

Date 05/12/2016

Recommendation:

Hold (previous: Buy)

PT: € 61.10 (previous: € 59.60)

GK Software

Industry: Software

Segment: Prime Standard

ISIN: DE0007571424

Reuters: GKSG

Price (02/12/2016): € 59.75

Market Cap € 113 Mio.

EV € 124 Mio.

Ø-volume `000€ (100 days) 86.1

52W High € 61.70

52W Low € 35.50

Financial Calendar

FY report 27/04/2017

Q1 report 30/05/2017

Shareholder structure

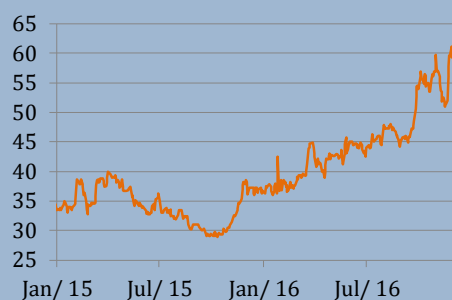
GK Software Hldg. 49.8%

SAP AG 5.3%

R.Gläß 3.3%

S.Kronmüller 2.3%

Share performance



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GK SOFTWARE AG

GK maintains its clear growth trajectory in Q3

After a second quarter characterised by high sales volumes of licences, GK Software has maintained its growth trajectory in the third quarter of 2016 (+19.2% from Q3 15). In the first nine months, GK recorded a 26.5% growth in sales and a positive EBIT. We are raising our sales expectations for 2016 slightly, but not the EBIT estimate. The company's priority is currently to use non-European growth options, which can entail significant costs. In addition, reporting date effects (licencing agreements) have a strong impact on the EBIT. Since the submission of our basic studies updates (mid-9/2016), the GK share price has increased by about a third and thus reached the previous price target. On the basis of our current estimates, GK is currently only slightly below the fair value and our recommendation is therefore to "hold".

- ✓ As expected, GK recorded the greatest increases (+30.8%) in the core segment of GK/Retail, which represents over 80% of group sales. The "IT/Services" segment (+12.2% to EUR 8.9 million) benefited among others from "staging" jobs (preparation of customer hardware as part of service contracts). A look at the sales types shows strong growth in the services business (+38%), which comprises already more than half of group sales. Licence and maintenance business, as further central revenue drivers, also showed strong growth of 25% and 9%. With a jump in sales of +102% (to EUR 0.33 million), the GK Academy division was able to more than double. For the investor, what is more important than the absolute growth in sales is the fact that the partners are providing more training for their own employees. In our opinion, this implicitly indicates the partners' expectations regarding future international GK/Retail projects.
- ✓ We also expect the final quarter to be the highest-performing quarter in this financial year. In order to achieve our increased sales expectation for 2016, we would need Q4 sales of just over EUR 20 million (Q4 2015: EUR 20.6 million), which would require at least one (larger) licencing contract to be concluded. Turnover shifts after 2017, as well as costs arising from international expansion (which has been prioritised for strategic reasons), are the greatest risk to our expectation of a positive 2016 EBIT.

Outlook for the company: GK Software confirmed the previous outlook. For 2016, a not inconsiderable expansion of GK/Retail sales is planned, whereby a slightly negative EBIT is conceivable. By 2018, the annual turnover will have grown to more than EUR 90 million; the target EBIT margin for 2018 and beyond in the core segment is 15%.

