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research
getinsight

Date	**25.04.2014**

Buy	(formerly: Buy)
TP: € 52.68	(formerly: €42.20)

Changes

	2014E		2015E	
	New	Delta	New	Delta
Sales	49.6	-2%	56.4	n.a.
EBIT	6.7	-16%	8.7	n.a.
EPS	2.65	-21%	3.50	n.a.
EPS*	2.65	-21%	3.50	n.a.
DPS	0.52	-21%	0.68	n.a.

* clean

Homepage:	www.gksoftware.de
Sector:	IT/Software

ISIN	DE0007571424
Bloomberg	GKS:GR
Reuters	GKSG
Price (23.04.14):	€ 42.35
Market capitalisation	€ 80 million
EV	€ 74 million
Ø-Volume (100 days)	€ 108,381
52W high	€ 52.00
52W low	€ 23.50

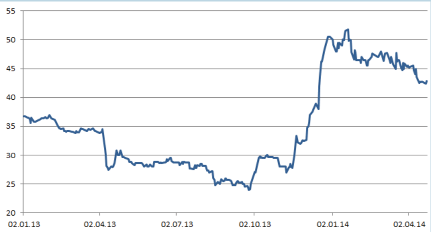
Financial calendar

29.04.2014	FY 2013

Shareholder structure

GK Software Holding	49.8%
SAP AG	5.3%
R. Gläß	3.3%
S. Kronmüller	2.3%

Price trends



Source: getinsight Research GmbH

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GK SOFTWARE AG

Implementation of omni-channel provides favourable environment

Due to a strong year-end sales (Migros Project) GK Software was able to increase its sales by 49% to € 42.5 million in 2013. Furthermore, the first North American project was announced at the beginning of the year 2014. At present, the business environment for GK seems to continue to be favourable: SAP has deepened its ties with GK and the intended omni-channel strategies of the retail market should increasingly lead to projects. More than half of the retailers are planning to implement multi-channeling in the medium term. The first projects of individual traders are increasing the pressure on the competitors to follow suit. In the emerging scenario GK should succeed in achieving double-digit organic growth and a return to margin levels between 15% and 20%. Based on our (rather conservative) estimates the share of GK with a 2014e EV/Sales of 1.5 is reasonably priced at present.

Investment Highlights

- GK nevertheless succeeded in concluding a large omni-channel project at the end of the year. The assignment by Migros - the largest Swiss retail group (annual sales of approximately CHF 24.5 billion) could thereby be the long-awaited breakthrough that accelerate the decisions regarding the future strategic course of large retail chains.
- Considering the typical sales cycle, further project conclusions in the USA should be imminent: The expansion of the SAP reseller agreements in North America, took place in May 2013, important implementation partners are trained for GK solution, SAP's retail solution was discontinued and GK/Retail is now the official migration path. The capital increase subscribed by SAP is to be utilised for further internationalisation and for the expansion of North American business.
- GK continues to be undervalued as compared to its (mainly american) peers despite the news-driven share price increases in the recent months. The high multiples of the peers are due to the growth and margin potential expected by the investors. However, in our view, due to its own range of products, SAP cooperation and the expansion in North America, GK has the best prerequisites to participate in the omni-channel investments of the retail market – is yet valued significantly lower as its peers. The fundamental analysis implies (slightly) undervaluation.

Key figures*

	Sales	Net result	adj. EPS	adj. P/E	EV/ Sales	EV/ EBIT	EBIT Margin	ROE (%)
2011	31.8	4.6	2.55	16.8	2.1	10.2	21.0%	17.4%
2012	28.4	0.7	0.38	100.8	2.4	86.6	2.8%	2.4%
2013e	42.5	0.7	0.40	44.7	1.2	31.0	3.0%	3.3%
2014e	49.6	5.0	2.65	16.0	1.5	11.1	13.5%	15.1%
2015e	56.4	6.6	3.50	12.1	1.3	8.5	15.5%	16.5%

Source: GK Software / getinsight Research GmbH
* Provisional figures for 2013 announced for sales, EBIT and EPS

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Company profile

GK SOFTWARE AG is a provider of high quality, modular standard software which is customised to meet the requirements of the retail. In the wake of the emerging omni-channel approach among the retailers, efficient infrastructure solutions are increasingly shifting in to the focus. GK which originates from the POS solutions sector is well positioned in this field and is a technology leader in the real-time delivery of extensive (retail market) records. The partnership with SAP that was concluded in 2009 and was expanded successfully is a key milestone in the strengthening of marketing and internationalisation. However, GK continues to focus on its direct sales.

