

Date 09/09/2015

Recommendation:

Buy (previous: Buy)

PT: € 45.00 (previous: € 46.00)

GK Software

Industry: Software

Segment: Prime Standard

ISIN: DE0007571424

Reuters: GKSG

Price (08/09/2015): € 31.00

Market Cap € 59 Mio.

EV € 70 Mio.

Ø-volume `000€ (100 days) 46.2

52W High 42.28

52W Low 30.20

Financial Calendar

EKF 2015 24/11/2015

Q3-Report 26/11/2015

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

1st half of 2015: Sales + 33%, some pressure on margins due to internationalisation

GK Software remains on track for growth. Having acquired seven international projects for new customers and continued to maintain its solid established customer base, the company increased its revenues for the first half of the year by approximately one third, as compared to the previous year, to € 26.9 million (with the DBS asset deal playing only a minor role in this context). However, EBIT fell to € -2.3 million (first six months of 2014: € -1.3 million) as a result of, among other things, the costs incurred in connection with the internationalisation of the company, which GK considers to be of greater significance in strategic terms than any short-term development of its margins. This notwithstanding, its goal over the medium term is to regain the margin level enjoyed by it in the past (>15%), together with 50% higher sales in the GK/Retail segment than in 2014. Although we believe the course set by the company to be in the best interests of its shareholders viewed over the long term, we are lowering our margin projections for 2015. With its EV/sales ratio of approx. 1.3, GK performs rather well on a peer group comparison.

- ✓ The strong growth in sales experienced in the first half of 2015 was attributable to the performance in both quarters (Q1: +39%; Q2: +28%). The company acquired a total of seven international projects for new customers (in North America, UAE, Russia, Poland and the UK), three of which can be termed mid-sized. By intensifying its international activities, GK is attempting to actively exploit the impending upheaval in the omni-channel retailing context and thus secure market share over the long term – even at the cost of temporarily negative EBIT margins. The company's partnership with SAP, which has meanwhile led to the acquisition of 29 projects for new customers, has proven to be the most important mainstay of the expansion – even though the trade has continued to struggle since 2012 in the face of strategic factors and an absence of "beacon" projects with definitive IT-related orientation with regard to the "omni-channel" retailing context.

Outlook: GK Software is adhering to its previous projections for the year ahead. The GK/Retail business is expected to undergo considerable expansion in 2015, with sales set to increase by 50% over the next 3-4 years as compared to the figures reported in 2014 (€ 31.6 million). Service revenues (2014: € 11.9 million) are set to experience some organic growth this year, while SQRS revenues are likely to fall further from their 2014 level of just over € 1 million. The company is reckoning with results in a negative amount in the current business year in the wake of its allocation of priority to the 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	93.50
2014 a	44.6	0.0	-3.0	-0.99	1.61	-42.38
2015 e	54.4	3.5	-0.2	-0.25	1.28	-125.23
2016 e	60.9	7.6	3.4	0.93	1.14	33.35
2017 e	64.9	11.0	6.6	2.16	1.07	14.37

