

Date 06/12/2017

**Recommendation:**

**Buy** (previous: Buy)

**PT: € 136.00** (prev.: € 135.70)

**GK Software**

Industry: Software

Segment: Prime Standard

ISIN: DE0007571424

Reuters: GKSG

**Price (05/12/2017): € 114.30**

Market Cap € 216m

EV € 211m

Ø-volume `000€ 268

52W High € 132.50

52W Low € 51.80

**Financial Calendar**

FY 2017 26/04/2018

Q1 Report 30/05/2018

**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**

**Further expansion of market shares**

With a 24.2% growth in sales after the first 9 months of 2017, GK is growing significantly faster than the relevant target market. The previous nine GK/retail new licence projects this year are distributed across nine countries/three continents and documents the success of the **internationalisation strategy** in close partnership with SAP. In the medium term, the American market, in which many of the largest retailers are domiciled, should gain weight in the regional sales mix of GK. We are leaving our estimates unchanged and further assume that GK will also record a strong final quarter this year. In a peer comparison, GK is doing rather well with a 2018e EV/sales of about 2, against the background of its own growth strength and promising technology portfolio.

- ✓ GK was able to grow significantly in the first months in the essential types of sales **licences (+26%)**, **maintenance (+30%)** and **services (+23%)**. What is notable is that the service sales grew **disproportionately** to the increase in personnel within the annual period (+16%), which suggests a significant **increase in the efficiency of internal processes** (Since, generally speaking, new employees do not yet possess the productivity of their colleagues, an increase in sales per employee would not have been assumed).
- ✓ As a result of efficiency gains and higher licence revenues, the EBIT margin rose from 2.0% to 6.2% (in terms of revenue). Scaling effects could allow the margin to grow further, and for 2018e we are already assuming a value >12%.
- ✓ In Q3 2017, GK was able to win over a significant Italian food retailer with its own solutions world, and an international fashion retailer headquartered in the Netherlands was also gained as a client. The **close partnership with SAP** is having very positive effects: All nine new GK/retail customers in 2017 came from the connection to SAP. With the "SAP hybris Mobile Customer Assistant by GK", GK has also developed another joint product, so that the number of GK solutions listed with SAP has increased to seven. The GK subsidiary AWEK, which focuses on mid-sized retail, was able to sell five licences in 2017.

**Company outlook:** The company expects further success in direct and partner sales for the fourth quarter and beyond. The **sales pipeline** is by all accounts **very well filled**, and GK sees itself as being in an excellent position in several ongoing tenders. The mid-term forecast, which predicts sales of about €94 million in 2018, could already be achieved this year. The mid-term EBIT target margin level for the core business should be above 15%.

**Key figures - GK Software AG**

	Sales	EBITDA	EBIT	EPS (adj.)	EV/Sales	P/E
2015 a	62.6	2.2	-1.3	-0.79	1.19	-43.7
2016 a	77.3	7.8	3.9	1.50	1.28	31.3
2017 e	93.8	12.0	7.9	2.67	2.25	42.9
2018 e	110.1	18.1	13.8	4.69	1.92	24.4
2019 e	122.8	20.7	16.2	5.63	1.72	20.3

Source: Company Data, EQUITS

The **proportion of recurring revenue** could lie close to 50% because the project/service sales are also of a recurring nature in parts. As far as the licence business is concerned, GK can depict a SaaS offer not only technically, but also on the contract side. To date only a few clients use this contractual opportunity, which would lead to sales being smoothed over from GK's perspective.

For additional growth, GK is setting its sights on new solutions and complementary products, including new client groups and **new client segments** like petrol stations and hospitality. Besides that, modern **technologies** (like AI, Internet of Things) play an essential role in the growth strategy. With the takeover of **prudsys**, GK recently strengthened its own technology portfolio and further technology acquisitions are possible.

