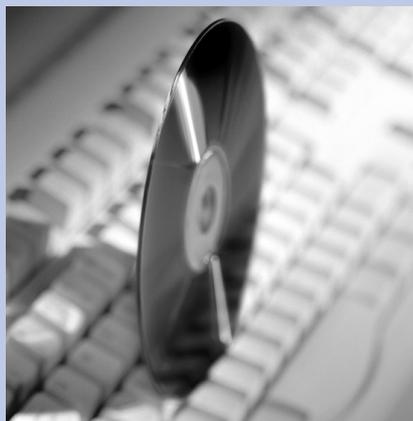


Datum **10/29/2009**



GK SOFTWARE AG

ISIN: **DE0007571424**
 Price (10/28/09): **€ 30.00**
 Market capitalization **€ 50m**
 Free float **24.33 %**

Financial calendar

11/27/2009 Q3 figures

Shareholder structure

GK Software Holding **70.57%**
 R. Gläß **2.85%**
 S. Kronmüller **2.25%**

Price performance



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GK SOFTWARE AG

Partnership with SAP Yields First Fruits

■ **Recommendation: Buy** ■ **Target price: € 37.75**

The announcement of the strategic sales cooperation with SAP in late September was followed by a substantial upward surge of the GK share that clearly exceeded our previous target price (€23.00). The new large project at EDEKA already represents a result of the cooperation with SAP. GK is expected to continue to benefit considerably from the sales drive of SAP, as the two GK modules marketed by SAP close an important gap in the product portfolio of SAP for retailers. Due to the large order that will most likely take up to three years, we have raised our sales estimate for 2010 by 7%. The target price climbs to €37.75 per share (upside potential: 26%). We recommend buying the share.

Investment Highlights

- The partnership entered with SAP on September 30 has already resulted in a first major order. Together with its partner, SAP, GK will equip 6,000 branches of EDEKA within the scope of the Lunar project. Since its establishment, GK has equipped 13,500 branches of various retailers. This comparison gives an idea of the dimension of the new project and the momentum that the cooperation with SAP could gain. We estimate that the so far largest individual project of GK will take up to three years; the first revenue could become visible as early as 2009. The sales contribution of the entire EDEKA project is expected to reach the eight-figure range. However, for reasons of caution, we have only increased the sales forecast for 2010 by €2 million. Sales from the order backlog and the EDEKA project imply further new customer sales in the lower to medium seven-figure range.
- The GK solutions marketed by SAP address the subjects of "store device control" and "offline-capable branch processes". "Store device control" focuses on the control and networking of peripherals – a field that is very important for SAP in connection with the real-time integration of branch data in the central SAP system. Both GK solutions belong to the field of ERP/infrastructure and are of strategic significance.

Key Figures

	Sales	Net inc. adj.	EPS adj.	P/E	EV/Sales	EV/EBIT	EBIT Margin	ROE (%)
2007	10.7	1.6	1.25	n.m.	n.m.	n.m.	21.7	88.7
2008	15.0	2.0	1.22	13.92	1.9	10.2	18.5	29.3
2009e	18.5	3.2	1.95	15.41	2.3	10.4	21.8	25.1
2010e	25.1	3.4	2.04	14.70	1.7	9.1	18.5	21.6
2011e	28.4	3.9	2.33	12.90	1.5	8.0	18.6	20.0

Source: Company information / Vara Research GmbH

The reselling partnership with SAP is non-exclusive, which means that GK can continue to build up sales capacities independently from SAP, thereby avoiding potential dependencies. In certain situations, GK and SAP may still be competitors (POS solutions). In these cases, however, GK will participate in the sale of the two GK modules marketed by SAP. We believe that SAP is primarily interested in the product success of its own ERP solution. Therefore, we are confident that GK will also have good opportunities to offer other modules from the GK/retail family within the scope of joint projects with SAP.

In 2007, SAP had a market share of 55% of the large companies in the retail industry. Only few of these customers are also customers of GK and could optimize the ERP integration by deploying the GK modules. Especially in other countries in which the presence of GK is still limited, the name "SAP" opens doors and serves as a quality cachet.

In view of the agreement with SAP, we consider a medium-term sales growth of about 20% a year to be realistic for GK SOFTWARE. However, it must be taken into consideration that in projects acquired by SAP, GK will also render services to a considerable extent. Thus, the scalability is limited.

