

Date 04/12/2019

Recommendation:

Buy (previous: Buy)

PT: € 105.00 (prev.: € 106.50)

GK Software

Industry: Software

Segment: Prime Standard

ISIN: DE0007571424

Reuters: GKSG

Price (03/12/2019): € 62.60

Market Cap € 119m

EV € 136m

Ø-volume `000€ 106

52W High € 87.00

52W Low € 53.60

Financial Calendar

FY 2019 29/04/2020

Q1 2020 28/05/2020

AGM 18/06/2020

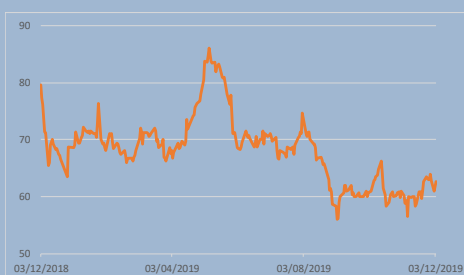
Shareholder structure

R.Gläß 29.8%

S.Kronmüller 25.9%

Freefloat 44.3%

Share performance



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GK SOFTWARE SE

Improved margin in Q3, strong final quarter expected

With a good third quarter (revenues: € 29.5 million) GK Software expanded its 9-month revenues to € 79.7 million (+6.5%). The 9-month EBIT is € -4.0 million. We have revised our estimates, but still assume that the Group EBIT for the year as a whole - due to a strong Q4 - will still turn positive. According to a recent rbr study, GK currently has the strongest new installation business in the global POS market. The company is sticking to its forecasts. These forecasts include exceeding the EBIT margin achieved in the previous year (1.5%). For a software manufacturer, GK is attractively valued with a 2019 EV/sales ratio of around 1.2 - we confirm our buy recommendation. In the medium term, a sustained increase in margins - due in part to the (high-margin) sales of fully owned subsidiary **Deutsche Fiskal** (probably from 7/2020 onwards) - should lead to a revaluation by the capital market.

✓ In the third quarter GK recorded a revenue increase of 14.5% to € 29.5 million, the quarterly EBIT amounted to € 0.97 million (Q3 2018: € 0.23 million). The revenue recognition of services from previous periods also had a positive effect. The new efficiency enhancement program **ProFIT**, which has improved the cost base among other things (capacity adjustments), will already show first results in Q4, the full effect will become visible in Q1 2020ff.

✓ **In Q4**, we expect revenues of € 37.4 million (+19% compared to Q4 2018) and a quarterly EBIT of around € 8.7 million. The increase in revenues is mainly due to the high-margin license business, which caused the jump in EBIT. Individual major project completions and the recognition of services have a considerable influence on the full-year result.

✓ We see the reasons for the sale of SAP's 5% stake in GK solely in the corporate policy presented at the recent SAP Capital Markets Day. The **cooperation** between GK Software and SAP is not negatively affected by this in our view, as it has even been **deepened**. The **Center of Excellence for Retail**, for example, is designed to advance the joint product world. Since the beginning of the cooperation with SAP, the number of joint customers has risen to 115.

Company outlook: The outlook for 2019 has been confirmed and continues to predict a not inconsiderable increase in retail sales, with the EBIT margin expected to significantly exceed the level achieved in 2018. The medium-term forecast continues to assume sales of around € 135 million in 2020 with a 15% EBIT margin in the core business.

Key figures - GK Software SE

	Sales	EBITDA	EBIT	EPS (adj.)	EV/Sales	P/E
2017 a	90.5	8.8	5.0	2.05	2.03	46.2
2018 a	106.2	6.8	1.6	0.48	2.01	204.6
2019 e	117.2	13.4	4.7	1.12	1.15	55.9
2020 e	135.3	26.3	16.9	5.44	1.00	11.5
2021 e	150.6	31.1	21.1	6.94	0.90	9.0

Source: Company Data, EQUITS

Revenue mix (9M 2019): Volatile license business not yet meeting expectations

The sales portion of the core business GK Retail in the total sales after the first 9 months is over 92%, the sales growth in this area so far is just under 10%. Within the core business segment GK/Retail, license sales are currently still 27.8% below the previous year's figure, which slows down the reported growth and puts pressure on margins. The more calculable maintenance revenues rose by 24.7% and services by 15.8% - both underpinning the dynamics in the core business area. A significant boost in the volatile license business in Q4 is the basis of our 2019 expectations and is underpinned by the **very well-filled sales pipeline**.

So far, **eight new customers** have been acquired for the **GK/Retail core solution** in 2019. In addition, two retailers opted for the **Eurosuite midmarket solution**. A first customer was also won for the dynamic pricing solution. This important international customer will put "**SAP Dynamic Pricing by GK**" into productive test operation before the end of December 2019.

