

Date **15.04.2013**

Buy (old: Buy)
PT: € 46,75 (alt: € 56,50)

Changes

	2012E		2013E	
	New	Delta	New	Delta
Sales	28.4	-6%	47.1	-14.5%
EBIT	0.8	-83%	6.8	-31.3%
EPS	0.38	-79%	2.67	-30.5%
EPS*	0.38	-79%	2.67	-30.5%
DPS	0.10	-80%	0.60	-23.1%

*clean

Homepage: www.gksoftware.de

Industry: IT/Software

ISIN DE0007571424

Bloomberg GKS:GR

Reuters GKSG

Price (12.04.13): € 27.40

Market Cap: € 49.0 m

Enterprise Value: € 39.2 m

Ø-volume (100 days): € 63.805

52W High: € 43.00

52W Low: € 27.00

Free Float: 42.5 %

Financial Calendar

26.04.2013 Annual Report

29.05.2013 Q1-Report

Shareholder structure

GK Software Holding 52.33%

Scherzer & Co. AG 5.23%

R. Gläß 2.95%

S. Kronmüller 2.23%

Share performance



Daniel Grossjohann

+49 (0)69 – 2561 285 13

grossjohann@vararesearch.de

Benjamin Ludacka

+49 (0)69 – 2561 285 12

ludacka@vararesearch.de

Michael Vara

+49 (0)69 – 2561 285 11

vara@vararesearch.de

GK SOFTWARE AG

Transformation phase, expected organic growth as of mid-2013

The preliminary figures for 2012 to which the market initially responded with a substantial drop of prices imply an unusually weak end-of-the-year sales business for GK. Retail is currently in a structural transformation phase and has therefore put IT investments on hold. In addition, fewer projects have come out of the cooperation with SAP thus far than we expected. We have overall reduced the expectations for the SAP cooperation. Yet due to basis effects, the AWEK takeover and a well filled project pipeline, we continue to assume a strong growth of sales (+66%) in 2013. In a current EV/sales valuation for 2013 of rounded 1.0, we still perceive substantial price potential – because 2012 was a one-off mishap and the long-term growth story is intact.

Investment Highlights

- While Q4 is typically the strongest quarter in terms of sales and profits, Q4 2012 merely earned turnover of a rounded €6 million (Q4 2011: €10.6 million) and an EBIT of approx. -€1.7 million (Q4 2011: €4.1 million). Retail, being a buyer of GK solutions, found itself confronted with receding turnover after price adjustments (-0.3%) in 2012 for the first time since 2009. Moreover, retail is facing a strategic change of course due to the growing importance of online retail, which has led to hesitant investment behaviour and a certain backlog in investments (IT side). As GK offers persuasive integrated solutions for the structural problem of traditional retail together with SAP in our opinion, GK is likely to profit considerably when the current investment backlog is back on track.
- Although we have lowered our previous turnover estimate (€55.1 million) we continue to have confidence in GK to achieve a strong growth in 2013 (sales 13e: €47.1 million; +66%). There are two reasons for this figure now showing a “weaker” outcome than initially expected: firstly, most retail groups displayed further hesitant behaviour so that only one larger new GK customer (in the domestic market) could be noted in Q1. Secondly, we have underestimated the upcoming restructuring at AWEK Group. Since transparency of the SAP pipeline is also limited for GK itself, we have no longer included the international sales through the SAP cooperation in our estimate. We see the EBIT margin in the current year (due to charges related to restructuring) at around 14.5%.

Key figures (*The 2012 figures are partly based on preliminary reports)

	Sales	Net result	adj. EPS	adj. P/E	EV/Sales	EV/EBIT	EBIT Margin	ROE (%)
2010	27.7	4.5	2.50	20.02	2.96	12.75	23.2%	22.6%
2011	31.8	4.6	2.55	16.07	2.14	10.21	21.0%	18.1%
2012e	28.4	0.7	0.38	71.86	1.56	55.96	2.8%	2.4%
2013e	47.1	4.8	2.65	10.32	0.94	6.47	14.5%	15.2%
2014e	54.1	6.1	3.41	8.03	0.82	5.11	16.0%	16.5%

Source: Company Data/ Vara Research GmbH

**HIT consumer markets
rely on GK and SAP**

Dohle Retail Group, which operates the rounded 100 HIT consumer markets and self-serve warehouses (sales floors between 1,500m² and 4,500m²), will equip all its sites with "SAP Offline Mobile Store by GK", "SAP Device Control by GK" as well as with a solution for label printing. By virtue of the fully integrated expansion of the existing SAP system, customer-sided processes can be optimised further while at the same time Dohle can reduce its maintenance costs.