Source: Company Data, EQUI.TS GmbH

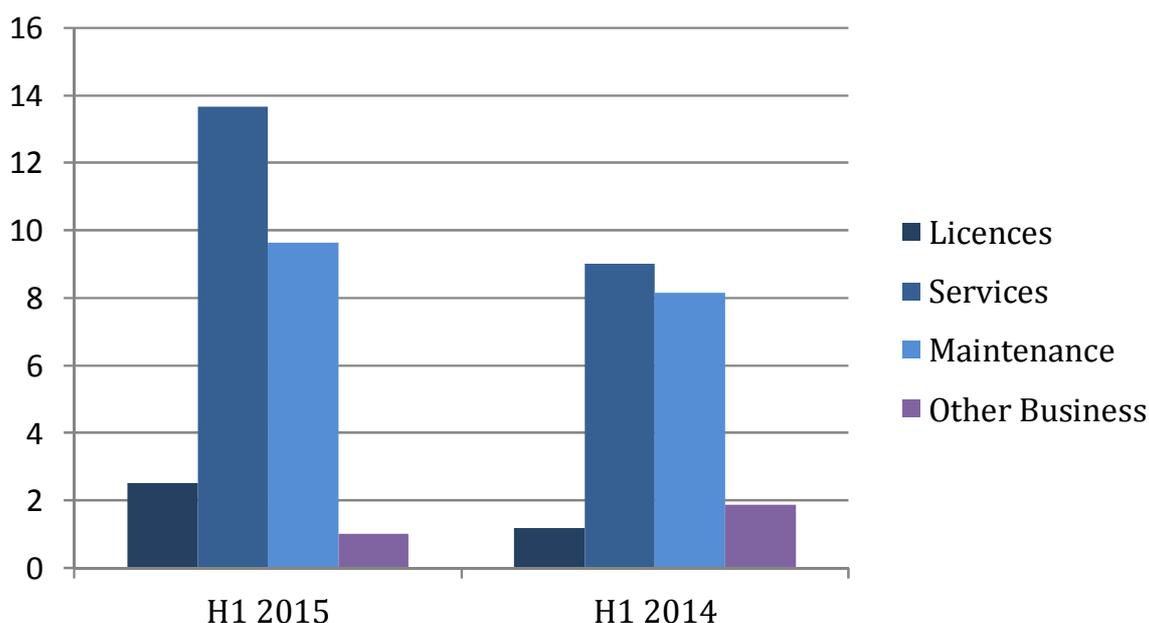
Well-filled order book

GK has a well-filled order book comprising projects from both its direct sales and its partnered sales activities, and it is currently extensively involved in negotiations with potential customers in Germany and abroad. It remains to be seen when the contracts in specific tender procedures will actually be awarded, however we believe that the company's well-filled order book will have a tangible effect on its revenues in 2015 and 2016.

Considerable growth in licensing and service revenues

The licensing business amounted to € 2.5 million in the first six months of the year, an increase of 113% over the equivalent period of the previous year due, among other things, to the acquisition of seven international projects for new customers. Service revenues increased by 52% to over € 13.6 million, while those of the maintenance business grew by 18%, the primary driver of this growth being the number of installations, which increased by approximately 10% to more than 205,000 productive systems (checkouts, portable devices, servers) during the reporting period alone (H1 2015).