Product development in the field of AI-based solutions and enhanced cloud capabilities

After "**SAP Dynamic Pricing by GK**" had already been included in the SAP price list in 2019, two further solutions followed in the fall with "**SAP Omni-Channel Point-of-sale by GK (cloud edition)**" and "**SAP Mobile Consumer Assistant by GK**". The new solution for retail gas stations has been completed and will go live for the first time in Q4. This demonstrates GK's successful efforts in developing new products.

DF Deutsche Fiskal: High-margin cloud revenues from (mid) 2020 onwards, upfront costs

DF Deutsche Fiskal GmbH, a 100% subsidiary of GK Software SE, addresses the mapping of **legal fiscalization requirements** using a convenient cloud solution. From 2020, the change in the law will affect the entire German retail sector (i.e. around 1 million endpoints). D-Trust (a Bundesdruckerei company) and Deutsche Fiskal initiated the certification process for the **jointly developed cloud solution** in November 2019. Preliminary certification is expected to take place at the beginning of April 2020. We therefore expect that significant revenues from the "Deutsche Fiskal" can be shown for the first time from Q3 2020 on. The delays in certification (the new regulation was originally supposed to be binding at the beginning of 2020) affects all providers and, in our opinion, is due both to the complex certification process and to the coordination of various authorities.

Appendix

Income Statement (in EURm)	2016	2017	2018	2019e	2020e	2021e
Sales	77.333	90.452	106.151	117.172	135.253	150.588
Change in finished goods	0.000	0.000	0.000	0.000	0.000	0.000
Other own costs capitalized	0.382	0.000	0.000	0.000	0.000	0.000
Other operating income	1.769	5.197	3.617	3.993	4.609	5.131
Total performance	79.483	95.649	109.768	121.165	139.861	155.719
Cost of material	-7.681	-8.530	-7.733	-7.213	-7.766	-8.587
Gross profit	71.802	87.119	102.035	113.952	132.095	147.133
Personnel expenses	-47.669	-57.809	-68.791	-78.967	-82.424	-89.731
Other operating expenses	-16.330	-20.537	-26.411	-21.551	-23.339	-26.303
EBITDA	7.803	8.773	6.833	13.433	26.332	31.099
Depreciation/amortisation	-3.861	-3.780	-5.237	-8.747	-9.426	-10.017
EBIT	3.942	4.993	1.596	4.687	16.906	21.082
Financial result	-0.491	-0.653	-1.425	-1.493	-1.386	-1.269
Non operating result before taxes	0.000	0.000	0.000	0.000	0.000	0.000
EBT	3.452	4.340	0.171	3.193	15.520	19.813
Non operating result after taxes	0.000	0.000	0.000	0.000	0.000	0.000
Taxes	-0.626	-0.456	0.752	-0.934	-4.537	-5.792
Minority interest	0.000	0.002	0.002	0.002	0.002	0.002
Net result	2.826	3.885	0.925	2.262	10.985	14.023
Adjustments	0.00	0.00	0.00	0.00	0.00	0.00
Adjusted net result	2.826	3.885	0.925	2.262	10.985	14.023
Average number of shares	1.89	1.90	1.93	2.02	2.02	2.02
Average number of shares (dil.)	2.00	1.95	1.95	2.06	2.06	2.06
EPS	1.50	2.05	0.48	1.12	5.44	6.94
Adjusted EPS	1.50	2.05	0.48	1.12	5.44	6.94
Adjusted EPS (diluted)	1.41	2.00	0.47	1.10	5.32	6.80
DPS	0.00	0.00	0.00	0.17	1.09	1.39

Source: EQUI.TS; company data

Cash Flow Statement (in EURm)	2016	2017	2018	2019e	2020e	2021e
Net cash provided by operating activities	3.699	15.224	-5.670	7.506	14.621	19.145
Net cash used in investing activities	-5.099	-9.278	-15.732	-4.769	-5.250	-5.951
Net cash provided by financing activities	-2.119	19.121	-0.294	3.000	-2.339	-4.197
Change in cash and securities	-3.519	25.067	-21.696	5.736	7.032	8.996
Cash and secur. at the end of the period	6.017	30.479	11.790	17.526	24.559	33.555