Sales success in Russia

Modis, an operator of 65 large-space fashion department stores in Russia, has decided for the use of the "SAP Point-of-Sale by GK". The project, with a volume that was agreed to remain confidential and which is to be completed still before the end of 2013, was acquired through SAP. The adjustment of the GK standard solution to the individual requirements of Modis will be taken on by a Russian partner, which will be supported by GK SOFTWARE with regard to training, development, and consulting services.

**HP service support
agreement as kick-off
for more dynamics in
internationalisation?!**

As early as mid-January, GK SOFTWARE announced a service support agreement with HP – for all components of the SAP Store Solutions by GK. GK thereby solves a potential capacity problem on the way to internationalisation, because without the agreement it would have been difficult to ensure the implementation of own solution in the course of several large foreign projects. The agreement with HP assures flexible capacities and a variable cost structure. We assume that the sales cycles at SAP are longer than at GK, given a number of projects triggered by the cooperation have already started in Germany where distribution through SAP was launched earlier.

**AWEK restructuring for
strategic reasons**

A part of the AWEK business - and consequently turnover as well - will probably be discontinued for strategic reasons. The upcoming restructuring is the cause that AWEK will not be contributing to the Group EBIT in the current year. The AWEK takeover was the result of a strategic make-or-buy decision, which was correct in our opinion - GK can offer its customers a wider spectrum of services, strengthen customer loyalty and obtain a wider basis of recurring (service) turnover.

**GK/Retail-Suite with
self-checkout solution
strengthened further**

On the product side GK SOFTWARE has made further headway. The new Self-Checkout (SCO) solution is fully integrated in the basic solution GK/Retail and provides retailers with a lot of freedom in the hardware choice of a SCO system (e.g. checkouts operated directly by the customer). SCO is already largely proliferated in the USA and Great Britain so that it should only be a question of time that these solutions will also be used more frequently by retail chains in continental Europe.

**In 2013 GK has to prove
that the long-term
growth path is continued**

The declining turnover for 2012, which was reported in advance on 05/04/2013, in the amount of €28.4 million (-10.6% compared to the previous year) was below the present turnover indication (€30 million to €31 million). Final figures will be reported by the company on 26/04/2013. Decisive for the stock performance in 2013 is GK proving in the course of the year that the company has not left the long-term growth path. The increase rate in 2013 that is still quite high at a first glance (+66% of turnover) is based on an acquisition effect from the AWEK takeover (effect 2013e: approx. €8.5 million in turnover) and a nearly 30% organic growth. The latter however also includes certain catching-up and basis effects against the background of already built-up capacities and a weak end-of-the-year sales business in Q4/2012 so that the 2012 basis of sales has overall reduced.