## Appendix

<b>Income Statement</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017e</b>	<b>2018e</b>	<b>2019e</b>
<b>Sales</b>	<b>44.634</b>	<b>62.602</b>	<b>77.333</b>	<b>93.825</b>	<b>110.050</b>	<b>122.800</b>
Change in finished goods	0.000	0.000	0.000	0.000	0.000	0.000
Other own costs capitalized	0.512	0.525	0.382	0.463	0.543	0.606
Other operating income	2.188	1.726	1.769	2.146	2.517	2.809
<b>Total performance</b>	<b>47.333</b>	<b>64.853</b>	<b>79.483</b>	<b>96.434</b>	<b>113.110</b>	<b>126.215</b>
Cost of material	-5.151	-8.266	-7.681	-9.151	-9.932	-10.523
<b>Gross profit</b>	<b>42.182</b>	<b>56.587</b>	<b>71.802</b>	<b>87.283</b>	<b>103.178</b>	<b>115.692</b>
Personnel expenses	-28.749	-39.668	-47.669	-55.211	-62.453	-69.908
Other operating expenses	-13.397	-14.742	-16.330	-20.110	-22.655	-25.097
<b>EBITDA</b>	<b>0.037</b>	<b>2.177</b>	<b>7.803</b>	<b>11.961</b>	<b>18.070</b>	<b>20.687</b>
Depreciation/amortisation	-3.052	-3.453	-3.861	-4.080	-4.314	-4.477
<b>EBIT</b>	<b>-3.015</b>	<b>-1.276</b>	<b>3.942</b>	<b>7.881</b>	<b>13.756</b>	<b>16.210</b>
Financial result	0.028	-0.107	-0.491	-0.670	-1.018	-0.898
Non operating result before taxes	0.000	0.000	0.000	0.000	0.000	0.000
EBT	-2.987	-1.383	3.452	7.211	12.738	15.312
Non operating result after taxes	0.000	0.000	0.000	0.000	0.000	0.000
Taxes	1.117	-0.117	-0.626	-2.164	-3.822	-4.594
Minority interest	0.000	0.000	0.000	0.015	0.065	0.065
<b>Net result</b>	<b>-1.870</b>	<b>-1.500</b>	<b>2.826</b>	<b>5.063</b>	<b>8.981</b>	<b>10.783</b>
Adjustments	0.00	0.00	0.00	0.00	0.00	0.00
<b>Adjusted net result</b>	<b>-1.870</b>	<b>-1.500</b>	<b>2.826</b>	<b>5.063</b>	<b>8.981</b>	<b>10.783</b>
Average number of shares	1.89	1.89	1.89	1.90	1.91	1.91
Average number of shares (dil.)	1.94	1.97	2.00	2.09	2.09	2.09
EPS	-0.99	-0.79	1.50	2.67	4.69	5.63
Adjusted EPS	-0.99	-0.79	1.50	2.67	4.69	5.63
Adjusted EPS (diluted)	-0.96	-0.76	1.41	2.42	4.30	5.16
DPS	0.00	0.00	0.00	0.60	1.01	1.26

Source: EQUI.TS; company data

<b>Cash Flow Statement</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017e</b>	<b>2018e</b>	<b>2019e</b>
Net cash provided by operating activities	-0.394	2.196	3.699	4.840	9.017	11.908
Net cash used in investing activities	-1.569	-18.583	-5.099	-7.724	-5.307	-5.143
Net cash provided by financing activities	-1.606	12.574	-2.119	13.000	-3.139	-3.940
Change in cash and securities	-3.569	-3.813	-3.519	10.115	0.571	2.825
Cash and secur. at the end of the period	10.173	7.377	6.017	16.133	16.704	19.528

Source: EQUI.TS; company data

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

<b>Balance Sheet</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017e</b>	<b>2018e</b>	<b>2019e</b>
Long term assets	13.445	30.944	32.736	36.381	37.374	38.040
Intangible assets	8.474	25.190	23.828	25.635	24.342	22.849
Tangible assets	4.970	5.753	8.902	10.739	13.025	15.184
Financial assets	0.002	0.002	0.007	0.007	0.007	0.007
<b>Current assets</b>	<b>28.270</b>	<b>33.074</b>	<b>33.963</b>	<b>48.918</b>	<b>54.250</b>	<b>60.816</b>
Inventories	1.159	1.655	1.180	1.432	1.680	1.874
Accounts Receivables	12.375	19.100	21.512	26.100	30.613	34.160
Other current assets	4.563	4.943	5.254	5.254	5.254	5.254
Cash and securities	10.173	7.377	6.017	16.133	16.704	19.528
Other assets	2.957	3.742	4.915	4.915	4.915	4.915
<b>Total assets</b>	<b>44.673</b>	<b>67.760</b>	<b>71.615</b>	<b>90.214</b>	<b>96.539</b>	<b>103.771</b>
<b>Equity</b>	<b>30.555</b>	<b>28.967</b>	<b>31.654</b>	<b>36.702</b>	<b>44.479</b>	<b>53.258</b>
Reserves	30.555	28.967	31.654	36.117	43.894	52.673
Minorities	0.000	0.000	0.000	0.585	0.585	0.585
Provisions	3.321	4.081	3.222	3.307	3.396	3.489
<b>Liabilities</b>	<b>8.600</b>	<b>32.085</b>	<b>33.183</b>	<b>46.650</b>	<b>45.109</b>	<b>43.469</b>
Interest bearing liabilities	1.132	14.723	14.763	27.763	25.763	23.763
Accounts Payables	1.634	2.091	2.187	2.653	3.112	3.473
Other non-interest bearing liabilities	5.835	15.271	16.233	16.233	16.233	16.233
Other liabilities	2.196	2.628	3.555	3.555	3.555	3.555
<b>Total equity and liabilities</b>	<b>44.673</b>	<b>67.760</b>	<b>71.615</b>	<b>90.214</b>	<b>96.539</b>	<b>103.771</b>