Source: EQUI.TS; company data

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

Balance Sheet (in EURm)	2016	2017	2018	2019e	2020e	2021e
Long term assets	32.736	39.575	52.799	58.822	54.645	50.580
Intangible assets	23.828	25.359	30.019	28.019	25.919	25.019
Tangible assets	8.902	14.183	22.746	21.691	20.227	17.995
Usage rights (IFRS 16)	0.000	0.000	0.000	9.078	8.465	7.531
Financial assets	0.007	0.033	0.034	0.034	0.034	0.034
Current assets	33.963	61.424	53.304	62.862	76.163	90.476
Inventories	1.180	0.990	0.486	0.536	0.619	0.689
Accounts Receivables	21.512	22.839	36.319	40.090	46.276	51.523
Other current assets	5.254	7.116	4.709	4.709	4.709	4.709
Cash and securities	6.017	30.479	11.790	17.526	24.559	33.555
Other assets	4.915	5.599	5.079	5.079	5.079	5.079
Total assets	71.615	106.598	111.182	126.762	135.887	146.135
Equity	31.654	38.669	40.256	47.516	58.160	69.984
Reserves	31.654	37.598	39.187	46.384	56.965	68.726
Minorities	0.000	1.071	1.069	1.132	1.195	1.258
Provisions	3.222	3.226	2.789	2.864	2.942	3.024
Liabilities	33.183	59.364	64.484	72.730	71.132	69.474
Interest bearing liabilities	14.763	32.323	34.819	32.819	30.819	28.819
Leasehold liabilities	0.000	0.000	0.000	9.742	9.742	9.742
Accounts Payables	2.187	1.835	2.365	2.611	3.013	3.355
Other non-interest bearing liabilities	16.233	25.206	27.300	27.558	27.558	27.558
Other liabilities	3.555	5.340	3.653	3.653	3.653	3.653
Total equity and liabilities	71.615	106.598	111.182	126.762	135.887	146.135

Source: EQUI.TS; company data

Key Ratios	2016	2017	2018	2019e	2020e	2021e
Ratios for corporate valuation						
EV/Sales	1.28	2.03	2.01	1.15	1.00	0.90
EV/EBITDA	12.67	20.90	31.30	10.07	5.14	4.35
EV/EBIT	25.08	36.72	134.00	28.86	8.00	6.41
P/E reported	31.27	46.22	204.62	55.93	11.52	9.02
P/E clean	31.27	46.22	204.62	55.93	11.52	9.02
PCPS	15.24	23.50	33.23	11.41	6.17	5.24
Price-to-book ratio	2.79	4.78	4.83	2.73	2.22	1.84
Profitability ratios						
EBITDA margin	10.1%	9.7%	6.4%	11.5%	19.5%	20.7%
EBIT margin	5.1%	5.5%	1.5%	4.0%	12.5%	14.0%
Pre tax margin	4.5%	4.8%	0.2%	2.7%	11.5%	13.2%
Net margin	3.7%	4.3%	0.9%	1.9%	8.1%	9.3%
Free-cash-flow-margin	0.7%	n.m.	n.m.	5.4%	11.3%	12.1%
ROE	9.3%	11.0%	2.3%	5.1%	20.8%	21.9%
Productivity ratios						
Sales/employees (in EUR '000)	94.4	94.1	85.8	90.2	102.0	110.3
Personnel expenses/employees (in '000)	58.2	60.2	55.6	60.8	62.2	65.7
Net result/employees (in '000)	3.5	4.0	0.7	1.7	8.3	10.3
Number of employees	819	961	1238	1299	1325	1365
Financial ratios						
Equity ratio	44.2%	36.3%	36.2%	37.5%	42.8%	47.9%
Gearing	126.2%	175.7%	176.2%	166.8%	133.6%	108.8%
Dividend yield	0.0%	0.0%	0.0%	0.3%	1.7%	2.2%
Cash-flow ratio						
Cash-flow per share	3.07	4.02	2.96	5.48	10.14	11.94
Free-Cash-flow per share	0.27	-0.27	-5.46	3.12	7.54	8.99
Other ratios						
Depreciation/Sales	5.0%	4.2%	4.9%	7.5%	7.0%	6.7%
Capex/Sales	6.8%	9.0%	11.3%	2.5%	2.5%	2.4%
Working Capital/Sales	26.5%	24.3%	32.4%	32.4%	32.4%	32.4%
Tax rate	18.1%	10.5%	-439.8%	29.2%	29.2%	29.2%

Source EQUITS

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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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Notice regarding previous publications regarding the issuer within the last 12 months:

Company	Analyst		Rating	Price Target
GK SOFTWARE AG	D.Grossjohann/T.Schießle	03/12/2018	Buy	€ 123.00
GK SOFTWARE AG	D.Grossjohann/T.Schießle	05/02/2019	Buy	€ 103.00
GK SOFTWARE AG	D.Grossjohann/T.Schießle	07/05/2019	Buy	€ 114.50
GK SOFTWARE AG	D.Grossjohann/T.Schießle	04/06/2019	Buy	€ 114.50
GK SOFTWARE AG	D.Grossjohann/T.Schießle	04/09/2019	Buy	€ 106.50

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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.

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

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

(04/12/2019)

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

(Closing price on 03/12/2019)

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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