■ Profit and Loss Statement in EURm

	2009	2010	2011e	2012e	2013e	2014e
Sales	23.277	27.690	31.753	28.403	47.118	54.056
Change in finished goods and work in progress	-0.873	0.000	0.000	0.000	0.000	0.000
Other own costs capitalized	1.067	0.649	1.489	0.722	1.197	1.374
Other operating income	0.826	1.368	0.729	0.794	1.318	1.512
Total performance	24.296	29.706	33.971	29.919	49.633	56.941
Cost of material	-0.561	-1.540	-0.611	-4.531	-1.994	-1.476
Gross profit	23.735	28.166	33.360	25.388	47.639	55.465
Personnel expenses	-12.117	-14.840	-18.601	-16.969	-28.591	-32.875
Other operating expenses	-5.448	-5.344	-6.158	-6.041	-9.947	-11.337
EBITDA	6.171	7.982	8.601	2.378	9.101	11.252
Depreciation/amortisation	-1.281	-1.548	-1.947	-1.588	-2.269	-2.603
EBIT	4.890	6.435	6.654	0.790	6.832	8.649
Financial result	0.143	-0.128	-0.085	0.091	0.006	0.137
Non operating result before taxes	0.000	0.000	0.000	0.000	0.000	0.000
EBT	5.033	6.307	6.569	0.881	6.838	8.786
Non operating result after taxes	0.000	0.000	0.000	0.000	0.000	0.000
Taxes	-1.516	-1.836	-2.005	-0.198	-2.087	-2.681
Minority interest	0.000	0.000	0.000	0.000	0.000	0.000
Net result	3.517	4.471	4.564	0.683	4.752	6.105
Adjustments	0.984	0.000	0.000	0.000	0.000	0.000
Adjusted net result	4.501	4.471	4.564	0.683	4.752	6.105
Average number of shares	1.67	1.79	1.79	1.79	1.79	1.79
EPS	2.11	2.50	2.55	0.38	2.65	3.41
Adjusted EPS	2.70	2.50	2.55	0.38	2.65	3.41
DPS	1.00	0.50	0.50	0.10	0.60	0.77

■ Profit and Loss Statement as % of sales

	2009	2010	2011e	2012e	2013e	2014e
Sales	100.0	100.0	100.0	100.0	100.0	100.0
Total performance	104.4	107.3	107.0	105.3	105.3	105.3
Cost of material	-2.4	-5.6	-1.9	-16.0	-4.2	-2.7
Gross profit	102.0	101.7	105.1	89.4	101.1	102.6
Personnel expenses	-52.1	-53.6	-58.6	-59.7	-60.7	-60.8
Other operating expenses	-23.4	-19.3	-19.4	-21.3	-21.1	-21.0
EBITDA	26.5	28.8	27.1	8.4	19.3	20.8
Depreciation/amortisation	-5.5	-5.6	-6.1	-5.6	-4.8	-4.8
EBIT	21.0	23.2	21.0	2.8	14.5	16.0
Financial result	0.6	-0.5	-0.3	0.3	0.0	0.3
Non operating result before taxes	0.0	0.0	0.0	0.0	0.0	0.0
EBT	21.6	22.8	20.7	3.1	14.5	16.3
Non operating result after taxes	0.0	0.0	0.0	0.0	0.0	0.0
Taxes	-6.5	-6.6	-6.3	-0.7	-4.4	-5.0
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0
Net result	15.1	16.1	14.4	2.4	10.1	11.3
Adjustments	4.2	0.0	0.0	0.0	0.0	0.0
Adjusted net result	19.3	16.1	14.4	2.4	10.1	11.3

Source: GK SOFTWARE AG / Vara Research GmbH

■ Cash Flow Statement in EURm

	2009	2010	2011e	2012e	2013e	2014e
Net cash provided by operating activities	5.662	1.668	4.747	3.505	0.184	6.180
Net cash used in investing activities	-9.363	-2.709	-2.693	-1.166	-6.134	-1.301
<i>thereof Capex</i>	<i>-8.806</i>	<i>-2.980</i>	<i>-2.447</i>	<i>-1.166</i>	<i>-1.134</i>	<i>-1.301</i>
Net cash provided by financing activities	5.468	3.844	-1.636	-4.595	-0.185	-1.074
Change in cash and securities	1.782	2.805	0.417	-2.256	-6.135	3.804
Cash and securities at the end of the period	10.637	13.442	13.859	11.604	5.469	9.273

