

Date 04/12/2015

Recommendation:

Buy (previous: Buy)
PT: € 46.80 (previous: € 45.00)

GK Software

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

Price (03/12/2015): € 38.20
Market Cap € 72 Mio.
EV € 84 Mio.
Ø-volume `000€ (100 days) 26.6
52W High € 41.00
52W Low € 28.90

Financial Calendar

FY 2015 28/04/2016
Q1 report 26/05/2016
AGM 16/06/2016

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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GK SOFTWARE AG

Strong performance expected in Q4 2015

GK Software increased its sales to approximately €42 million (+37%; organic: +25%) in the first 9 months of the current business year. The strongest growth was experienced by the high-margin licensing business (+264%), with its proportion of overall sales climbing to approximately 11%. However, negative EBIT was recorded at the Group level as a result of extensive investment in GK/Retail-solutions and costs arising in connection with the DBS acquisition. We have raised our sales projections in light of the figures for Q3. In spite of an expected strong performance in the final quarter of the year (with many pipeline projects being at the contract awarding stage), we anticipate that Group EBIT will remain in a low negative amount in 2015. However, it is growth and its goal over the medium term of regaining the margin level enjoyed by it in the past (15% at the Group level) which are of greater significance for the evaluation of GK Software and which, should they materialise (which we expect will be the case), ensure that the GK share price continues to performance favourably with an EV/sales ratio of 1.3 in 2016. We have raised our share price target to €46.80 on the basis of current projections and as a result of peer group effects.

- ✓ GK Software has made considerable investments in the development of its own range of solutions, which extend the scope of dedicated omni-channel processes and create new possibilities for interaction between GK solutions and third-party solutions. Moreover, the software architecture has been optimised in line with cloud technologies and GK's checkout solution is now also capable of being integrated into other solutions as a pure HTML application. GK's consistent development of its own solutions demonstrates its commitment to its role as one of the most significant innovators within its industry. The new developments have already been awarded SAP certification.
- ✓ GK succeeded in acquiring two further **new customers** in the third quarter (9M 2015: 11 new customers), specifically a toy retailer with 80 branches in Great Britain and Ireland and a Russian grocery retailer (130 branches). The acquisition of new customers as a whole has recently taken on a significantly more international character as a result of GK's partnership with SAP, with the range of customers also having broadened in our view. In its **established customers** business, GK implemented a mass roll-out of "Beautytabs", a mobile advice app which is fully integrated into its checkout solution, for Parfümerie Douglas, among others. A RFID integration to replace the scanning of goods at the checkout was also carried out for a customer in Q3, with other country versions being developed in the context of specific customer projects.

Outlook: GK Software is adhering to its previous projections for the year ahead, anticipating a not insignificant rise in GK/Retail sales, and a return to its established EBIT margin (15% as compared to sales) over the medium term. Negative results for the current year 2015 remain a possibility in light of the allocation of priority to the further development of new target markets.

Key figures - GK Software AG

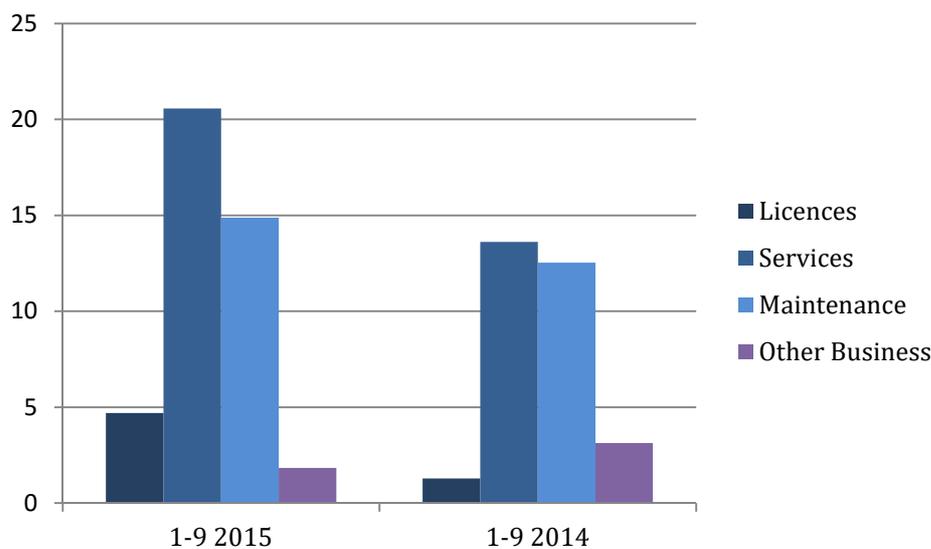
	Sales	EBITDA	EBIT	EPS (adj.)	EV/Sales	P/E
2013 a	42.5	3.3	1.0	0.34	1.08	93.5
2014 a	44.6	0.0	-3.0	-0.99	1.61	-42.4
2015 e	57.7	3.7	-0.2	-0.26	1.46	-145.2
2016 e	64.1	8.0	3.6	0.97	1.31	39.2
2017 e	68.3	11.6	6.9	2.26	1.23	16.9