Source: EQUI.TS; company data

Key Ratios	2014	2015	2016	2017e	2018e	2019e
<b>Ratios for corporate valuation</b>						
EV/Sales	1.61	1.19	1.28	2.25	1.92	1.72
EV/EBITDA	1969.16	34.17	12.67	17.64	11.68	10.20
EV/EBIT	-23.84	-58.32	25.08	26.78	15.34	13.02
P/E reported	-42.38	-43.72	31.27	42.87	24.37	20.30
P/E clean	-42.38	-43.72	31.27	42.87	24.37	20.30
PCPS	41.00	24.45	15.24	23.52	16.35	14.25
Price-to-book ratio	2.59	2.26	2.79	6.01	4.99	4.16
<b>Profitability ratios</b>						
EBITDA margin	0.1%	3.5%	10.1%	12.7%	16.4%	16.8%
EBIT margin	-6.8%	-2.0%	5.1%	8.4%	12.5%	13.2%
Pre tax margin	-6.7%	-2.2%	4.5%	7.7%	11.6%	12.5%
Net margin	-4.2%	-2.4%	3.7%	5.4%	8.2%	8.8%
Free-cash-flow-margin	0.3%	n.m.	0.7%	1.6%	7.3%	8.3%
ROE	-5.9%	-5.0%	9.3%	14.8%	22.0%	21.9%
<b>Productivity ratios</b>						
Sales/employees (in EUR '000)	78.0	84.7	84.9	95.4	103.5	110.0
Personnel expenses/employees (in '000)	50.3	53.7	52.3	56.1	58.7	62.6
Net result/employees (in '000)	-3.3	-2.0	3.1	5.1	8.4	9.7
Number of employees	572	739	911	984	1063	1116
<b>Financial ratios</b>						
Equity ratio	68.4%	42.7%	44.2%	40.7%	46.1%	51.3%
Gearing	46.2%	133.9%	126.2%	145.8%	117.0%	94.8%
Dividend yield	0.0%	0.0%	0.0%	0.5%	0.9%	1.1%
<b>Cash-flow ratio</b>						
Cash-flow per share	1.02	1.42	3.07	4.86	6.99	8.02
Free-Cash-flow per share	0.08	-8.45	0.27	0.79	4.22	5.33
<b>Other ratios</b>						
Depreciation/Sales	6.8%	5.5%	5.0%	4.3%	3.9%	3.6%
Capex/Sales	4.0%	29.8%	6.8%	4.8%	4.8%	4.2%
Working Capital/Sales	26.7%	29.8%	26.5%	26.5%	26.5%	26.5%
Tax rate	37.4%	-8.5%	18.1%	30.0%	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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### Reference pursuant to section 4 subsection 4 point 4 FinAnV:

Company	Analyst		Rating	Price Target
GK SOFTWARE AG	D.Grossjohann/T.Schießle	05/12/2016	Hold	€ 61.10
GK SOFTWARE AG	D.Grossjohann/T.Schießle	12/04/2017	Hold	€ 68.40
GK SOFTWARE AG	D.Grossjohann/T.Schießle	22/05/2017	Hold	€ 80.40
GK SOFTWARE AG	D.Grossjohann/T.Schießle	08/06/2017	Hold	€ 84.70
GK SOFTWARE AG	D.Grossjohann/T.Schießle	12/09/2017	Hold	€ 135.00
GK SOFTWARE AG	D.Grossjohann/T.Schießle	07/11/2017	Hold	€ 135.70
GK SOFTWARE AG	D.Grossjohann/T.Schießle	21/11/2017	Buy	€ 135.70

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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.

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

**(06/12/2017)**

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

**(Closing price on 05/12/2017)**

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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

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