Source: GK SOFTWARE AG / Vara Research GmbH

■ Balance Sheet in EURm

	2009	2010	2011e	2012e	2013e	2014e
Long term assets	12.743	13.166	13.664	13.242	22.107	20.805
Intangible assets	9.333	9.116	9.540	8.935	8.495	7.202
Tangible assets	3.410	4.050	4.124	4.307	8.612	8.603
Financial assets	0.000	0.000	0.000	0.000	5.000	5.000
Current assets	19.242	31.110	29.084	25.568	26.473	32.887
Inventories	0.000	0.000	0.000	0.000	0.000	0.000
Accounts Receivables	5.846	14.110	11.945	10.685	17.725	20.335
Other current assets	2.759	3.558	3.279	3.279	3.279	3.279
Cash and securities	10.637	13.442	13.859	11.604	5.469	9.273
Other assets	0.390	0.529	0.727	0.727	0.727	0.727
Total assets	32.375	44.805	43.475	39.537	49.307	54.419
Equity	15.300	24.332	28.231	28.019	34.585	39.616
Reserves	15.300	24.332	28.231	28.019	34.585	39.616
Minorities	0.000	0.000	0.000	0.000	0.000	0.000
Provisions	0.847	0.921	1.109	1.118	1.128	1.138
Liabilities	14.953	17.060	11.462	7.728	10.921	10.993
Interest bearing liabilities	6.724	5.983	5.243	1.543	4.543	4.543
Accounts Payables	0.774	0.476	0.329	0.294	0.488	0.560
Other non-interest bearing liabilities	7.455	10.601	5.891	5.891	5.891	5.891
Other liabilities	1.276	2.491	2.672	2.672	2.672	2.672
Total equity and liabilities	32.375	44.805	43.475	39.537	49.307	54.419

■ Balance Sheet as % of total assets

	2009	2010	2011e	2012e	2013e	2014e
Long term assets	39.4	29.4	31.4	33.5	44.8	38.2
Intangible assets	28.8	20.3	21.9	22.6	17.2	13.2
Tangible assets	10.5	9.0	9.5	10.9	17.5	15.8
Financial assets	0.0	0.0	0.0	0.0	10.1	9.2
Current assets	59.4	69.4	66.9	64.7	53.7	60.4
Inventories	0.0	0.0	0.0	0.0	0.0	0.0
Accounts Receivables	18.1	31.5	27.5	27.0	35.9	37.4
Other current assets	8.5	7.9	7.5	8.3	6.7	6.0
Cash and securities	32.9	30.0	31.9	29.3	11.1	17.0
Other assets	1.2	1.2	1.7	1.8	1.5	1.3
Total assets	100.0	100.0	100.0	100.0	100.0	100.0
Equity	47.3	54.3	64.9	70.9	70.1	72.8
Reserves	47.3	54.3	64.9	70.9	70.1	72.8
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	2.6	2.1	2.6	2.8	2.3	2.1
Liabilities	46.2	38.1	26.4	19.5	22.1	20.2
Interest bearing liabilities	20.8	13.4	12.1	3.9	9.2	8.3
Accounts Payables	2.4	1.1	0.8	0.7	1.0	1.0
Other non-interest bearing liabilities	23.0	23.7	13.6	14.9	11.9	10.8
Other liabilities	3.9	5.6	6.1	6.8	5.4	4.9
Total equity and liabilities	100.0	100.0	100.0	100.0	100.0	100.0

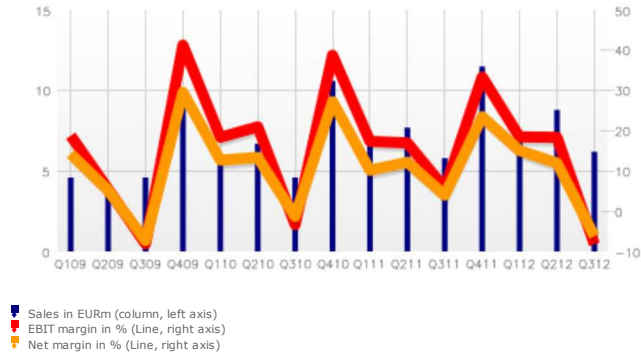
Source: GK SOFTWARE AG / Vara Research GmbH