Company information

Founded	**1990**
IPO	**2008**
Market segment	**Prime Standard**
Market index	**GEX**
Financial year	**1.1.- 31.12**
Financial reporting	**quarterly**
Share buybacks	**no**
Shareholder structure	**GK Software Holding GmbH 49.6% SAP AG 5.3% R. Gläß 3.3% S. Kronmüller 2.3% free float 39.5%**
IR Contacts	**Dr. René Schiller**
Management board	**Rainer Gläß, André Hergert**
Contract period CEO	**till 2016**
Supervisory board	**Uwe Ludwig, Th. Bleier, Herbert Zinn**

Profit and Loss Statement*

in €m.	2011	2012	2013e	2014e	2015e
Sales revenues	31.8	28.4	42.5	49.6	56.4
Gross Profit	33.4	30.0	43.3	52.8	60.1
EBITDA	8.6	2.9	3.6	9.5	11.9
EBIT	6.7	0.8	1.3	6.7	8.7
Pre tax result	6.6	0.8	1.3	6.7	8.9
Net result	4.6	0.7	0.7	5.0	6.6
Adjusted net result	4.6	0.7	0.7	5.0	6.6
EPS (in €)	2.55	0.38	0.40	2.65	3.50
Adjusted EPS (in €)	2.55	0.38	0.40	2.65	3.50
DPS	0.50	0.10	0.13	0.52	0.68

Source: GK SOFTWARE AG / getinsight Research GmbH
* Provisional figures for 2013 announced for sales, EBIT and EPS

Balance sheet

	2011	2012	2013e	2014e	2015e
Intangible assets	9.5	10.9	9.6	8.3	7.0
Trade receivables	11.9	12.6	18.9	22.0	25.1
Cash and securities	13.9	10.3	6.6	13.7	18.4
Total assets	43.5	44.1	45.3	54.0	59.9
Equity	28.2	28.2	29.0	37.3	43.0
Provisions	1.1	4.3	4.4	4.4	4.5
Interest bearing liabilities	5.2	3.5	3.5	3.5	3.5
Non interest bearing liabilities	6.2	6.6	7.1	7.3	7.5
Total equity and liabilities	43.5	44.1	45.3	54.0	59.9

Source: GK SOFTWARE AG / getinsight Research GmbH

Key ratios

(in %)	2011	2012	2013e	2014e	2015e
EV/Sales	2.1	2.4	1.2	1.5	1.3
EV/EBITDA	7.9	23.8	12.6	7.9	6.3
EV/EBIT	10.2	86.6	31.0	11.1	8.5
P/E clean	16.8	100.8	44.7	16.0	12.1
PCPS (excl. WC)	11.4	15.6	15.0	10.2	8.1
Price to book	2.7	2.4	1.7	2.1	1.9
Dividend yield (in %)	1.2	0.3	0.3	1.2	1.6
EBITDA margin (in %)	27.1	10.1	8.6	19.1	21.1
EBIT margin (in %)	21.0	2.8	3.0	13.5	15.5
Pre tax margin (in %)	20.7	2.9	3.0	13.6	15.8
Net margin (in %)	14.4	2.4	2.2	10.1	11.7
ROE (in %)	17.4	2.4	3.3	15.1	16.5
Sales/employees (in € `000)	78.4	59.6	73.2	77.7	81.9
Net result/employees (in € `000)	11.3	1.4	1.6	7.8	9.6
Equity ratio (in %)	64.9	64.0	63.9	69.1	71.7

Source: GK SOFTWARE AG / getinsight Research GmbH

Investment Case

Omni-channel investments will increase significantly in the medium term

The implementation of omni channel strategy is a strategic IT issue for over half of all the European retail companies in the medium term. First major retailers such as Migros have already launched relevant projects. The choice of GK Software as a technology partner underlines that GK is deployed in major SAP-projects that are very demanding, as the technological strength of GK (exchange of data, integration of peripheral devices) can be most effectively utilised then. The initial comprehensive omni channel projects are valuable references as other retailers will find themselves will find themselves forced to invest in their own omni channel solutions.

The recent capital increase which was fully subscribed by SAP can be seen as a clear signal for the upcoming US business

North America is the most important retail market with numerous large retail chains and many specialised technology service providers. It is therefore expected that this market plays a technological pioneering role. By subscribing to the recent capital increase of GK, SAP has provided funds for capacity building of GK in North America. With a right of pre-emption on subscriber shares (valid till end of 2020) SAP secures the partnership with GK against possible entry of a competitor. In our view, both the facts demonstrate the importance GK has for the retail strategy of SAP in the important North American market and internationally.

