

Date 30/11/2021

Recommendation:

Buy (previous: Buy)

PT: € 190.00 (prev.: € 194.00)

GK Software SE

Industry: Software

Segment: Prime Standard

ISIN: DE0007571424

Reuters: GKSG

Price (29/11/2021): € 149.50

Market Cap € 336m

EV € 363m

Ø-volume `000€ 365

52W High € 172.00

52W Low € 87.20

Financial Calendar

FY 2021 28/04/2022

Q1 report 27/05/2022

AGM 15/06/2022

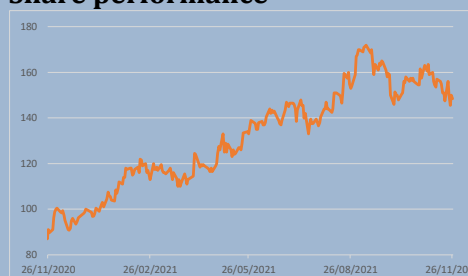
Shareholder structure

R.Gläß 24.2%

S.Kronmüller 21.1%

Freefloat 54.8%

Share performance



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GK SOFTWARE SE

Double-digit revenue growth with accelerated cloud transformation

In the first nine months of 2021, GK Software achieved 12.3% revenue growth (to € 95.7 million) - despite the fact that the strategically important cloud transformation is progressing faster than expected, which is slowing down revenue growth in the short term. EBIT (€ 14.2 million; +155%) increased clearly disproportionately, even adjusted for the positive special effect from the sale of AWEK microdata in the amount of € 2.75 million. In addition to economies of scale and strong new business, this was also due to the effects of the cost reduction program. Half of the twelve new **CLOUD4RETAIL enterprise customers** acquired in the first nine months of 2021 opted for a SaaS operating model. This means that the cloud transformation is happening faster than we expected. Our implicit expectation for Q4 includes larger license deals in addition to the typical Q4 effect. A very high SaaS share would depress revenue in the short term - but would be welcome from a strategic perspective. Compared to peers, GK stock is attractively valued with a 2021 EV/sales multiple of now around 2.7 (peer median: 5.7).

- ✓ **Twelve CLOUD4RETAIL enterprise customers** were acquired in the first nine months of 2021 (including six in Q3), and six opted to operate in the **SaaS model**. Resellers acquired in Q3 include two large SaaS customers from the U.S., with 10,000 systems. The total contract value (TCV) of the two multi-year contracts is in the double-digit million euro range. In the case of new SaaS contracts, regular payments do not start until the system is in productive use, whereas in the conventional licensing business, revenue is recognized when the pilot system is created. Q3 revenue of € 31.4 million was 8% higher than in the same quarter last year, despite the dynamic SaaS transformation.
- ✓ The **new brand identity** (GK - The Retail Innovators) puts even more emphasis on innovation. The pandemic noticeably acted as a digitization accelerator in the retail sector. GK is one of the **innovation drivers in retail** and was an early adopter of topics such as mobile self-scanning; currently, completely unmanned stores are an important topic that GK is addressing with **GK Go**. In this respect, it is not surprising that **GK recorded the most new POS software installations worldwide** for the third year in a row, according to the latest RBR study.

Outlook confirmed. In light of its business performance to date, GK has confirmed both its 2021 forecast and its medium-term outlook. The medium-term forecast calls for achieving a revenue corridor of €160 million to €175 million in 2023. The target **EBIT margin**, which could already be achieved before 2023, is **15%**.

Key figures - GK Software SE

	Sales	EBITDA	EBIT	EPS (adj.)	EV/Sales	P/E
2019 a	115.4	12.3	3.4	-1.60	1.44	-44.0
2020 a	117.6	19.1	10.5	3.04	1.43	22.7
2021 e	133.5	31.5	21.7	6.29	2.72	23.8
2022 e	154.0	33.0	22.5	6.71	2.36	22.3
2023 e	174.5	37.4	26.2	7.97	2.08	18.8

Source: Company Data, EQUITS

GK Go - fully automated, unattended stores a future topic in retail.

The **GK Go store**, which recently went into operation at the headquarters for employees, does not require any staff and allows several customers to make contactless purchases at the same time. GK is thus demonstrating the feasibility of the concept in a real-life application. In particular, the scanless store concept is an innovation made possible in part by the interaction with connected Product Aware shelves (from Shekel LTD), which recognize removed merchandise, and 3D lidar sensors (from Hitachi), which assign merchandise to the correct customer. The concept can be implemented based on the CLOUD4RETAIL platform. There is great interest in (staff-free) self-service solutions in the retail sector; **Tegut**, for example, recently put five **teos** into operation that allow shopping in a mirco-store with a self-scanning app. In our opinion, unattended stores can be **successful** above all if, on the one hand, customers are not overchallenged and the billing process remains transparent for them. In addition, retailers should follow the **omni-channel idea**, because even with the advent of eCommerce, operating parallel systems has proven to be a strategic mistake for retailers.