	2009	2010	2011e	2012e	2013e	2014e
■ Valuation ratios						
Share price (in EUR)	23.00	50.00	42.75	27.40	27.40	27.40
Market Cap	38.3	89.5	76.5	49.0	49.0	49.0
Enterprise Value (in EURm)	34.4	82.4	68.1	39.2	39.2	39.2
EV/Sales	1.48	2.98	2.14	1.38	0.83	0.72
EV/EBITDA	4.8	10.3	7.9	16.5	4.3	3.5
EV/EBIT	5.9	12.8	10.2	49.6	5.7	4.5
P/E reported	10.9	20.0	16.8	72.1	10.3	8.0
P/E clean	8.5	20.0	16.8	72.1	10.3	8.0
PCPS	8.0	15.1	11.4	21.6	7.0	5.6
Price-to-book ratio	2.5	3.7	2.7	1.8	1.4	1.2
■ Profitability ratios						
EBITDA margin	30.7%	28.8%	27.1%	8.4%	19.3%	20.8%
EBIT margin	25.2%	23.2%	21.0%	2.8%	14.5%	16.0%
Pre tax margin	25.8%	22.8%	20.7%	3.1%	14.5%	16.3%
Net margin	19.3%	16.1%	14.4%	2.4%	10.1%	11.3%
ROE	33.2%	22.6%	17.4%	2.4%	15.2%	16.5%
ROCE	57.0%	38.5%	31.2%	3.8%	23.2%	22.3%
■ Productivity ratios						
Sales/employees (in EUR '000)	80.0	75.7	78.4	59.7	89.0	92.3
Gross profit/employees (in '000)	15.5	12.2	11.3	1.4	9.0	10.4
Net result/employees (in '000)	291	366	405	476	529	586
■ Number of employees						
Financial ratios	47.3%	54.3%	64.9%	70.9%	70.1%	72.8%
Equity ratio	-25.3%	-29.3%	-29.8%	-17.3%	-2.1%	-11.4%
Gearing	4.3%	1.0%	1.2%	0.4%	2.2%	2.8%
■ Dividend yield						
Cash-flow ratio	2.88	3.30	3.74	1.27	3.93	4.87
Cash-flow per share	-2.41	1.64	2.37	0.62	3.29	4.14
■ Other ratios						
Depreciation/Sales	5.5%	5.6%	6.1%	5.6%	4.8%	4.8%
Capex/Sales	37.8%	10.8%	7.7%	4.1%	2.4%	2.4%
Working Capital/Sales	21.8%	49.2%	36.6%	36.6%	36.6%	36.6%
Tax rate	30.1%	29.1%	30.5%	22.5%	30.5%	30.5%

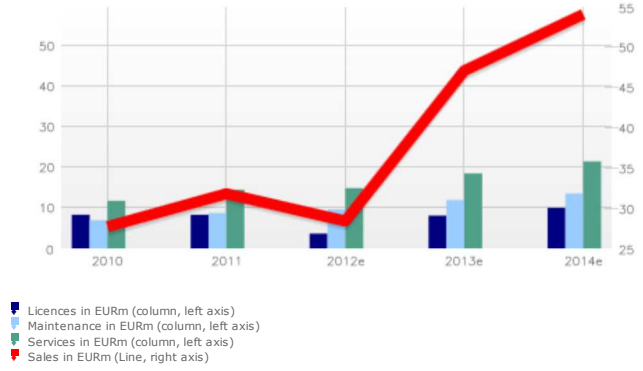
Source: GK SOFTWARE AG / Vara Research GmbH