Key figures - GK Software AG

	Sales	EBITDA	EBIT	EPS (adj.)	EV/Sales	P/E
2014 a	44.6	0.0	-3.0	-0.99	1.61	-42.4
2015 a	62.6	2.2	-1.3	-0.79	1.19	-43.7
2016 e	73.2	5.6	1.5	0.41	1.69	144.6
2017 e	85.2	11.3	7.0	2.49	1.45	24.0
2018 e	96.2	16.5	12.0	4.40	1.28	13.6

Source: Company Data, EQUITS GmbH

Appendix

Income Statement	2013	2014	2015	2016e	2017e	2018e
Sales	42.458	44.634	62.602	73.200	85.160	96.247
Change in finished goods	0.000	0.000	0.000	0.000	0.000	0.000
Other own costs capitalized	0.376	0.512	0.525	0.614	0.714	0.807
Other operating income	2.451	2.188	1.726	2.018	2.348	2.654
Total performance	45.285	47.333	64.853	75.832	88.222	99.708
Cost of material	-4.082	-5.151	-8.266	-8.376	-9.215	-9.486
Gross profit	41.202	42.182	56.587	67.456	79.007	90.222
Personnel expenses	-25.605	-28.749	-39.668	-46.673	-50.951	-55.433
Other operating expenses	-12.258	-13.397	-14.742	-15.182	-16.765	-18.265
EBITDA	3.340	0.037	2.177	5.601	11.290	16.523
Depreciation/amortisation	-2.295	-3.052	-3.453	-4.137	-4.307	-4.492
EBIT	1.045	-3.015	-1.276	1.464	6.983	12.031
Financial result	-0.113	0.028	-0.107	-0.356	-0.316	-0.241
Non operating result before taxes	0.000	0.000	0.000	0.000	0.000	0.000
EBT	0.932	-2.987	-1.383	1.108	6.667	11.790
Non operating result after taxes	0.000	0.000	0.000	0.000	0.000	0.000
Taxes	-0.331	1.117	-0.117	-0.327	-1.969	-3.481
Minority interest	0.000	0.000	0.000	0.000	0.000	0.000
Net result	0.601	-1.870	-1.500	0.781	4.699	8.309
Adjustments	0.00	0.00	0.00	0.00	0.00	0.00
Adjusted net result	0.601	-1.870	-1.500	0.781	4.699	8.309
Average number of shares	1.79	1.89	1.89	1.89	1.89	1.89
EPS	0.34	-0.99	-0.79	0.41	2.49	4.40
Adjusted EPS	0.34	-0.99	-0.79	0.41	2.49	4.40
DPS	0.25	0.00	0.00	0.00	0.55	0.97

Source: EQUI.TS; company data

Cash Flow Statement	2013	2014	2015	2016e	2017e	2018e
Net cash provided by operating activities	1.829	-0.394	2.196	1.829	5.514	9.573
Net cash used in investing activities	-0.951	-1.569	-18.583	-3.653	-3.150	-3.560
Net cash provided by financing activities	2.483	-1.606	12.574	-2.000	-2.000	-3.034
Change in cash and securities	3.361	-3.569	-3.813	-3.824	0.364	2.979
Cash and secur. at the end of the period	13.742	10.173	7.377	3.553	3.917	6.896

Source: EQUI.TS; company data

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

Balance Sheet	2013	2014	2015	2016e	2017e	2018e
Long term assets	14.718	13.445	30.944	30.460	29.302	28.371
Intangible assets	9.922	8.474	25.190	23.897	21.604	18.911
Tangible assets	4.794	4.970	5.753	6.562	7.697	9.458
Financial assets	0.002	0.002	0.002	0.002	0.002	0.002
Current assets	32.351	28.270	33.074	32.763	37.092	43.747
Inventories	1.043	1.159	1.655	1.935	2.251	2.544
Accounts Receivables	13.754	12.375	19.100	22.333	25.982	29.364
Other current assets	3.812	4.563	4.943	4.943	4.943	4.943
Cash and securities	13.742	10.173	7.377	3.553	3.917	6.896
Other assets	0.753	2.957	3.742	3.742	3.742	3.742
Total assets	47.821	44.673	67.760	66.965	70.137	75.860
Equity	33.156	30.555	28.967	29.748	34.446	41.722
Reserves	33.156	30.555	28.967	29.748	34.446	41.722
Minorities	0.000	0.000	0.000	0.000	0.000	0.000
Provisions	2.540	3.321	4.081	4.151	4.224	4.301
Liabilities	10.196	8.600	32.085	30.439	28.838	27.209
Interest bearing liabilities	2.290	1.132	14.723	12.723	10.723	8.723
Accounts Payables	1.421	1.634	2.091	2.445	2.845	3.215
Other non-interest bearing liabilities	6.485	5.835	15.271	15.271	15.271	15.271
Other liabilities	1.928	2.196	2.628	2.628	2.628	2.628
Total equity and liabilities	47.821	44.673	67.760	66.965	70.137	75.860