Generally, the sales partnership with SAP is expected to increase the margin, as GK can save sales costs. Furthermore, the branch infrastructure services to be rendered by GK are charged for at higher daily rates. Therefore, we have calculated a margin of 18.5% in the medium run; the EBIT margin for 2009 will still be lower due to the Solquest takeover. In the medium run, the working capital will most likely drop slightly in relation to the sales, as GK will not build up any trade receivables from the projects acquired by SAP. Additional investments will not be necessary within the scope of the joint projects.

The target price of € 37.75 per share represents the median of the peer-group comparison and the FCF analysis. Based on the estimates for 2010, the peer-group comparison implies a fair value of € 36.50. Under consideration of the adjustment in 2010 and the higher margin level in the medium run, the FCF appraisal delivers a fair value of € 39.00 per share.

Profit and Loss Account

(in €m)	2006	2007	2008	2009e	2010e	2011e
Sales revenues	7.079	10.745	15.029	18.451	25.053	28.433
Change in finished goods and work in progress	0.976	-0.002	-1.260	-0.217	-0.295	-0.335
Other own cost capitalized	0.318	0.558	0.815	1.033	1.402	1.591
Other operating income	0.205	0.379	0.424	0.632	0.858	0.973
Total performance	8.578	11.680	15.008	19.897	27.017	30.663
Cost of material	-0.227	-0.486	-0.514	0.363	-1.049	-1.784
Gross profit	8.351	11.194	14.494	20.261	25.968	28.879
Personnel expenses	-4.900	-6.152	-8.047	-12.497	-15.157	-16.728
Other operating expenses/income	-1.509	-2.183	-2.954	-3.942	-5.278	-5.915
EBITDA	1.942	2.859	3.493	3.821	5.533	6.236
Depreciation/amortisation	-0.342	-0.527	-0.719	-0.780	-0.898	-0.959
EBIT	1.600	2.332	2.775	3.041	4.635	5.277
Financial result	0.020	-0.115	0.090	0.138	0.151	0.177
Non operating result before taxes	0.000	0.000	0.000	0.000	0.000	0.000
Pre tax result	1.620	2.217	2.864	3.179	4.785	5.454
Non operating result after taxes	0.000	0.000	0.000	0.000	0.000	0.000
Taxes	-0.693	-0.656	-0.830	-0.922	-1.387	-1.581
Minority interest	0.000	0.000	0.000	0.000	0.000	0.000
Net result	0.927	1.561	2.034	2.257	3.398	3.872
Adjustments	0.000	0.000	0.000	0.984	0.000	0.000
Adjusted net result	0.927	1.561	2.034	3.241	3.398	3.872
Average number of shares	1.25	1.25	1.67	1.67	1.67	1.67
EPS	0.74	1.25	1.22	1.36	2.04	2.33
Adjusted EPS	0.74	1.25	1.22	1.95	2.04	2.33
DPS	0.00	0.64	0.00	0.00	0.00	0.00

Source: GK SOFTWARE AG / Vara Research GmbH

Balance of Accounts

(in €m)	2006	2007	2008	2009e	2010e	2011e
Long term assets	1.025	3.748	4.226	5.706	6.875	8.264
Intangible assets	0.719	1.128	1.633	2.583	2.983	3.483
Tangible assets	0.306	2.620	2.593	3.122	3.892	4.781
Financial assets	0.000	0.000	0.000	0.000	0.000	0.000
Current assets	6.711	8.064	15.382	17.197	21.426	24.935
Inventories	2.001	1.999	0.738	0.906	1.230	1.396
Receivables	2.253	3.161	5.789	7.107	9.650	10.952
Cash and securities	2.457	2.904	8.855	9.184	10.545	12.587
Other assets	0.006	0.018	0.018	0.018	0.018	0.018
Total assets	7.742	11.830	19.626	22.921	28.319	33.217
Equity	1.440	2.081	11.782	14.040	17.438	21.310
Reserves	1.440	2.081	11.782	14.040	17.438	21.310
Minorities	0.000	0.000	0.000	0.000	0.000	0.000
Provisions	0.707	0.577	0.847	0.850	0.852	0.855
Liabilities	5.378	8.388	5.803	6.838	8.836	9.859
Interest bearing liabilities	0.002	1.376	1.256	1.256	1.256	1.256
Non interest bearing liabilities	5.376	7.012	4.547	5.583	7.580	8.603
Other liabilities	0.217	0.784	1.193	1.193	1.193	1.193
Total equity and liabilities	7.742	11.830	19.626	22.921	28.319	33.217