GK official migration path for SAP-Triversity – first North American project announced

GK solution is also the official migration path of the discontinued SAP Triversity solution which is currently used by 260 retail customers. However, it should be restrictively noted that many of these Triversity customer (still) do not use SAP-ERP-system (SAP acquired Triversity only in mid 2005) and the solutions are partially still quite young. Therefore, we expect only good dozen or so North American projects in the next three years. GK Software announced its first joint customer from Canada: Bentley Leathers Inc. (Quebec) which operates over 400 specialty stores for travel accessories in North America. Besides SAP Point-of-Sale by GK, Bentley also implements mobile POS solution based on iOS. Bentley did not use SAP Triversity before. It is therefore a genuinely new customer.

Every project strengthens the standard solution

As part of every major project, typically, there are modifications requested by the customer. These tempered change requests ensure that the GK retail solution "learns". Large-scale projects thus provide a unique opportunity to establish or rather maintain a (funded) technological lead.

Equipped for omni-channel investment of retail business; evaluation continues to be favourable as compared to its peers

GK has „breathing" capacities through implementation partnerships (HP, RedIron) that enables better scaling in volatile project business in the medium term. This positive margin effect will be impaired by a change in sales mix (AWEK) and also by the first US projects in the short term where GK still has to deploy many of its own employees. Therefore, with regards to EBIT margin (2015e: 15.5%) we remain below the historical margin levels. After the operating business of GK gained momentum in H2 2013, we assume that the retail market will increasingly implement omni-channel projects. We therefore view the 2014e sales at around € 50 million (+15.4% compared to 2013e); we expect a nearly 14% growth for 2015. Due to the "breathing" capacities that were built–up, GK could manage even stronger growth. Although GK is growing faster than most peers, GK, with a 2014e EV/Sales of 1.5 is clearly undervalued as compared to them (peer average: 2.7) – even taking into account a size discount.

Evaluation

Finances

2013 sales growth at above 49%...

In the fiscal year 2013 GK Software was able to increase its sales to € 42.46 million (+49%). In addition to the acquisition of the AWEK group this was also attributable to the strong year-end business – after the first half of the year was still strongly characterised by reluctance on the part of customers towards new projects.

...strong year-end business 2013...

This scenario changed in Q4 2013. Through a project at the Swiss retail group Migros GK succeeded in concluding a very large project. GK achieved sales of €13.8 million in Q4 alone. The signal effect of Migros project that was announced in mid December 2013 could cause the unravelling of investment backlog: Many retailers are faced with an important choice, namely to define an own omni-channel strategy and its (IT-technical) implementation. USA, the worldwide largest retail market could play a pioneering role here, which is why a presence in this market is of great importance.

... and the very first project in North America

GK SOFTWARE announced its first Canadian customer in the beginning of January 2014: Bentley Leathers Inc which is based in Quebec and operates over 400 specialty stores for travel accessories in North America. Besides SAP Point-of-Sale by GK, Bentley also implements mobile POS solution based on iOS.

Acquisition-related changes in sales mix

In 2012 and in the first half of the fiscal year 2013, the licence business underwent a weak phase due to reluctance of the market in the light of the necessary strategic direction (omni-channel). Migros project, which is technically very challenging, could thus function as an "ice breaker". For 2014 and 2015 we expect a significant increase in licence volumes. However, the licence share is not likely to reach the levels of 2010 and 2011 (license share 29.9% and 26.1% respectively) as GK increased its sales from services through the acquisition of AWEK. Despite some margin dilutions, the AWEK acquisition seems very reasonable as this reduces the dependence on new projects. In addition, sales per customer and added value are to be expanded.

Regional project mix affects the amount of license revenue share

GK SOFTWARE implements its own solutions with its own employees for projects in the DACH region (Germany, Austria, and Switzerland). This increases the share of services in sales. For non-European projects too, GK will initially assume major part of the IT services with its own employees (which will affect margins in the short term), however, in the medium term it is planned that GK will provide support to its implementation partners in the projects and take over only key tasks. Non-European projects would thereby have lower sales contribution through services but would be of higher margin due to stronger involvement of partners (such as HP, RedIron). The services provided by the partners are not reported in the income statement of the GK and accordingly does not appear as material costs or other similar costs.

Personnel costs are the most important cost item

With around 60% share of sales (2013e), personnel costs are by far the largest cost item in the income statement of GK SOFTWARE. Since the majority of personnel are involved in the further development of GK/Retail solution, this cost item scales well with increasing sales.