Source: EQUI.TS; company data

Key Ratios	2013	2014	2015	2016e	2017e	2018e
Ratios for corporate valuation						
EV/Sales	1.08	1.61	1.19	1.69	1.45	1.28
EV/EBITDA	13.67	1969.16	34.17	22.07	10.95	7.48
EV/EBIT	43.68	-23.84	-58.32	84.45	17.70	10.28
P/E reported	93.50	-42.38	-43.72	144.60	24.03	13.59
P/E clean	93.50	-42.38	-43.72	144.60	24.03	13.59
PCPS	48.20	41.00	24.45	22.64	12.44	8.77
Price-to-book ratio	1.70	2.59	2.26	3.80	3.28	2.71
Profitability ratios						
EBITDA margin	7.9%	0.1%	3.5%	7.7%	13.3%	17.2%
EBIT margin	2.5%	-6.8%	-2.0%	2.0%	8.2%	12.5%
Pre tax margin	2.2%	-6.7%	-2.2%	1.5%	7.8%	12.3%
Net margin	1.4%	-4.2%	-2.4%	1.1%	5.5%	8.6%
Free-cash-flow-margin	n.m.	0.3%	n.m.	1.8%	7.0%	9.7%
ROE	2.0%	-5.9%	-5.0%	2.7%	14.6%	21.8%
Productivity ratios						
Sales/employees (in EUR '000)	76.9	78.0	84.7	87.7	94.4	101.6
Personnel expenses/employees (in '000)	46.4	50.3	53.7	55.9	56.5	58.5
Net result/employees (in '000)	1.1	-3.3	-2.0	0.9	5.2	8.8
Number of employees	552	572	739	835	902	947
Financial ratios						
Equity ratio	69.3%	68.4%	42.7%	44.4%	49.1%	55.0%
Gearing	44.2%	46.2%	133.9%	125.1%	103.6%	81.8%
Dividend yield	0.8%	0.0%	0.0%	0.0%	0.9%	1.6%
Cash-flow ratio						
Cash-flow per share	0.65	1.02	1.42	2.64	4.80	6.81
Free-Cash-flow per share	-0.02	0.08	-8.45	0.71	3.14	4.93
Other ratios						
Depreciation/Sales	5.4%	6.8%	5.5%	5.7%	5.1%	4.7%
Capex/Sales	2.8%	4.0%	29.8%	5.0%	3.7%	3.7%
Working Capital/Sales	31.5%	26.7%	29.8%	29.8%	29.8%	29.8%
Tax rate	35.5%	37.4%	-8.5%	29.5%	29.5%	29.5%

Source EQUI.TS

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.

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Reference pursuant to section 4 subsection 4 point 4 FinAnV:

Company	Analyst		Rating	Price Target
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
GK SOFTWARE AG	D.Grossjohann/T.Schießle	07/03/2016	Buy	€ 45.20
GK SOFTWARE AG	D.Grossjohann/T.Schießle	17/05/2016	Buy	€ 54.35
GK SOFTWARE AG	D.Grossjohann/T.Schießle	21/06/2016	Buy	€ 54.35
GK SOFTWARE AG	D.Grossjohann/T.Schießle	12/09/2016	Buy	€ 59.60
GK SOFTWARE AG	D.Grossjohann/T.Schießle	05/12/2016	Hold	€ 61.10

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:

(05/12/2016)

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

(Closing price on 02/12/2016)

5. Updates:

We have currently not yet set a fixed date to provide a precise update of this analysis. EQUITS 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,
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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