Key Charts

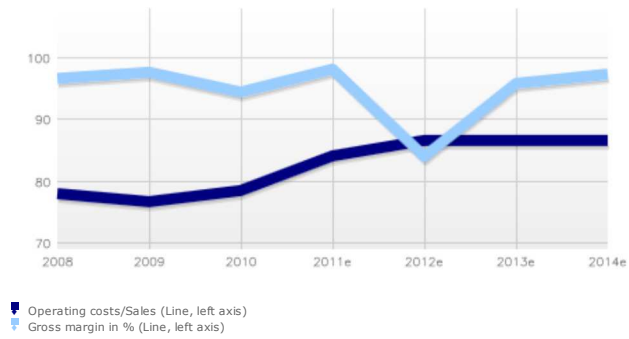
Sales and margin development



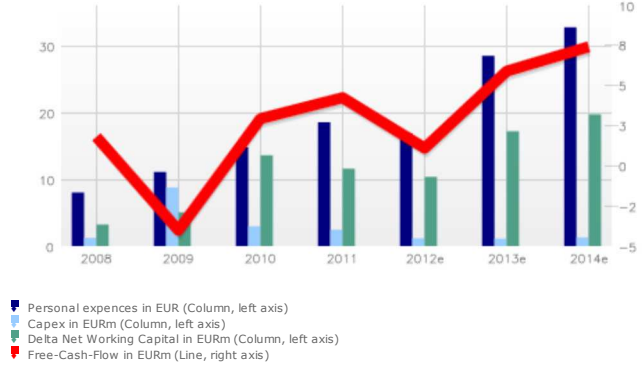
Sales mix



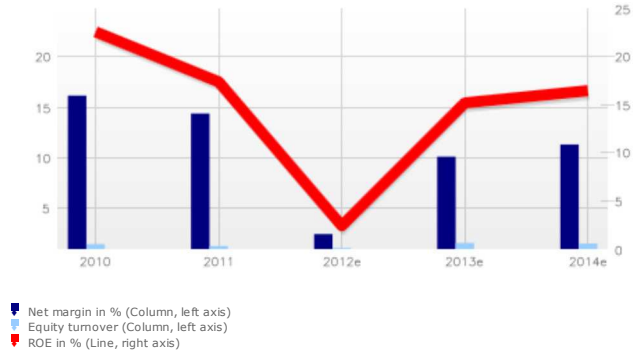
Cost efficiency



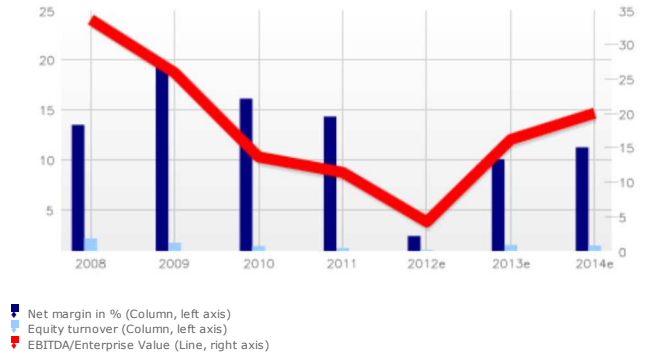
Operating Cash Flow



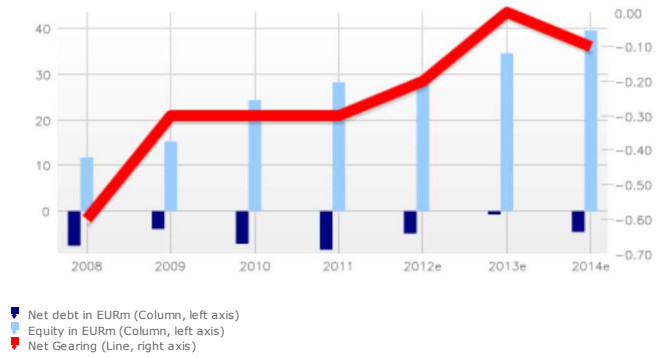
ROE



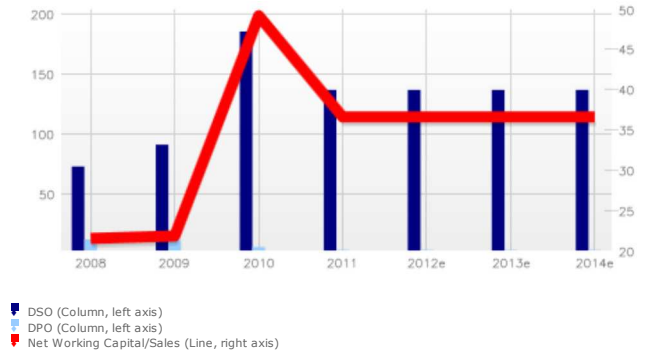
Value added



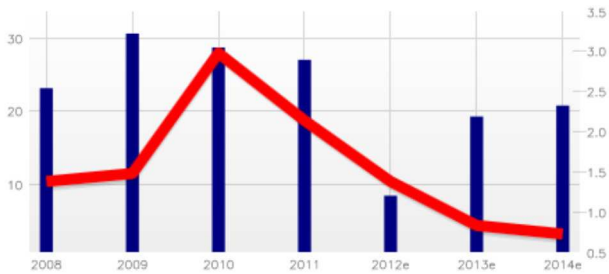
Balance sheet quality



Working Capital efficiency

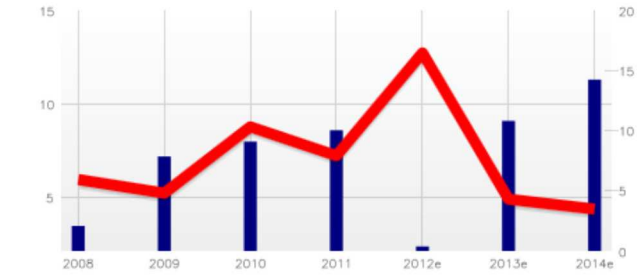


EV/Sales



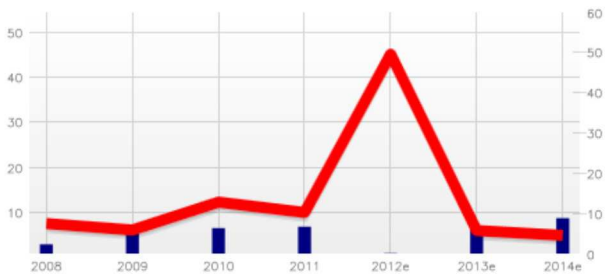
■ EBITDA margin in % (column, left axis)
 ■ EV/Sales (Line, right axis)

EV/EBITDA



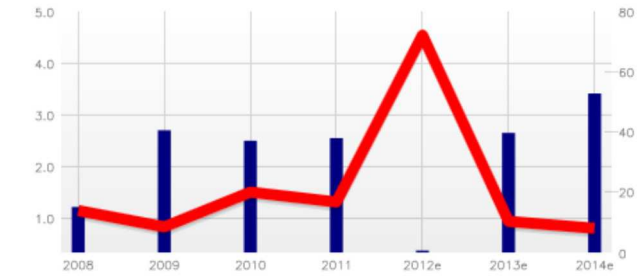
■ EBITDA in EURm (column, left axis)
 ■ EV/EBITDA (Line, right axis)

EV/EBIT



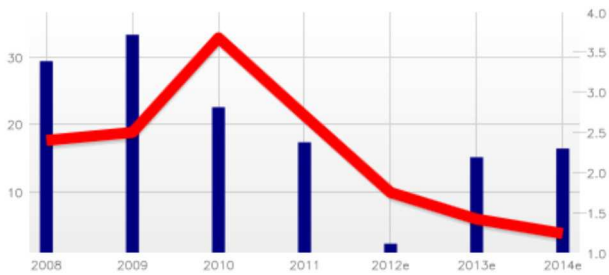
