

Date 04/23/2014

Recommendation:

Buy (previous: Buy)

PT: € 51.15 (previous: € 50.80)



EQUITS GmbH
Am Schieferstein 1
D-60435 Frankfurt

GK SOFTWARE AG

GK Software

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

Price (04/23/2015): € 37.50
Market Cap € 71 Mio.
EV € 57 Mio.
Ø-volume `000 (100 days) 64.9
52W Hoch 47.00
52W Tief 32.20

Financial Calendar

FY 2014 4/29/2015
Q1 2015 5/28/2015

Shareholder structure

GK Software Hldg. 49.8%
SAP AG 5.3%
R.Gläß 3.3%
S.Kronmüller 2.3%

Share performance



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DBS asset deal and new customers are a major steps forward for GK in the US

In recent weeks, GK Software has significantly increased not only its own capacity by means of an asset deal, but expanded through its partnership with Wipro also the international implementation capacity. We can therefore assume that GK had to pay an EV/sales multiple of more than 2 for the assets that it acquired. However, this would be justified in our view, not least because of the strategic component of the transaction. The two new US projects (approx. 3,200 stores) confirm the capability of the order pipeline, but are part of the planned goals for 2015. Therefore the DBS asset deal is the only reason for our increased 2015 estimates. After taking into account the new unit, a peer comparison and our DCF model show a fair value of EUR 51.15 per share; our investment recommendation therefore remain "Buy".

- ✓ The retail unit of DBS Data Business Systems Inc. (DBS), acquired by means of an asset deal, generated sales of USD 6 million in 2014. As a former SAP Triversity partner, the unit enjoys an excellent reputation in the US retail industry. Given the high profitability, the established portfolio of products and services, and the strategic aspects of the transaction, we assume in our model that the EV/sales multiple paid is likely to have been around the 2.5 mark.
- ✓ The acquired unit has 21 employees; by integrating the unit, the number of employees in the US subsidiary of GK will more than triple. This is also an important signal to potential US customers. International implementation capacity was recently expanded by a partnership with Wipro Ltd. (NYSE: WIT). Wipro is a leading information technology company serving over 150,000 business customers across six continents.
- ✓ The assets acquired include a software solution that addresses the special features of electronic payments in the US. This solution is crucial for GK, in order to map the numerous electronic payment options without having to create custom interfaces for each provider. The software, which in layman's terms equates to a universal interface, can be easily integrated within GK's standard solution.
- ✓ Due to the asset deal, we have increased our forecast for sales in 2015. Despite merger-related effects (consulting fees, etc.), we assume that the DBS retail assets will have a positive effect on earnings in 2015.

Key figures - GK Software AG

	Sales	EBITDA	EBIT	EPS (adj.)	EV/Sales	P/E
2012 a	28.4	3.3	1.2	0.59	2.39	64.73
2013 a	42.5	3.3	1.0	0.34	1.08	93.50
2014 e	44.3	2.4	0.2	0.07	1.29	557.96
2015 e	54.5	9.8	7.1	2.49	1.05	15.07
2016 e	60.9	12.2	9.1	3.19	0.94	11.77

Source: Company Data, EQUI.TS GmbH

Our assumptions relating to the asset deal:

An agreement was reached between DBS Inc. and GK Software AG not to disclose the purchase price paid for the assets of the retail segment of DBS Inc. In view of the abovementioned high profitability and strategic importance, we assume that GK Software paid an EV/sales multiple of 2.5 on the previous year's turnover (USD 6 million) for the assets it acquired. At current exchange rates, this would be equivalent to a purchase price of approximately EUR 13.6 million. We have also assumed that the purchase was largely financed by borrowing and have modelled this accordingly.

Due to the nature of the transaction (asset deal), we assume that any variable purchase price components play only a minor role and it will therefore be possible to deduce the approximate amount of the purchase price with publication of the Q1 report.

New customers in the USA

The new customers who opted for GK Software solutions operate in the fashion/sports and specialist retail sectors. Together these two major companies run approximately 3,200 stores. In 2014 GK gained two new customers in North America: A specialist retailer with around 250 stores as well as Loblaw Companies Ltd., Canada's largest retailer (2,300 stores). The growth in North America is part of the planned goals for 2015, therefore our expectations for organic growth remain unchanged.

Acquired software: solutions for electronic payments (USA) are of strategic importance.