Source: GK SOFTWARE AG / Vara Research GmbH

Cash Flow Statement

(in €m)	2006	2007	2008	2009e	2010e	2011e
Net cash provided by operating activities	0.763	1.920	1.427	2.589	3.429	4.388
Net cash used in investing activities	-0.653	-2.046	-2.579	-2.259	-2.068	-2.347
Net cash provided by financing activities	0.002	0.573	7.098	0.000	0.000	0.000
Change in cash and securities	0.112	0.447	5.946	0.330	1.361	2.041
Cash and securities at the end of the period	2.457	2.904	8.855	9.184	10.545	12.587

Source: GK SOFTWARE AG / Vara Research GmbH

Key Figures*

	2006	2007	2008	2009e	2010e	2011e
Profitability ratios						
EBITDA margin	27.4%	26.6%	23.2%	26.0%	22.1%	21.9%
EBIT margin	22.6%	21.7%	18.5%	21.8%	18.5%	18.6%
Pre tax margin	22.9%	20.6%	19.1%	22.6%	19.1%	19.2%
Net margin	13.1%	14.5%	13.5%	17.6%	13.6%	13.6%
Free cash flow margin	8.7%	n.m.	12.0%	12.4%	11.3%	11.2%
ROE	94.9%	88.7%	29.3%	25.1%	21.6%	20.0%
Productivity ratios						
Sales/employees (in € `000)	85.3	76.8	74.9	72.7	84.2	87.9
Net result/employees (in € `000)	11.2	11.2	10.1	12.8	11.4	12.0
Number of employees	83	140	201	254	298	324
Financial ratios						
Equity ratio	18.6%	17.6%	60.0%	61.3%	61.6%	64.2%
Gearing	-166.0%	-70.9%	-64.1%	-56.1%	-53.0%	-52.9%
Dividend yield	n.a.	n.a.	0.0%	0.0%	0.0%	0.0%
Cash flow ratios						
Cash flow per share	1.02	1.57	1.82	1.83	2.58	2.90
Free cash flow per share	0.49	-0.52	1.09	1.37	1.70	1.91
Other ratios						
Depreciation/sales	4.8%	4.9%	4.8%	4.2%	3.6%	3.4%
Capex/sales	9.2%	24.3%	8.1%	12.2%	8.3%	8.3%
Working capital/sales	-13.8%	5.9%	10.0%	15.0%	15.0%	15.0%
Tax rate	42.8%	29.6%	29.0%	29.0%	29.0%	29.0%
Valuation ratios						
EV/Sales	n.a.	n.a.	1.88	2.28	1.68	1.48
EV/EBITDA	n.a.	n.a.	8.10	8.74	7.59	6.74
EV/EBIT	n.a.	n.a.	10.20	10.44	9.07	7.96
P/E reported	n.a.	n.a.	13.92	22.13	14.70	12.90
P/E clean	n.a.	n.a.	13.92	15.41	14.70	12.90
PCPS	n.a.	n.a.	9.36	16.43	11.62	10.33

*Based on clean figures

Source: GK SOFTWARE AG / Vara Research GmbH

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Authors of this financial analysis: Daniel Großjohann, Analyst and Michael Vara, Analyst and Managing Director of Vara Research GmbH

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Previous financial analyses:

Company	Date	Rating	Target price
GK SOFTWARE AG	13/05/2008	n.a.	n.a.
GK SOFTWARE AG	03/09/2008	Buy	45.50
GK SOFTWARE AG	21/10/2008	Buy	28.45
GK SOFTWARE AG	19/12/2008	Buy	28.45
GK SOFTWARE AG	27/03/2009	Buy	28.45
GK SOFTWARE AG	14/05/2009	Buy	21.60
GK SOFTWARE AG	16/06/2009	Buy	21.60
GK SOFTWARE AG	14/09/2009	Buy	23.00

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**3. Date of initial publication of the financial analysis:
(29/10/2009)**

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

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