Source: Company Data, EQUITS GmbH

Licensing sales already noticeably picking up pace in Q3...

In the first 9 months of the year, the licensing business once more experienced the greatest growth in percentage terms, with sales increasing to €4.7 million (+264% as compared to the equivalent period of the previous year). Service revenues increased by 51% to just under €20.6 million, while those of the maintenance business, which is largely dependent on the number of installed systems, grew by approximately 18%, with this increase in revenues primarily being attributable to organic growth. DBS Inc., which was taken over in 2015, contributed approximately €3.7 million to overall Group sales up to the end of September.

Chart 01: Sales Mix: First 9 Months of 2015 vs First 9 Months of 2014



Source: GK Software AG, EQUITS GmbH

...is the investment bottleneck now in the process of dissolving?

The issue of omni-channel retailing remains a major priority for many retailers, who are also generally demonstrating rather greater willingness to invest. While investments have tended to be earmarked for the expansion of branch networks to a disproportionately large extent in recent years, there is now reason to hope that retailers' reaction to strategic challenges will increasingly take the form of the implementation of their own omni-channel strategies, an approach that would result in higher IT budgets.

Our expectations for the final quarter of the year

This year, GK's performance in the final quarter, which is typically the strongest recorded over the course of the year, is set to be quite impressive once more. GK is well-placed with regard to a number of projects nearing the contract awarding stage, the relatively large scope of which means that cut-off date effects could have a significant impact on GK's sales and results in 2015. Our (raised) sales projections are based on expected fourth-quarter sales in the amount of approximately €15.7 million, representing only a slight increase over the strong performance in the third quarter of 2015 (€15.1 million).

- 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	57.727	64.119	68.302
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	0.436	0.484	0.515
Other operating income	1.658	2.451	2.188	2.830	3.143	3.348
Total performance	30.704	45.285	47.333	60.992	67.746	72.166
Cost of material	-0.673	-4.082	-5.151	-6.856	-7.423	-7.378
Gross profit	30.031	41.202	42.182	54.136	60.323	64.788
Personnel expenses	-19.441	-25.605	-28.749	-36.993	-37.617	-38.210
Other operating expenses	-7.290	-12.258	-13.397	-13.397	-14.698	-14.973
EBITDA	3.301	3.340	0.037	3.746	8.008	11.604
Depreciation/amortisation	-2.068	-2.295	-3.052	-3.947	-4.384	-4.670
EBIT	1.233	1.045	-3.015	-0.201	3.624	6.934
Financial result	0.043	-0.113	0.028	-0.513	-0.980	-0.795
Non operating result before taxes	0.000	0.000	0.000	0.000	0.000	0.000
EBT	1.277	0.932	-2.987	-0.714	2.644	6.139
Non operating result after taxes	0.000	0.000	0.000	0.000	0.000	0.000
Taxes	-0.226	-0.331	1.117	0.217	-0.804	-1.866
Minority interest	0.000	0.000	0.000	0.000	0.000	0.000
Net result	1.051	0.601	-1.870	-0.497	1.841	4.273
Adjustments	0.00	0.00	0.00	0.00	0.00	0.00
Adjusted net result	1.051	0.601	-1.870	-0.497	1.841	4.273
Average number of shares	1.79	1.79	1.89	1.89	1.89	1.89
EPS	0.59	0.34	-0.99	-0.26	0.97	2.26
Adjusted EPS	0.59	0.34	-0.99	-0.26	0.97	2.26
DPS	0.00	0.25	0.00	0.00	0.00	0.50