High proportion of its employees in R&D; the location provides considerable cost advantage

The R&D costs of GK of around 10% in relation to sales are already above average compared to its peers. Moreover, in this respect there is also the fact that remains unconsidered that GK in our view has a competitive advantage afforded by its R&D location (Pilsen/Czech Republic) location and the company at comparable personnel costs in R&D would have the highest R&D ratio within its peer group.

GK-core business: return to its historical margin levels

After a low-margin year 2012, GK is currently on its way towards its historical margin levels (18%-23%) in its core business (without the acquired AWEK) – we expect the lower end of this range to be achieved in 2015. Due to a strong final quarter (Q4 2013 Sales: € 13.8 million, EBIT: € 2 million) the company could achieve a positive annual result – even though GK invested strongly again in its standard solution in Q4 in order to make it accessible to the third party/partner from the programme architecture. The SAP cooperation and the associated sales success in USA likely tends to increase the margin levels (high software share), however, the margins will be negatively impacted in the beginning due to increased use of own employees (from Europe) in the North American projects.

AWEK: stable service business with margins of about 10%

AWEK that was acquired in 2012 has a stable IT-services business. After its incorporation in the GK group and the completion of restructuring measures the company should contribute an operating margin of around 10%. AWEK's sales share is likely to be about 25% in the coming years and it will grow slowly as compared to the traditional GK business with higher stability.

Balance Sheet

Capital increase to accelerate expansion...

Due to the capital increase of 100,000 shares, which were fully subscribed by SAP (at € 37.82 per share), the company should have received funds of approx. € 3.6 million net (we have recorded the cash inflow as of 1.1.2014). The equity ratio increased to around 69% due to dividend-bearing shares as of 1.1.2014. However, we view the motivation for capital expansion in the strengthening of expansion in the important North American market.

.. sound balance sheet ratios allows acquisition in the USA

In order to expand in the USA a small corporate acquisition could prove beneficial. The cash balance that increased considerably after the capital increase provides scope for this. Should no target companies be found at realistic prices, then a purely organic organisational development would also be possible. The nucleus in the USA (5-6 persons) will be organically built anyway. The aim is to have around 30 employees in the USA by the end of the year.

Valuable accounts receivable – low liabilities

The key balance sheet items at GK are the trade accounts receivables (in an amount of € 9.7 million as of 30.09.2013) which continue to build-up typically in a strong year-end business. Due to the customer structure (large retail groups) and no considerable bad debts in the group's corporate history, we classify the trade accounts receivables as recoverable. Interest-bearing liabilities amounted to approximately just over € 3 million.

Free-Cash-Flow-Evaluation

FCF: fair value for GK: € 51.73

We have derived the fair value for GK SOFTWARE from a free cash flow model and from a peer group valuation. According to the free cash flow method the target price is € 51.73.

Assumptions: Beta 1,5; WACC at 9,8%; target capital structure 60:40

We have assumed a beta of 1.5 for the free cash flow valuation. The beta estimates are based on ex-ante approach. Low liquidity of the share is the reason for beta. Besides, in our evaluation which is based on the free cash flow method we have assumed a risk premium and a debt interest rate of 5% respectively and taking into account the strong financial position, we anticipate the relevant spread for GK SOFTWARE at 1%. We have assumed a target capital structure of 60% (equity) to 40% (debt) as this corresponds to the current capital structure and equity ratio of most peer companies. With these figures we obtain a WACC of 9.78%. Even though 2013 has not been conclusively reported yet we have used it as a base year for the evaluation of 2014.

Table 01: Free-Cash-Flow Evaluation

(in € m)	2014e	2015e	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e
Sales	49.6	56.4	62.1	68.3	75.1	80.7	86.8	91.1	95.7	100.4	105.5
EBITDA	9.5	11.9	14.0	15.4	17.7	19.0	20.0	20.6	19.7	20.7	21.7
EBITDA margin (in %)	19.1	21.1	22.6	22.6	23.6	23.6	23.1	22.6	20.6	20.6	20.6
EBIT	6.7	8.7	10.5	11.6	13.5	14.5	15.2	15.5	14.3	15.1	15.8
EBIT margin (in %)	13.5	15.5	17.0	17.0	18.0	18.0	17.5	17.0	15.0	15.0	15.0
Taxes	2.0	2.6	3.2	3.5	4.1	4.4	4.6	4.6	4.3	4.5	4.7
+ Depreciation	2.8	3.2	3.5	3.8	4.2	4.5	4.9	5.1	5.3	5.6	5.9
- Investments	1.2	1.4	1.8	2.4	3.4	4.3	4.7	5.0	5.2	5.5	5.7
- Changes in WC	1.8	1.7	1.4	1.6	1.7	1.4	1.5	1.1	1.1	1.2	1.3
Operating Cash Flow	4.5	6.2	7.7	8.0	8.6	9.0	9.2	9.9	9.0	9.5	10.0
Discount factor	0.9	0.8	0.8	0.7	0.6	0.6	0.5	0.5	0.4	0.4	0.4
Value of operating CF	4.1	5.1	5.8	5.5	5.4	5.1	4.8	4.7	3.9	3.7	3.6
Cumulative operating CF	51.8										
PV of the residual value	44.6										
Company Value	96.4										
- Net debt	-1.4										
- Minorities	0.0										
Equity value	97.8										
Fair Value per share in €	51.73										
WACC (in %)	9.78										
Long term growth rate	1.0%										

