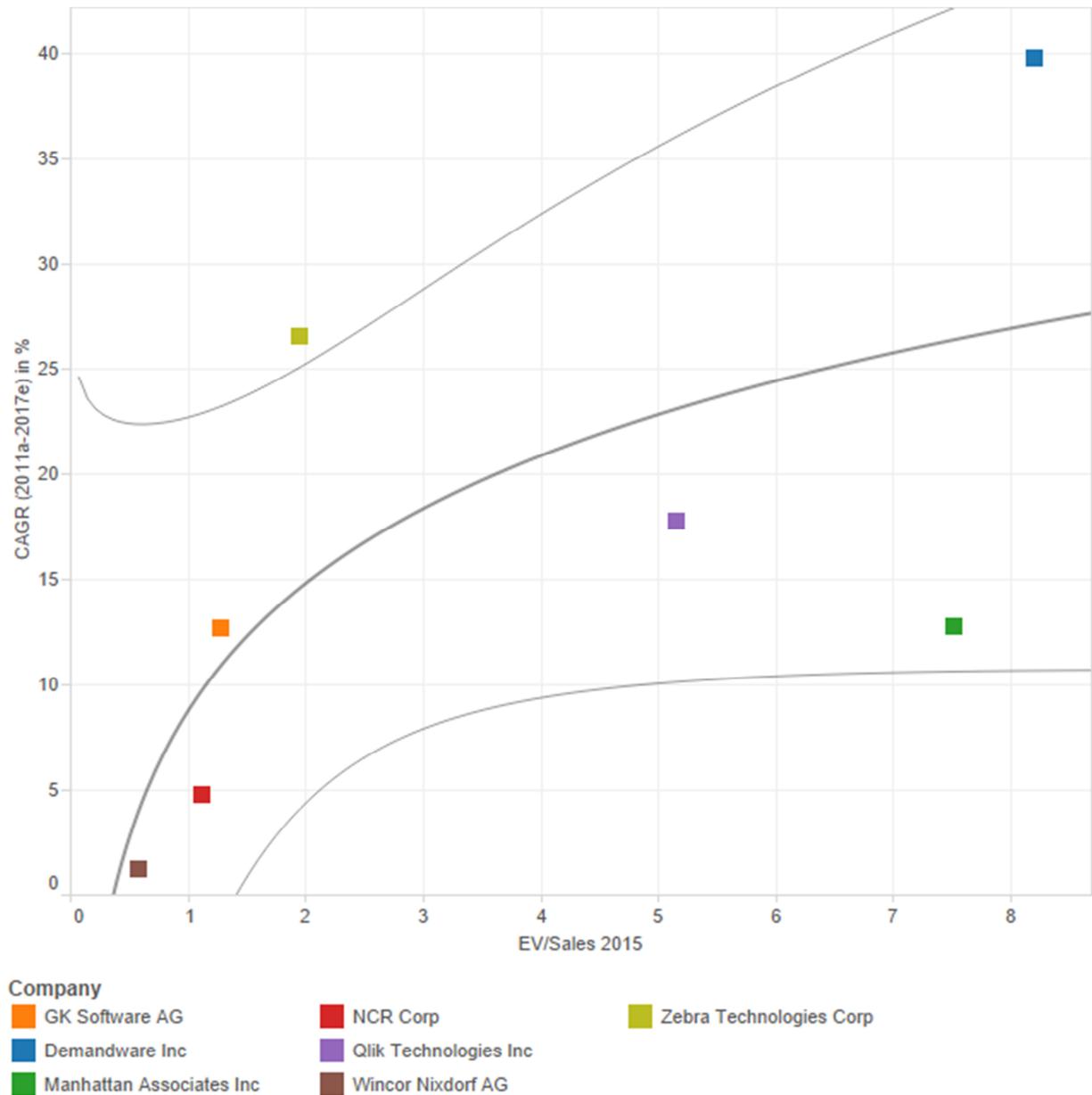
Return to historical margin level

The pressure on margins is due to the costs arising in connection with the – strategic – internationalisation of the company's sources of revenue. Furthermore, deferrals and awards of projects are greatly affecting the margins which can be realised in the short term at the present time. Over the medium term, fluctuations in sales as a result of project deferrals should be counterbalanced by the expansion of the business involving established customers, and this should provide the basis for a return to an EBIT margin of around 15% at the Group level.