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



Source: Company data, EQUITS GmbH

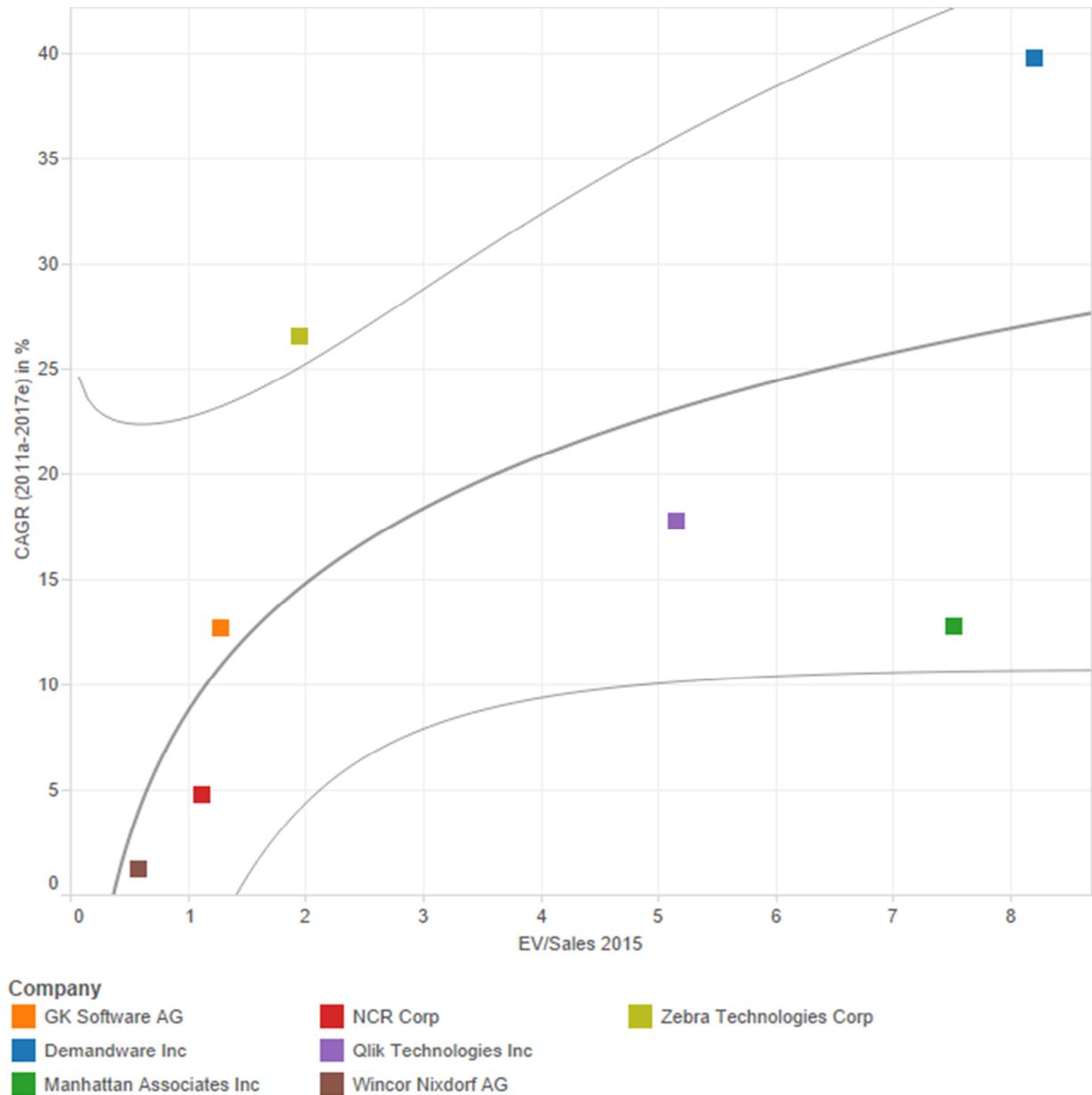
Return to historical margin level

The pressure on margins is due to the costs arising in connection with the – strategic – internationalisation of the company's sources of revenue. Furthermore, deferrals and awards of projects are greatly affecting the margins which can be realised in the short term at the present time. Over the medium term, fluctuations in sales as a result of project deferrals should be counterbalanced by the expansion of the business involving established customers, and this should provide the basis for a return to an EBIT margin of around 15% at the Group level.

Declining share prices on the stock market impact peer reviews

A number of the companies within GK's peer group have been struggling with declining share prices in line with general stock market sentiment. As compared to its peers, who are primarily IT companies focussing on the retail sector, GK as a software company continues to perform favourably, evidencing an EV/sales ratio of 1.28 in 2015.

Chart 02: Annual Growth Rates and EV/Sales Ratio (2015)



Source: EQUITS GmbH, Thomson Reuters

GK's average annual rate of growth is considerably higher than that of NCR Corp., which has a similar EV/sales ratio (time period: 2011a-2017e), while Manhattan Associates, which is experiencing growth more or less on a par with that of GK (albeit with EBIT margins significantly higher than 20%), is trading at an EV/sales ratio of 7.5. If GK Software achieves its goal of regaining its past EBIT margin level of around 15% within 3-4 years, its EV/sales ratio should increase to considerably higher than 2 once again.

- 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	54.426	60.906	64.920
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	0.398	0.445	0.474
Other operating income	1.658	2.451	2.188	2.668	2.986	3.182
Total performance	30.704	45.285	47.333	57.491	64.336	68.577
Cost of material	-0.673	-4.082	-5.151	-5.904	-6.607	-6.666
Gross profit	30.031	41.202	42.182	51.587	57.729	61.912
Personnel expenses	-19.441	-25.605	-28.749	-34.697	-35.356	-35.826
Other operating expenses	-7.290	-12.258	-13.397	-13.359	-14.766	-15.057
EBITDA	3.301	3.340	0.037	3.532	7.607	11.030
Depreciation/amortisation	-2.068	-2.295	-3.052	-3.722	-4.165	-4.439
EBIT	1.233	1.045	-3.015	-0.190	3.442	6.590
Financial result	0.043	-0.113	0.028	-0.482	-0.919	-0.734
Non operating result before taxes	0.000	0.000	0.000	0.000	0.000	0.000
EBT	1.277	0.932	-2.987	-0.672	2.524	5.856
Non operating result after taxes	0.000	0.000	0.000	0.000	0.000	0.000
Taxes	-0.226	-0.331	1.117	0.204	-0.767	-1.780
Minority interest	0.000	0.000	0.000	0.000	0.000	0.000
Net result	1.051	0.601	-1.870	-0.468	1.757	4.076
Adjustments	0.00	0.00	0.00	0.00	0.00	0.00
Adjusted net result	1.051	0.601	-1.870	-0.468	1.757	4.076
Average number of shares	1.79	1.79	1.89	1.89	1.89	1.89
EPS	0.59	0.34	-0.99	-0.25	0.93	2.16
Adjusted EPS	0.59	0.34	-0.99	-0.25	0.93	2.16
DPS	0.00	0.25	0.00	0.00	0.00	0.47