Source: Getinsight Research GmbH

Sales assumptions

To determine the free cash flow we have defined several phases – we expect a sales increase of over 15% in 2014 driven by the major project of Migros and by substantiating international order pipeline. In the years 2015-2018, we anticipate an average growth rate in almost double-digit range – which should be conservative considering the technological breakthrough in the retail sector and the product-side developments of GK. From 2019 onwards we will decrease the growth rate further – to determine the terminal value (base year 2024) we are calculating with a rate of one percent.

Margin assumptions

In the short period of time we have considered that with regard to the operating margins, GK is currently making (has made) product-side investments and is expanding in USA. However, as the investment backlog from customers side is also resolving, we expect the 2014e EBIT margin (13.5%) to be significantly above the 2013e margin (3.8%). Currently, as the foreign projects are still mainly covered by its employees (majority of it will be taken over by the partners in the long term), in our opinion it is still not yielding the usual margins. With regard to the medium term EBIT margin (17%-18%) in the year 2016-2019 we have consciously remained below the historical margins which were between 21% and 23.2% in the years from 2006 to 2011 (except in the year 2008). The lower margin expectations are primarily owed to a certain degree of caution and less to the margin dilutions from AWEK who counters the internationalisation of licence sales. Also, the "constant" margin of 15% (which flows into the terminal value) is rather conservative for a software company

Sensitivity analysis

To demonstrate the sensitivity of our valuation, we have made variations to constant growth rate and the weighted average cost of capital for the company. In our valuation we have assumed a WACC of 9.78% for GK and obtain a fair value of € 51.73 per share.

Table 02: Sensitivity analysis

Constant	Weighted average cost of capital (WACC)							
growth rate	8.3%	8.8%	9.3%	9.8%	10.3%	10.8%	11.3%	11.8%
0.25%	74.80	64.28	56.23	49.87	44.73	40.49	36.94	74.80
0.50%	76.47	65.42	57.03	50.46	45.17	40.83	37.19	76.47
0.75%	78.27	66.63	57.89	51.08	45.63	41.17	37.46	78.27
1.00%	80.23	67.94	58.80	51.73	46.11	41.54	37.74	80.23
1.25%	82.37	69.35	59.77	52.43	46.62	41.92	38.03	82.37
1.50%	84.72	70.87	60.80	53.16	47.16	42.32	38.34	84.72
1.75%	87.29	72.51	61.91	53.94	47.72	42.74	38.66	87.29

Source: Getinsight Research GmbH

Peer group characterised by omni-channel

Software peers with the highest multiples ..

..traditional hardware providers increasingly relying on software

Peer Comparison

The peer group for GK SOFTWARE is composed of companies whose growth is closely related to omni-channel. It mostly comprises of (american) software/IT companies but even hardware providers that are specialised in the retail sector are included in the peer, provided they benefit from the forthcoming technological upheaval.

The Software companies within the peer group demonstrate highest multiples as expected.

MICROS Systems Inc. is a provider of company applications for the retail market (sales share 2013: 38%), restaurants (25%) and hotels (37%). In the retail segment, MICROS solutions address the topics "Store", "direct sale" and cross-channel - new topics such as mobile are also covered. The references provide include, inter alia, Geox, Chico's, Abercrombie & Fitch, Gucci America, IKEA and Hugo Boss. The share of pure license sales in consolidated net sales in 2013 amounted to 11% "only", services (68%) constitutes to majority of the sales mix, the hardware share is about 21%.

Manhattan Associates Inc. provides its customers with solutions for supply chain management/logistics and thereby it focuses on web-based applications since 2005. The license share in consolidated net sales in 2012 amounted to approx. 16%, the focus of sales were (IT) services which accounted for 76% of sales. According to the company, more than half of the top 20 retailers are among its customers, and the company lists inter alia Tesco and adidas as its reference customers. Although the company does not mention a specific proportion of sales from retail customers, however, we consider this proportion as high - after all, the "omni-channel revolution" is the top priority on the corporate agenda.