Declining share prices on the stock market impact peer reviews

A number of the companies within GK's peer group have been struggling with declining share prices in line with general stock market sentiment. As compared to its peers, who are primarily IT companies focussing on the retail sector, GK as a software company continues to perform favourably, evidencing an EV/sales ratio of 1.28 in 2015.

Chart 02: Annual Growth Rates and EV/Sales Ratio (2015)



Source: EQUITS GmbH, Thomson Reuters

GK's average annual rate of growth is considerably higher than that of NCR Corp., which has a similar EV/sales ratio (time period: 2011a-2017e), while Manhattan Associates, which is experiencing growth more or less on a par with that of GK (albeit with EBIT margins significantly higher than 20%), is trading at an EV/sales ratio of 7.5. If GK Software achieves its goal of regaining its past EBIT margin level of around 15% within 3-4 years, its EV/sales ratio should increase to considerably higher than 2 once again.

- Please consider the disclaimer at the end of this document -

| Income Statement | 2012 | 2013 | 2014 | 2015e | 2016e | 2017e |
|-----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Sales | 28.426 | 42.458 | 44.634 | 54.426 | 60.906 | 64.920 |
| Change in finished goods | -0.127 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Other own costs capitalized | 0.748 | 0.376 | 0.512 | 0.398 | 0.445 | 0.474 |
| Other operating income | 1.658 | 2.451 | 2.188 | 2.668 | 2.986 | 3.182 |
| Total performance | 30.704 | 45.285 | 47.333 | 57.491 | 64.336 | 68.577 |
| Cost of material | -0.673 | -4.082 | -5.151 | -5.904 | -6.607 | -6.666 |
| Gross profit | 30.031 | 41.202 | 42.182 | 51.587 | 57.729 | 61.912 |
| Personnel expenses | -19.441 | -25.605 | -28.749 | -34.697 | -35.356 | -35.826 |
| Other operating expenses | -7.290 | -12.258 | -13.397 | -13.359 | -14.766 | -15.057 |
| EBITDA | 3.301 | 3.340 | 0.037 | 3.532 | 7.607 | 11.030 |
| Depreciation/amortisation | -2.068 | -2.295 | -3.052 | -3.722 | -4.165 | -4.439 |
| EBIT | 1.233 | 1.045 | -3.015 | -0.190 | 3.442 | 6.590 |
| Financial result | 0.043 | -0.113 | 0.028 | -0.482 | -0.919 | -0.734 |
| Non operating result before taxes | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| EBT | 1.277 | 0.932 | -2.987 | -0.672 | 2.524 | 5.856 |
| Non operating result after taxes | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Taxes | -0.226 | -0.331 | 1.117 | 0.204 | -0.767 | -1.780 |
| Minority interest | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Net result | 1.051 | 0.601 | -1.870 | -0.468 | 1.757 | 4.076 |
| Adjustments | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Adjusted net result | 1.051 | 0.601 | -1.870 | -0.468 | 1.757 | 4.076 |
| Average number of shares | 1.79 | 1.79 | 1.89 | 1.89 | 1.89 | 1.89 |
| EPS | 0.59 | 0.34 | -0.99 | -0.25 | 0.93 | 2.16 |
| Adjusted EPS | 0.59 | 0.34 | -0.99 | -0.25 | 0.93 | 2.16 |
| DPS | 0.00 | 0.25 | 0.00 | 0.00 | 0.00 | 0.47 |

Source: EQUI.TS; company data

| Cash Flow Statement | 2012 | 2013 | 2014 | 2015e | 2016e | 2017e |
|---|-------------|-------------|-------------|--------------|--------------|--------------|
| Net cash provided by operating activities | 3.181 | 1.829 | -0.394 | 0.723 | 4.277 | 7.533 |
| Net cash used in investing activities | -3.988 | -0.951 | -1.569 | -19.034 | -3.101 | -3.605 |
| Net cash provided by financing activities | -2.673 | 2.483 | -1.606 | 14.311 | -2.000 | -2.000 |
| Change in cash and securities | -3.480 | 3.361 | -3.569 | -4.000 | -0.824 | 1.927 |
| Cash and secur. at the end of the period | 10.382 | 13.742 | 10.173 | 6.173 | 5.349 | 7.277 |