Source: EQUI.TS; company data

Cash Flow Statement	2012	2013	2014	2015e	2016e	2017e
Net cash provided by operating activities	3.181	1.829	-0.394	0.723	4.277	7.533
Net cash used in investing activities	-3.988	-0.951	-1.569	-19.034	-3.101	-3.605
Net cash provided by financing activities	-2.673	2.483	-1.606	14.311	-2.000	-2.000
Change in cash and securities	-3.480	3.361	-3.569	-4.000	-0.824	1.927
Cash and secur. at the end of the period	10.382	13.742	10.173	6.173	5.349	7.277

Source: EQUI.TS; company data

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Balance Sheet	2012	2013	2014	2015e	2016e	2017e
Long term assets	15.810	14.718	13.445	28.758	27.694	26.860
Intangible assets	10.924	9.922	8.474	23.981	22.688	21.395
Tangible assets	4.884	4.794	4.970	4.776	5.005	5.464
Financial assets	0.002	0.002	0.002	0.002	0.002	0.002
Current assets	26.580	32.351	28.270	27.240	28.381	31.526
Inventories	1.019	1.043	1.159	1.414	1.582	1.686
Accounts Receivables	11.629	13.754	12.375	15.090	16.887	18.000
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	5.349	7.277
Other assets	1.978	0.753	2.957	2.957	2.957	2.957
Total assets	44.367	47.821	44.673	58.955	59.032	61.343
Equity	28.332	33.156	30.555	30.087	31.844	35.920
Reserves	28.332	33.156	30.555	30.087	31.844	35.920
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	23.270	21.508	19.655
Interest bearing liabilities	3.475	2.290	1.132	15.443	13.443	11.443
Accounts Payables	0.843	1.421	1.634	1.992	2.230	2.377
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	58.955	59.032	61.343

Source: EQUITS; company data

Key Ratios	2012	2013	2014	2015e	2016e	2017e
Ratios for corporate valuation						
EV/Sales	2.39	1.08	1.61	1.28	1.14	1.07
EV/EBITDA	20.55	13.67	1969.16	19.71	9.15	6.31
EV/EBIT	54.99	43.68	-23.84	-366.16	20.22	10.56
P/E reported	64.73	93.50	-42.38	-125.23	33.35	14.37
P/E clean	64.73	93.50	-42.38	-125.23	33.35	14.37
PCPS	14.40	48.20	41.00	17.58	9.76	6.81
Price-to-book ratio	2.40	1.70	2.59	1.95	1.84	1.63
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%	-1.5%	5.7%	12.0%
Productivity ratios						
Sales/employees (in EUR '000)	59.6	76.9	70.9	78.6	83.8	85.1
Personnel expenses/employees (in '000)	40.7	46.4	45.7	50.1	48.7	46.9
Net result/employees (in '000)	2.2	1.1	-3.0	-0.7	2.4	5.3
Number of employees	477	552	629	692	727	763
Financial ratios						
Equity ratio	63.9%	69.3%	68.4%	51.0%	53.9%	58.6%
Gearing	-0.7%	-31.8%	-24.1%	36.6%	31.2%	16.9%
Dividend yield	0.0%	0.8%	0.0%	0.0%	0.0%	1.5%
Cash-flow ratio						
Cash-flow per share	2.64	0.65	1.02	1.76	3.18	4.55
Free-Cash-flow per share	1.49	-0.02	0.08	-8.31	1.54	2.64
Other ratios						
Depreciation/Sales	7.3%	5.4%	6.8%	6.8%	6.8%	6.8%
Capex/Sales	7.2%	2.8%	4.0%	35.0%	5.1%	5.6%
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	08/20/2014	Buy	€ 55.80
GK SOFTWARE AG	D.Grossjohann/B.Ludacka	12/11/2014	Buy	€ 50.80
GK SOFTWARE AG	D.Grossjohann/T.Schießle	04/23/2015	Buy	€ 51.15
GK SOFTWARE AG	D.Grossjohann/T.Schießle	06/15/2015	Buy	€ 46.00
GK SOFTWARE AG	D.Grossjohann/T.Schießle	09/09/2015	Buy	€ 45.00

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:

(09/09/2015)

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

(Closing price on 09/08/2015)

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

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