Demandware Inc., is a company that is currently valued by the market at 11 times the 2014e sales and it is comparable to Hybris which was acquired by SAP in 2013. Demandware offers its software solutions exclusively on-demand/SaaS and pursues the omni-channel approach coming form the e-commerce world. The dynamically growing company had 151 customers from the e-commerc /retail sector by the end of 2012. Well-known references include adidas , Puma, L' Oreal (USA) and s.Oliver .

QLIK Technologies is active in the area of Big Data / BI solutions, Omni- channel performance, campaigns and store performance, as well as efficiency of supply chains are key issues for the QlikView customers from the retail/wholesale sector. With increasing data depth and real-time availability, the possibility for efficient data analysis grows. QlikView is active in 100 countries, in addition to projects with local retailers, there are also (thematically limited) reference projects with Edeka, Spar and Carrefour.

Wincor Nixdorf Wincor Nixdorf and the American company **NCR** are similar to each other: both have their roots in the hardware business and are increasingly trying to expand their software share. Both the companies are focusing hereby on the acquisitions of smaller software companies. Both companies also unite the fact that retail is not the only operating segment.

34.5% of consolidated net sales of Wincor were attributed to the “retail” sector (the rest came from banking sector) in the last financial year (12 /13). References of the last financial year are, inter alia, IKEA and Aldi Nord. Software/Services sales (Wincor does not elaborate the sales split) contributed to 48% of the sales mix. Wincor strengthened its software segment with the acquisition of DATEC in the beginning of the year 2014.

NCR, that generates around 29% of its sales in retail, is aiming to increase its Software-/SaaS share to 16% to 17% by 2016 (2012: 10%). NCR references in the retail segment are, inter alia, Barnes & Noble, Carrefour, Tesco and Shell. The retail segment of the NCR experienced an (inorganic) surge in growth (guidance 24% to 26 %), thus gaining significant importance with respect to other segments (financial services, hospitality, emerging industries).

Another potential winner of the Omni-channel approach

Zebra Technologies, founded in 1969 sees itself as a world leader in RFID and Barcode Printer. The company provides, inter alia, POS solutions (RFID solutions), and could benefit from topics such as self-checkout. The R&D ratio (as well as the margins) of the company is unusually high particularly for a company which has strong emphasis on hardware (including accessories business) - indicating a high level of innovation. Although the company’s sales amount to almost $ 1 billion and it is operating in 100 countries, 40% of sales in 2012 were attributable to the top 3 customers.

Table 03: Positioning of Peer Companies

Company	Mcap in € m	Sales 2012	Share of Retail sales (letzter GB)	Software sales vs. Group sales	Service sales vs. Group sales	Hardware sales vs. Group sales	R&D to Sales (prev. FY)
Micros Systems	3008.5	1107.5	38%	11%	68%	21%	6.6%
Manhattan Associates	1907.9	376.3	n.a.	16%	75%	8%	11.9%
Demandware	1186.5	79.5	100%	85%	15%	0%	19.0%
QLIK	1551.8	388.5	n.a.	61%	39%	0%	10.3%
Wincor Nixdorf	1604.6	2343.0	38%	48%		52%	4.2%
NCR	4106.9	5730.0	29%	10%	44%	46%	3.8%
Zebra Technologies	2540.9	996.2	n.a.	5%		95%	8.8%
Mean Value	2458.2	741.9	51.3%	n.m.	n.m.	32%	9.2%
GK Software	75.8	28.4	100%	13.5%	81.9%	5%	10.0%

Source: Factset, getinsight Research GmbH

Table 03 facilitates the classification of peer companies who would altogether benefit from the rising omni-channel investments, however, in different areas within the retail IT: The "hardware-focused" peers (especially Wincor and NCR) are characterised by below-average R&D ratio. Interestingly, the R&D ratio of Zebra is nearly average despite the dominant hardware business - this could be (in addition to multiples) a strong indication that even selected hardware providers can benefit massively from omni-channel investments of the market massive and can position themselves with new developments.

Location advantage defines the R&D ratio of GK

In case of Demandware, QLIK and Manhattan Associates the proportion of sales (2012) and market capitalization (current) very well displays how much imagination the market allows these business models, while R&D ratio of up to 19% of sales emphasises the company’s determination to be a technology leader. The R&D ratio of GK Software (10% in 2012) is influenced by cost advantage afforded by its location, and in our opinion this ratio would be significantly higher at a comparable cost structure to its software peers. About 350 of the approximately 570 employees (as of 30.09.2013) were engaged in research and development. (A small weakness of the profile-comparison is that maintenance sales in cases of some companies are assigned to licences sales, however there are other companies, such as the GK, where it is not).