Strong growth in subscription business

Sales in the subscription business increased to € 7.76 million (9M 2020: € 3.32 million). **Deutsche Fiskal**'s recurring revenues also contributed significantly to the increase. These have stabilized and currently amount to € 0.51 million per month.

Appendix

Income Statement (in EURm)	2018	2019	2020	2021e	2022e	2023e
Sales	106.151	115.448	117.560	133.545	154.046	174.540
Change in finished goods	0.000	0.000	0.000	0.000	0.000	0.000
Other own costs capitalized	0.000	0.000	0.831	0.944	1.089	1.234
Other operating income	3.617	3.837	4.070	7.323	5.448	6.172
Total performance	109.768	119.285	122.461	141.813	160.582	181.946
Cost of material	-7.733	-6.229	-9.436	-11.459	-14.167	-16.492
Gross profit	102.035	113.056	113.025	130.354	146.415	165.454
Personnel expenses	-68.791	-78.134	-75.640	-78.767	-89.828	-100.950
Other operating expenses	-26.411	-22.666	-18.307	-20.128	-23.605	-27.131
EBITDA	6.833	12.256	19.078	31.458	32.982	37.373
Depreciation/amortisation	-5.237	-8.826	-8.543	-9.757	-10.492	-11.192
EBIT	1.596	3.430	10.535	21.701	22.491	26.181
Financial result	-1.425	-2.197	-1.445	-1.008	-0.416	0.000
Non operating result before taxes	0.000	0.000	0.000	0.000	0.000	0.000
EBT	0.171	1.233	9.090	20.694	22.075	26.182
Non operating result after taxes	0.000	0.000	0.000	0.000	0.000	0.000
Taxes	0.752	-4.372	-2.824	-6.429	-6.858	-8.134
Minority interest	0.002	0.002	-0.055	-0.055	-0.055	-0.055
Net result	0.925	-3.137	6.211	14.210	15.162	17.993
Adjustments	0.00	0.00	0.00	0.00	0.00	0.00
Adjusted net result	0.925	-3.137	6.211	14.210	15.162	17.993
Average number of shares	1.93	2.02	2.05	2.26	2.26	2.26
Average number of shares (dil.)	1.95	2.06	2.18	2.36	2.36	2.36
EPS	0.48	-1.60	3.04	6.29	6.71	7.97
Adjusted EPS	0.48	-1.60	3.04	6.29	6.71	7.97
Adjusted EPS (diluted)	0.47	-1.60	3.00	6.02	6.43	7.63
DPS	0.00	0.00	0.00	0.00	0.00	0.00

Source: EQUI.TS; company data

Cash Flow Statement (in EURm)	2018	2019	2020	2021e	2022e	2023e
Net cash provided by operating activities	-5.670	-0.214	17.715	19.591	19.995	23.535
Net cash used in investing activities	-15.732	-3.591	-2.974	-4.402	-4.646	-4.880
Net cash provided by financing activities	-0.294	-0.118	-11.287	13.500	-2.000	-2.000
Change in cash and securities	-21.696	-3.923	3.454	28.689	13.349	16.654
Cash and secur. at the end of the period	11.790	8.086	9.425	38.114	51.463	68.118

Source: EQUI.TS; company data

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

Balance Sheet (in EURm)	2018	2019	2020	2021e	2022e	2023e
Long term assets	52.799	59.908	56.104	50.748	44.903	38.591
Intangible assets	30.019	27.607	25.412	23.212	19.812	16.412
Tangible assets	16.936	16.988	14.675	12.739	11.239	9.453
Usage rights (IFRS 16)	0.000	8.914	9.246	8.026	7.081	5.956
Financial assets	5.844	6.399	6.771	6.771	6.771	6.771
Current assets	53.304	52.748	53.214	86.954	106.780	129.909
Inventories	0.486	0.416	0.173	0.197	0.227	0.257
Trade Accounts Receivables	26.030	22.240	23.382	26.561	30.639	34.715
Trade Accounts Rec. from ongoing work	10.289	16.020	13.587	15.434	17.804	20.172
Other current assets	4.709	5.986	6.647	6.647	6.647	6.647
Cash and securities	11.790	8.086	9.425	38.114	51.463	68.118
Other assets	5.079	1.533	1.358	1.358	1.358	1.358
Total assets	111.182	114.189	110.676	139.060	153.040	169.858
Equity	40.256	42.329	48.697	81.462	96.679	114.726
Reserves	39.187	41.261	47.971	80.681	95.778	113.705
Minorities	1.069	1.068	0.726	0.781	0.901	1.021
Provisions	2.789	4.183	3.480	3.611	3.748	3.892
Liabilities	64.484	64.805	54.955	50.443	49.070	47.696
Interest bearing liabilities	34.819	33.820	33.202	28.202	26.202	24.202
Leasehold liabilities	0.000	8.868	9.311	8.026	7.081	5.956
Accounts Payables	2.365	2.484	3.591	4.079	4.706	5.332
Initial payments received	1.509	3.547	3.589	4.005	4.405	4.405
Other non-interest bearing liabilities	25.791	16.086	5.262	6.131	6.676	7.801
Other liabilities	3.653	2.872	3.544	3.544	3.544	3.544
Total equity and liabilities	111.182	114.189	110.676	139.060	153.040	169.858