Source: EQUI.TS; company data

- Please consider the disclaimer at the end of this document -

| Balance Sheet | 2012 | 2013 | 2014 | 2015e | 2016e | 2017e |
|--|---------------|---------------|---------------|---------------|---------------|---------------|
| Long term assets | 15.810 | 14.718 | 13.445 | 28.758 | 27.694 | 26.860 |
| Intangible assets | 10.924 | 9.922 | 8.474 | 23.981 | 22.688 | 21.395 |
| Tangible assets | 4.884 | 4.794 | 4.970 | 4.776 | 5.005 | 5.464 |
| Financial assets | 0.002 | 0.002 | 0.002 | 0.002 | 0.002 | 0.002 |
| Current assets | 26.580 | 32.351 | 28.270 | 27.240 | 28.381 | 31.526 |
| Inventories | 1.019 | 1.043 | 1.159 | 1.414 | 1.582 | 1.686 |
| Accounts Receivables | 11.629 | 13.754 | 12.375 | 15.090 | 16.887 | 18.000 |
| Other current assets | 3.550 | 3.812 | 4.563 | 4.563 | 4.563 | 4.563 |
| Cash and securities | 10.382 | 13.742 | 10.173 | 6.173 | 5.349 | 7.277 |
| Other assets | 1.978 | 0.753 | 2.957 | 2.957 | 2.957 | 2.957 |
| Total assets | 44.367 | 47.821 | 44.673 | 58.955 | 59.032 | 61.343 |
| Equity | 28.332 | 33.156 | 30.555 | 30.087 | 31.844 | 35.920 |
| Reserves | 28.332 | 33.156 | 30.555 | 30.087 | 31.844 | 35.920 |
| Minorities | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Provisions | 4.271 | 2.540 | 3.321 | 3.401 | 3.485 | 3.572 |
| Liabilities | 10.114 | 10.196 | 8.600 | 23.270 | 21.508 | 19.655 |
| Interest bearing liabilities | 3.475 | 2.290 | 1.132 | 15.443 | 13.443 | 11.443 |
| Accounts Payables | 0.843 | 1.421 | 1.634 | 1.992 | 2.230 | 2.377 |
| Other non-interest bearing liabilities | 5.795 | 6.485 | 5.835 | 5.835 | 5.835 | 5.835 |
| Other liabilities | 1.651 | 1.928 | 2.196 | 2.196 | 2.196 | 2.196 |
| Total equity and liabilities | 44.367 | 47.821 | 44.673 | 58.955 | 59.032 | 61.343 |

Source: EQUITS; company data

| Key Ratios | 2012 | 2013 | 2014 | 2015e | 2016e | 2017e |
|--|-------|--------|---------|---------|-------|-------|
| Ratios for corporate valuation | | | | | | |
| EV/Sales | 2.39 | 1.08 | 1.61 | 1.28 | 1.14 | 1.07 |
| EV/EBITDA | 20.55 | 13.67 | 1969.16 | 19.71 | 9.15 | 6.31 |
| EV/EBIT | 54.99 | 43.68 | -23.84 | -366.16 | 20.22 | 10.56 |
| P/E reported | 64.73 | 93.50 | -42.38 | -125.23 | 33.35 | 14.37 |
| P/E clean | 64.73 | 93.50 | -42.38 | -125.23 | 33.35 | 14.37 |
| PCPS | 14.40 | 48.20 | 41.00 | 17.58 | 9.76 | 6.81 |
| Price-to-book ratio | 2.40 | 1.70 | 2.59 | 1.95 | 1.84 | 1.63 |
| Profitability ratios | | | | | | |
| EBITDA margin | 11.6% | 7.9% | 0.1% | 6.5% | 12.5% | 17.0% |
| EBIT margin | 4.3% | 2.5% | -6.8% | -0.3% | 5.7% | 10.2% |
| Pre tax margin | 4.5% | 2.2% | -6.7% | -1.2% | 4.1% | 9.0% |
| Net margin | 3.7% | 1.4% | -4.2% | -0.9% | 2.9% | 6.3% |
| Free-cash-flow-margin | 9.4% | n.m. | 0.3% | n.m. | 4.8% | 7.7% |
| ROE | 3.7% | 2.0% | -5.9% | -1.5% | 5.7% | 12.0% |
| Productivity ratios | | | | | | |
| Sales/employees (in EUR '000) | 59.6 | 76.9 | 70.9 | 78.6 | 83.8 | 85.1 |
| Personnel expenses/employees (in '000) | 40.7 | 46.4 | 45.7 | 50.1 | 48.7 | 46.9 |
| Net result/employees (in '000) | 2.2 | 1.1 | -3.0 | -0.7 | 2.4 | 5.3 |
| Number of employees | 477 | 552 | 629 | 692 | 727 | 763 |
| Financial ratios | | | | | | |
| Equity ratio | 63.9% | 69.3% | 68.4% | 51.0% | 53.9% | 58.6% |
| Gearing | -0.7% | -31.8% | -24.1% | 36.6% | 31.2% | 16.9% |
| Dividend yield | 0.0% | 0.8% | 0.0% | 0.0% | 0.0% | 1.5% |
| Cash-flow ratio | | | | | | |
| Cash-flow per share | 2.64 | 0.65 | 1.02 | 1.76 | 3.18 | 4.55 |
| Free-Cash-flow per share | 1.49 | -0.02 | 0.08 | -8.31 | 1.54 | 2.64 |
| Other ratios | | | | | | |
| Depreciation/Sales | 7.3% | 5.4% | 6.8% | 6.8% | 6.8% | 6.8% |
| Capex/Sales | 7.2% | 2.8% | 4.0% | 35.0% | 5.1% | 5.6% |
| Working Capital/Sales | 41.5% | 31.5% | 26.7% | 26.7% | 26.7% | 26.7% |
| Tax rate | 17.7% | 35.5% | 37.4% | 30.4% | 30.4% | 30.4% |