GK SOFTWARE: above average margins, above average growth – but the size of the company is smaller than that of its peers

In comparison to its peer GK obtains above-average margins and above-average growth (even if acquisitions are adjusted) in 2014e. However, the earnings growth of GK is of limited value as 2012 was a very weak base year and we expect that GK would succeed in returning to its historical margin levels. Interestingly, not just software companies exhibit above average margin levels but in addition to Manhattan Associates and Micros Systems also Zebra (the company which has the highest hardware share in sales mix). With regards to equity ratio, Wincor and NCR are an absolute exception in the peer with a ratio of below 30%; all other companies exhibit a ratio of around 60% and more.

Table 04: Margins, Capital Structure und Growth Rate

Company	EBITDA margin 2014e	EBIT margin 2014e	Net margin 2014e	Eq. ratio current	Eq. Ratio 2014e	Sales CAGR (2012-2015e)	EBITDA CAGR (2012-2015e)	EBIT CAGR (2012-2015e)	EPS CAGR (2012-2015e)
Micros Systems	23.2%	21.1%	15.3%	70.4%	18.0%	8.1%	7.3%	5.9%	8.0%
Manhattan Associates	28.6%	27.2%	17.1%	61.7%	47.3%	9.0%	14.9%	15.7%	16.3%
Demandware	2.2%	-1.7%	-2.0%	58.4%	-3.2%	32.8%	44.7%	n.m.	n.m.
QLIK	11.6%	9.8%	6.4%	61.2%	13.9%	18.5%	27.4%	27.7%	30.7%
Wincor Nixdorf	8.6%	6.2%	4.7%	27.2%	31.4%	4.5%	10.5%	21.0%	23.9%
NCR	15.4%	11.9%	7.7%	22.9%	33.5%	8.0%	23.1%	59.5%	13.6%
Zebra Technologies	20.7%	17.5%	14.2%	88.6%	17.8%	4.6%	5.8%	7.8%	9.2%
GK Software	**19.1%**	**13.5%**	**9.6%**	**64.1%**	**16.2%**	**25.7%**	**60.9%**	**123.4%**	**110.2%**
Mean Value	16.2%	13.2%	9.1%	56.8%	21.9%	13.9%	24.3%	37.3%	16.9%

Source: Factset, getinsight Research GmbH

We calculate the fair value from the peer comparison by taking the average of comparisons based on the years 2014 and 2015.

Size discount at GK

It is not surprising that the fastest growing companies also have by far the highest multiples. With regards to sales and market capitalisation, GK is significantly smaller than its benchmark companies and hence we have also undertaken a valuation discount of 20% on the fair value.

Table 05: Peer Valuation (Base year 2014)

Company	Mcap. In € m	P/E ratio 2014e	EV/Sales 2014e	EV/EBITDA 2014e	EV/EBIT 2014e
Micros Systems	3008.5	20.6	2.7	11.6	12.7
Manhattan Associates	1907.9	34.4	5.6	19.7	20.8
Demandware *	1186.5	-586.9	11.0	507.4	-661.8
QLIK *	1551.8	60.3	3.5	29.8	35.2
Wincor Nixdorf	1604.6	13.4	0.7	7.9	10.9
NCR	4106.9	10.7	1.2	7.7	10.0
Zebra Technologies	2540.9	23.1	3.2	15.5	18.3
Mean Value	2458.2	20.4	2.7	12.5	14.5
GK Software	75.8	16.0	1.5	7.9	11.1
		54.16	74.99	66.81	55.08
Size Discount					20%
Fair Value					50.21

Companies marked with "*" are **not** considered in the peer valuation
Source: Factset, getinsight Research GmbH

Table 06: Peer Valuation (Base year 2015)

Company	Mcap. In € m	P/E ratio 2015e	EV/Sales 2015e	EV/EBITDA 2015e	EV/EBIT 2015e
Micros Systems	3008.5	18.4	2.5	11.0	11.8
Manhattan Associates	1907.9	31.3	5.2	17.7	18.5
Demandware *	1186.5	586.9	8.2	152.2	461.3
QLIK *	1551.8	41.6	3.0	22.0	25.0
Wincor Nixdorf	1604.6	12.0	0.7	7.4	9.7
NCR	4106.9	9.3	1.1	6.7	8.7
Zebra Technologies	2540.9	20.5	3.0	14.3	16.7
Mean Value	2458.2	18.3	2.5	11.4	13.1
GK Software	75.8	12.1	1.3	6.3	8.5
		64.06	79.68	76.75	64.73
Size Discount					20%
Fair Value					57.04

Companies marked with "*" are **not** considered in the peer valuation
Source: Factset, getinsight Research GmbH

Peer-Valuation: Fair Value at € 53.63

The weighted peer valuation of the base years 2014e and 2015e yields a fair value of € 53.63 per share for GK.