Source: EQU1.TS; company data

Key Ratios	2018	2019	2020	2021e	2022e	2023e
Ratios for corporate valuation						
EV/Sales	2.01	1.44	1.43	2.72	2.36	2.08
EV/EBITDA	31.30	13.59	8.80	11.53	11.00	9.71
EV/EBIT	134.00	48.57	15.94	16.72	16.13	13.86
P/E reported	204.62	-44.02	22.68	23.76	22.27	18.77
P/E clean	204.62	-44.02	22.68	23.76	22.27	18.77
PCPS	33.23	22.00	9.96	14.01	13.09	11.51
Price-to-book ratio	4.83	3.35	2.94	4.19	3.53	2.97
Profitability ratios						
EBITDA margin	6.4%	10.6%	16.2%	23.6%	21.4%	21.4%
EBIT margin	1.5%	3.0%	9.0%	16.3%	14.6%	15.0%
Pre tax margin	0.2%	1.1%	7.7%	15.5%	14.3%	15.0%
Net margin	0.9%	-2.7%	5.3%	10.6%	9.8%	10.3%
Free-cash-flow-margin	n.m.	2.3%	9.7%	11.0%	13.7%	14.0%
ROE	2.3%	-7.6%	13.8%	21.9%	17.1%	17.1%
Productivity ratios						
Sales/employees (in EUR '000)	92.3	92.6	106.5	117.5	131.5	144.7
Personnel expenses/employees (in '000)	59.8	62.7	68.5	69.3	76.7	83.7
Net result/employees (in '000)	0.8	-2.5	5.6	12.5	12.9	14.9
Number of employees	1150	1247	1104	1137	1171	1206
Financial ratios						
Equity ratio	36.2%	37.1%	44.0%	58.6%	63.2%	67.5%
Gearing	176.2%	169.8%	127.3%	70.7%	58.3%	48.1%
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cash-flow ratio						
Cash-flow per share	2.96	3.10	6.90	10.67	11.42	12.99
Free-Cash-flow per share	-5.46	1.30	5.59	6.51	9.36	10.82
Other ratios						
Depreciation/Sales	4.9%	7.6%	7.3%	7.3%	6.8%	6.4%
Capex/Sales	11.3%	3.2%	2.3%	1.6%	1.5%	1.5%
Working Capital/Sales	32.4%	31.3%	28.5%	28.5%	28.5%	28.5%
Tax rate	-439.8%	354.6%	31.1%	31.1%	31.1%	31.1%

Source EQUI.TS

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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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Company	Analyst		Rating	Price Target
GK SOFTWARE AG	D.Grossjohann/T.Schießle	10/11/2020	Buy	€ 116.00
GK SOFTWARE AG	D.Grossjohann/T.Schießle	01/12/2020	Buy	€ 117.00
GK SOFTWARE AG	D.Grossjohann/T.Schießle	01/02/2021	Hold	€ 122.00
GK SOFTWARE AG	D.Grossjohann/T.Schießle	24/03/2021	Buy	€ 134.00
GK SOFTWARE AG	D.Grossjohann/T.Schießle	31/03/2021	Buy	€ 133.50
GK SOFTWARE AG	D.Grossjohann/T.Schießle	04/05/2021	Buy	€ 162.00
GK SOFTWARE AG	D.Grossjohann/T.Schießle	31/05/2021	Buy	€ 164.50
GK SOFTWARE AG	D.Grossjohann/T.Schießle	31/08/2021	Buy	€ 194.00

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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.

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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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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:**

(30/11/2021; 09:00 am CET)

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

(Closing price on 29/11/2021, XETRA)

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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