■ EBIT in EURm (column, left axis)
 ■ EV/EBIT (Line, right axis)

PE clean



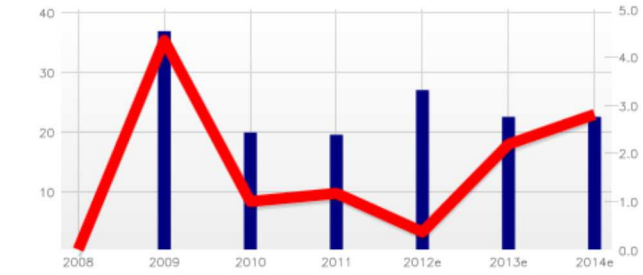
■ EPS clean in EUR (column, left axis)
 ■ PE clean (Line, right axis)

P/BV



■ ROE in % (column, left axis)
 ■ P/NAV (Line, right axis)

Dividend yield in %



■ Payout ratio in % (column, left axis)
 ■ Dividend yield in % (Line, right axis)

A. Disclosures in accordance with § 34 b WpHG (German Securities Trading Act), Finanzanalyseverordnung (FinAnV) (Ordinance on the Analysis of Financial Instruments):

I. Disclosures on authorship, responsible company, regulatory authority:

Company responsible for the publication: Vara Research GmbH

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

Vara Research GmbH is subject to regulation through the Federal Financial Supervisory Authority (BaFin).