Source: EQUITS; company data

Cash Flow Statement	2012	2013	2014	2015e	2016e	2017e
Net cash provided by operating activities	3.181	1.829	-0.394	0.039	4.604	7.916
Net cash used in investing activities	-3.988	-0.951	-1.569	-19.196	-3.257	-3.770
Net cash provided by financing activities	-2.673	2.483	-1.606	15.157	-2.000	-2.000
Change in cash and securities	-3.480	3.361	-3.569	-4.000	-0.653	2.146
Cash and secur. at the end of the period	10.382	13.742	10.173	6.173	5.519	7.665

Source: EQUITS; 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	28.694	27.568	26.667
Intangible assets	10.924	9.922	8.474	23.981	22.688	21.395
Tangible assets	4.884	4.794	4.970	4.712	4.878	5.271
Financial assets	0.002	0.002	0.002	0.002	0.002	0.002
Current assets	26.580	32.351	28.270	28.241	29.526	32.940
Inventories	1.019	1.043	1.159	1.500	1.666	1.774
Accounts Receivables	11.629	13.754	12.375	16.005	17.778	18.938
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	5.519	7.665
Other assets	1.978	0.753	2.957	2.957	2.957	2.957
Total assets	44.367	47.821	44.673	59.892	60.050	62.564
Equity	28.332	33.156	30.555	30.058	31.899	36.172
Reserves	28.332	33.156	30.555	30.058	31.899	36.172
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	24.237	22.471	20.624
Interest bearing liabilities	3.475	2.290	1.132	16.289	14.289	12.289
Accounts Payables	0.843	1.421	1.634	2.113	2.347	2.500
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	59.892	60.050	62.564

Source: EQUITS; company data

Key Ratios	2012	2013	2014	2015e	2016e	2017e
Ratios for corporate valuation						
EV/Sales	2.39	1.08	1.61	1.46	1.31	1.23
EV/EBITDA	20.55	13.67	1969.16	22.44	10.50	7.24
EV/EBIT	54.99	43.68	-23.84	-417.61	23.19	12.12
P/E reported	64.73	93.50	-42.38	-145.17	39.23	16.90
P/E clean	64.73	93.50	-42.38	-145.17	39.23	16.90
PCPS	14.40	48.20	41.00	20.46	11.44	7.99
Price-to-book ratio	2.40	1.70	2.59	2.40	2.26	2.00
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%	-1.6%	5.9%	12.6%
Productivity ratios						
Sales/employees (in EUR '000)	59.6	76.9	70.9	80.5	85.1	86.4
Personnel expenses/employees (in '000)	40.7	46.4	45.7	51.6	49.9	48.3
Net result/employees (in '000)	2.2	1.1	-3.0	-0.7	2.4	5.4
Number of employees	477	552	629	717	753	791
Financial ratios						
Equity ratio	63.9%	69.3%	68.4%	50.2%	53.1%	57.8%
Gearing	-0.7%	-31.8%	-24.1%	39.5%	33.2%	18.1%
Dividend yield	0.0%	0.8%	0.0%	0.0%	0.0%	1.3%
Cash-flow ratio						
Cash-flow per share	2.64	0.65	1.02	1.87	3.34	4.78
Free-Cash-flow per share	1.49	-0.02	0.08	-8.29	1.61	2.78
Other ratios						
Depreciation/Sales	7.3%	5.4%	6.8%	6.8%	6.8%	6.8%
Capex/Sales	7.2%	2.8%	4.0%	33.3%	5.1%	5.5%
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

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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.

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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	11/12/2014	Buy	€ 50.80
GK SOFTWARE AG	D.Grossjohann/T.Schießle	23/04/2015	Buy	€ 51.15
GK SOFTWARE AG	D.Grossjohann/T.Schießle	15/06/2015	Buy	€ 46.00
GK SOFTWARE AG	D.Grossjohann/T.Schießle	09/09/2015	Buy	€ 45.00
GK SOFTWARE AG	D.Grossjohann/T.Schießle	04/12/2015	Buy	€ 46.80

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,

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

(04/12/2015)

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

(Closing price on 03/12/2015)

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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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

In the present financial analysis the conflict-of-interest mentioned under 6. applies.

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