The former DBS retail segment achieved a significant portion of its revenue from the sale of software solutions, some of which were developed in the context of past retail projects. The solutions address the issues of "electronic payment", "customer engagement" and "loyalty". While there may be some overlap with the GK portfolio of solutions, it is true to say that the DBS software addresses an important (North America-specific) topic in the area of "electronic payments". The integration of this solution within the GK standard will clearly reduce project implementation times for US projects: it will be possible to use the solution to easily integrate the various payment providers (without having to create individual interfaces).

Further acquisitions in the US? For the time being, focus should be on integration of the acquired assets.

The acquisition of the former SAP Triversity partner represents a clever strategic choice on the part of GK, in order to drive forward its growth in the US. The employees and service providers are known to US retailers and industry insiders. In the case of the DBS retail segment, the acquisition brought with it an easily integrated software, thus saving GK the effort of in-house development. However, given the size of the DBS assets that were acquired, we assume that the GK's focus in the US will initially be on integrating the acquired unit. We therefore do not assume that further acquisitions will be made in the medium-term.

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

Income Statement	2011	2012	2013	2014e	2015e	2016e
Sales	31.753	28.426	42.458	44.256	54.481	60.929
Change in finished goods	0.000	-0.127	0.000	0.000	0.000	0.000
Other own costs capitalized	1.489	0.748	0.376	0.391	0.482	0.539
Other operating income	0.729	1.658	2.451	2.273	2.799	3.130
Total performance	33.971	30.704	45.285	46.921	57.761	64.597
Cost of material	-0.611	-0.673	-4.082	-5.483	-5.750	-6.430
Gross profit	33.360	30.031	41.202	41.438	52.011	58.167
Personnel expenses	-18.601	-19.441	-25.605	-27.974	-30.502	-33.076
Other operating expenses	-6.158	-7.290	-12.258	-11.035	-11.709	-12.912
EBITDA	8.601	3.301	3.340	2.430	9.801	12.180
Depreciation/amortisation	-1.947	-2.068	-2.295	-2.208	-2.718	-3.040
EBIT	6.654	1.233	1.045	0.221	7.082	9.140
Financial result	-0.085	0.043	-0.113	-0.037	-0.245	-0.386
Non operating result before taxes	0.000	0.000	0.000	0.000	0.000	0.000
EBT	6.569	1.277	0.932	0.185	6.837	8.754
Non operating result after taxes	0.000	0.000	0.000	0.000	0.000	0.000
Taxes	-2.005	-0.226	-0.331	-0.058	-2.134	-2.732
Minority interest	0.000	0.000	0.000	0.000	0.000	0.000
Net result	4.564	1.051	0.601	0.127	4.703	6.021
Adjustments	0.00	0.00	0.00	0.00	0.00	0.00
Adjusted net result	4.564	1.051	0.601	0.127	4.703	6.021
Average number of shares	1.79	1.79	1.79	1.89	1.89	1.89
EPS	2.55	0.59	0.34	0.07	2.49	3.19
Adjusted EPS	2.55	0.59	0.34	0.07	2.49	3.19
DPS	0.50	0.00	0.25	0.02	0.57	0.69

Source: EQUI.TS; company data

Balance Sheet	2011	2012	2013	2014e	2015e	2016e
Long term assets	13.664	15.810	14.718	14.126	26.998	26.484
Intangible assets	9.540	10.924	9.922	8.629	18.936	17.643
Tangible assets	4.124	4.884	4.794	5.496	8.060	8.839
Financial assets	0.000	0.002	0.002	0.002	0.002	0.002
Current assets	29.084	26.580	32.351	36.326	37.515	43.233
Inventories	0.000	1.019	1.043	1.087	1.338	1.496
Accounts Receivables	11.945	11.629	13.754	14.337	17.649	19.738
Other current assets	3.279	3.550	3.812	3.812	3.812	3.812
Cash and securities	13.859	10.382	13.742	17.090	14.716	18.187
Other assets	0.727	1.978	0.753	0.753	0.753	0.753
Total assets	43.475	44.367	47.821	51.205	65.266	70.469
Equity	28.231	28.332	33.156	36.436	41.109	46.048
Reserves	28.231	28.332	33.156	36.436	41.109	46.048
Minorities	0.000	0.000	0.000	0.000	0.000	0.000
Provisions	1.109	4.271	2.540	2.584	2.630	2.678
Liabilities	11.462	10.114	10.196	10.256	19.599	19.815
Interest bearing liabilities	5.243	3.475	2.290	2.290	11.290	11.290
Accounts Payables	0.329	0.843	1.421	1.481	1.824	2.040
Other non-interest bearing liabilities	5.891	5.795	6.485	6.485	6.485	6.485
Other liabilities	2.672	1.651	1.928	1.928	1.928	1.928
Total equity and liabilities	43.475	44.367	47.821	51.205	65.266	70.469