Previous financial analyses:

Company	Date	Rating	Target price
GK SOFTWARE AG	09/14/2009	Buy	€ 23.00
GK SOFTWARE AG	10/27/2009	Buy	€ 37.75
GK SOFTWARE AG	12/14/2009	Hold	€ 38.60
GK SOFTWARE AG	02/02/2010	Hold	€ 40.10
GK SOFTWARE AG	04/22/2010	Hold	€ 50.85
GK SOFTWARE AG	06/21/2010	Hold	€ 50.85
GK SOFTWARE AG	09/08/2010	Hold	€ 56.95
GK SOFTWARE AG	12/02/2010	Hold	€ 56.00
GK SOFTWARE AG	01/19/2011	Hold	€ 55.70
GK SOFTWARE AG	05/16/2011	Buy	€ 56.45
GK SOFTWARE AG	06/20/2011	Buy	€ 56.45
GK SOFTWARE AG	08/16/2011	Buy	€ 50.90
GK SOFTWARE AG	09/08/2011	Buy	€ 52.70
GK SOFTWARE AG	11/14/2011	Buy	€ 53.45
GK SOFTWARE AG	12/14/2011	Buy	€ 53.45
GK SOFTWARE AG	03/06/2012	Buy	€ 53.45
GK SOFTWARE AG	05/07/2012	Buy	€ 58.50
GK SOFTWARE AG	06/27/2012	Buy	€ 58.50
GK SOFTWARE AG	01/07/2013	Buy	€ 56.50

II. Additional disclosures:

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 going to press; no changes were made afterwards, however.

2. Summary of the valuation principles and methods used in preparation of the analysis:

Vara Research 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, 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 publication of the financial analysis:
(04/15/2013)**
4. **Date and time of the prices of financial instruments disclosed therein:
(Price on 04/12/2013)**

5. Updates:

We have currently not yet set a fixed date to provide a precise update of this analysis. Vara Research GmbH reserves the right to update the analysis unannounced.

III. Disclosures on possible conflicts-of-interest:

An agreement exists between Vara Research GmbH and ICF Kursmakler AG on the preparation of this publication. Vara Research GmbH receives consideration to that extent.

The success of Vara Research GmbH is based on direct and/or indirect payments from issuers and institutional investors in connection with business activities, which affect the issuer and his securities.

Vara Research GmbH (and affiliated companies), the authors as well as other persons and companies who participated in the preparation of the financial analysis

- **Do not hold any material investments in the issuer.**
- **Serve neither the issuer (by placing buy or sell orders in a market) nor financial instruments that are the subject of this financial analysis,**
- **Were (within the last 12 months) not a participant in the management of a consortium for the issuance of financial instruments, which themselves or their issuer is the subject of this financial analysis,**
- **Were neither bound to an agreement on services in connection with investment bank business towards the issuer, nor have they received consideration or promise of consideration from such agreements,**
- **Have no other material financial interests in connection with the issuer or the subject of the financial analysis.**

B. General disclosures/liability arrangement:

1. This document was prepared by Vara Research GmbH exclusively for information purposes.
2. This document is exclusively for publication on the homepage of the relevant company and intended for use by national institutional investors. Copying, forwarding and distribution is only allowed with written permission of Vara Research GmbH.
3. This document is neither a recommendation nor an offer nor application of an offer for the purchase, sale or subscription of any security or investment. It is by no means meant to provide investment advice.
4. This document, prepared by Vara Research GmbH, is based on information from sources (publicly available information and tax rates at the time of publication, which can, however, change), which, according to Vara Research GmbH, are dependable, yet not actually available for independent verification. Despite diligent verification, Vara Research GmbH cannot provide a guarantee, assurance or warranty for completeness and correctness; responsibility and liability is therefore excluded insofar as there is no intent or gross negligence on the part of Vara Research GmbH. All statements and opinions are exclusively those of Vara Research GmbH and can be changed without prior notice. Any error-caused misstatements of the document can be corrected by Vara Research GmbH, without Vara Research GmbH being held responsible for damages as a result of these misstatements.