Source EQUITS

DISCLAIMER

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Company responsible for the publication: EQUI.TS GmbH

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

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Reference pursuant to section 4 subsection 4 point 4 FinAnV:

| Company | Analyst | | Rating | Price Target |
|----------------|--------------------------|------------|--------|--------------|
| GK SOFTWARE AG | D.Grossjohann/B.Ludacka | 08/20/2014 | Buy | € 55.80 |
| GK SOFTWARE AG | D.Grossjohann/B.Ludacka | 12/11/2014 | Buy | € 50.80 |
| GK SOFTWARE AG | D.Grossjohann/T.Schießle | 04/23/2015 | Buy | € 51.15 |
| GK SOFTWARE AG | D.Grossjohann/T.Schießle | 06/15/2015 | Buy | € 46.00 |
| GK SOFTWARE AG | D.Grossjohann/T.Schießle | 09/09/2015 | Buy | € 45.00 |

II. Additional information:

1. Information sources:

Material sources of information for preparing this document are publications in domestic and foreign media such as information services (including but not limited to Reuters, VWD, Bloomberg, DPA -AFX), business press (including but not limited to Börsenzeitung, Handelsblatt, Frankfurter Allgemeine Zeitung, Financial Times), professional publications, published statistics, rating agencies as well as publications of the analysed issuers.

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.

2. Summary of the valuation principles and methods used in preparation of the analysis: EQUI.TS GmbH uses a 3-level absolute share rating system. The ratings pertain to a time horizon of up to 12 months.

BUY: the expected price trend of the share amounts to at least +15%. NEUTRAL: The expected price trend lies between -15% and +15%.

SELL: The expected price trend amounts to more than -15%.

The following valuation methods are used when valuing companies: Multiplier models (price/earnings, price/cash flow, price/book value, EV/revenues, EV/EBIT, EV/EBITA,

EV/EBITDA), peer group comparisons, historical valuation approaches, discounting models (DCF, DDM), break-up value approaches or asset valuation approaches. The valuation models are dependent upon macroeconomic measures such as interest, currencies, raw materials and assumptions concerning the economy. In addition, market moods influence the valuation of companies. Furthermore, the approaches are based on expectations that can change quickly and without warning, according to industry-specific developments. As a result, the results of the valuation and target prices derived from the models can change correspondingly. The results of the valuation are based on a period of 12 months. They are, however, subject to market conditions and represent a snapshot. They can be reached more quickly or more slowly or be revised upwards or downwards.

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

(09/09/2015)

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

(Closing price on 09/08/2015)

5. Updates:

We have currently not yet set a fixed date to provide a precise update of this analysis. EQUI.TS GmbH reserves the right to update the analysis unannounced.

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4. there exists personnel ties between the author and the issuer,
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6. the author has an agreement with the issuer on the preparation of analysis (assignment),
7. the author receives payments from the issuer,
8. the author concluded an agreement on services in connection with investment banking transactions in the last 12 months, and he has received consideration or promise of consideration from such agreement

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