Source: EQUI.TS; company data

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

Cash Flow Statement	2011	2012	2013	2014e	2015e	2016e
Net cash provided by operating activities	4.747	3.181	1.829	1.812	4.246	7.078
Net cash used in investing activities	-2.693	-3.988	-0.951	-1.617	-15.590	-2.526
thereof Capex	-2.447	-2.056	-1.203	-1.617	-15.590	-2.526
Net cash provided by financing activities	-1.636	-2.673	2.483	3.152	8.970	-1.082
Change in cash and securities	0.418	-3.480	3.361	3.348	-2.374	3.470

Source: EQUITS; company data

Key Ratios	2011	2012	2013	2014e	2015e	2016e
Ratios for corporate valuation						
EV/Sales	2.14	2.39	1.08	1.29	1.05	0.94
EV/EBITDA	7.92	20.55	13.67	23.47	5.82	4.68
EV/EBIT	10.23	54.99	43.68	257.73	8.05	6.24
P/E reported	16.77	64.73	93.50	557.96	15.07	11.77
P/E clean	16.77	64.73	93.50	557.96	15.07	11.77
PCPS	11.42	14.40	48.20	29.80	9.49	7.78
Price-to-book ratio	2.71	2.40	1.70	1.95	1.72	1.54
Profitability ratios						
EBITDA margin	27.1%	11.6%	7.9%	5.5%	18.0%	20.0%
EBIT margin	21.0%	4.3%	2.5%	0.5%	13.0%	15.0%
Pre tax margin	20.7%	4.5%	2.2%	0.4%	12.5%	14.4%
Net margin	14.4%	3.7%	1.4%	0.3%	8.6%	9.9%
Free-cash-flow-margin	13.4%	9.4%	n.m.	1.7%	n.m.	10.8%
ROE	17.4%	3.7%	2.0%	0.4%	12.1%	13.8%
Productivity ratios						
Sales/employees (in EUR '000)	78.4	59.6	74.5	70.6	86.9	92.5
Personnel expenses/employees (in '000)	45.9	40.7	44.9	44.6	48.6	50.2
Net result/employees (in '000)	11.3	2.2	1.1	0.2	7.5	9.1
Number of employees	405	477	570	627	627	658
Financial ratios						
Equity ratio	64.9%	63.9%	69.3%	71.2%	63.0%	65.3%
Gearing	-29.8%	-0.7%	-31.8%	-38.0%	-5.9%	-12.7%
Dividend yield	1.2%	0.0%	0.8%	0.0%	1.5%	1.8%
Cash-flow ratio						
Cash-flow per share	3.74	2.64	0.65	1.26	3.95	4.82
Free-Cash-flow per share	2.37	1.49	-0.02	0.40	-4.30	3.48
Other ratios						
Depreciation/Sales	6.1%	7.3%	5.4%	5.0%	5.0%	5.0%
Capex/Sales	7.7%	7.2%	2.8%	3.7%	3.7%	4.1%
Working Capital/Sales	36.6%	41.5%	31.5%	31.5%	31.5%	31.5%
Tax rate	30.5%	17.7%	35.5%	31.2%	31.2%	31.2%

Source EQUITS

DISCLAIMER

A. . Disclosures in accordance with § 34 b WpHG (German Securities Trading Act), Finanzanalyseverordnung (FinAnV) (Ordinance on the Analysis of Financial Instruments):

I. Disclosures on authorship, responsible company, regulatory authority:

Company responsible for the publication: EQUI.TS GmbH

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

EQUI.TS GmbH is subject to regulation through the Federal Financial Supervisory Authority (BaFin).

Reference pursuant to section 4 subsection 4 point 4 FinAnV:

Company	Analyst		Rating	Price Target
GK SOFTWARE AG	D.Grossjohann/B.Ludacka	04/25/2014	Buy	€ 52.68
GK SOFTWARE AG	D.Grossjohann/B.Ludacka	05/21/2014	Buy	€ 53.25
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

II. Zusätzliche Angaben:

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,

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

(04/23/2015)

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

(Closing price on 04/22/2015)

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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6. the author has an agreement with the issuer on the preparation of analysis (assignment),
7. the author receives payments from the issuer,
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In the present financial analysis the conflict-of-interest mentioned under 6. applies.

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