Weighted target price at € 52.68

While the DCF method provides a fair value of € 51.73 per share, the fair value calculated in accordance with the peer group comparison is € 53.63. The target price, which we have determined by applying an equal weighting to both valuation methods, provides a fair value of € 52.68 per share.

SWOT Analysis

Strengths

- The partnership with SAP creates a significantly broader distribution network and facilitates the approach to large international customers.
- Competitive advantage through leading technology (data transfer, integration of periphery devices, innovations) and cost leadership in R&D (at the facility in Pilsen).
- Strong market position in Germany/DACH with numerous renowned references.
- Both the founders and the management board members that constitute together to 50% of the shares continue to be substantially involved in the business
- With Migros (Switzerland) and EDEKA (Germany), GK SOFTWARE acquired prestigious reference projects in the recent years which have prominence all over Europe.
- The company has a strong balance sheet (30.09.2013: Equity ratio of 66.2%, net liquidity € 11.4 million). This is also of importance during the tendering procedure (as the customers require a reliable partner for the long term).
- The product complexity and strategic positioning require high customer retention.
- In the relevant market segment GK SOFTWARE is one of the leading innovators.
- The company is currently positioned in such a way that break even can be achieved with regular business. Large projects come "on top" and they are strongly reflected in the results accordingly.
- As a Java based standard software, GK solution is independent of particular hardware, specific terminal devices in the stores or the operating systems in use.

Weaknesses

- The business is characterised by high-volume projects. Because of this the business performance can be depicted as very volatile.
- In relation to its competitors GK SOFTWARE is rather small.
- GK has already tapped the traditional market segments in Germany very well. The company does not yet have similar high-quality references abroad, but it has found a strong distribution partner in SAP.
- As compared to other manufacturers of standard software GK's sales per employee is still low. However, due to the development facility in Czech Republic the personnel cost per employee is lower than that in the benchmark companies.
- The market for POS systems is considered to be highly competitive - however, particularly in the current situation (Omni-channel approaches) GK is likely to score with its technological strengths (real-time data collection/transfer).
- In the commercially important and largest regional market North America GK currently has only one reference customer – however the extension of SAP cooperation to North America took place only in May 2013.
- Dilution of sales mix by the acquisition of AWEK.

Chances

- The distribution partnership with SAP provides GK SOFTWARE additional opportunities particularly in business with large and international retail chains. The partnership is not exclusive.
- SAP, Hybris which was acquired by SAP in 2013 and GK SOFTWARE share a common omni-channel vision that can fully meet the needs of retailers.
- The strategic transition in the retail market and the pressure on retailers to optimally reach the customers through multiple channels (omni-channel approach) forces the retail market to upgrade itself in terms of IT. In particular, providers with unique technological advantage shall benefit hereof.
- The company has a strong growth potential overseas. In this regard the SAP cooperation is an important support of the internationalisation strategy.
- Through implementation partnership with HP and RedIron GK prevents capacity bottlenecks.
- New sectors and major projects will help to expand the functionality and increase the value of standard solution also for the existing customers of the GK/Retail solution.
- As a provider of standard software, GK benefits from scaling effects. This effect can be further enhanced through implementation partnerships (for example with HP and RedIron)

Risks

- There are very few customers in the market in which GK operates, but these are very large. Because of this the new projects may not come continuously but may occur cumulative at certain times.
- Major retail chains have high market power and can hence exert pressure on prices. Currently, nothing of this sort is observed, and software in particular provides good opportunities for differentiation.
- Due to the increasing importance of internet as a distribution channel the retailers might be inclined to expand that part of the IT budget that was meant for this purpose at the expense of other areas.
- GK solution enables the web shop to integrate at the same level with the retail outlets (and thus represent the omni-channel approach) – alternatively it may be feasible that the retailers consider the web shop as a starting base (Then it may be possible that other software solutions make take centre stage).
- The distribution partnership with SAP is an important milestone for GK, however, the company must also further ensure that it does not develop any unilateral dependence on this important distribution partner.
- Through cloud approach there is a latent risk of cannibalising its own sales from services (on site at the customer's premises); and the situation is similar with the app-enabled POS which in parts is potentially resulting in the decrease of Change Requests. However, at this point GK cannot refuse to offer the cloud approach and in this respect the decision to continue along the path of technical development is right.

Company profile

Standard software solutions for the retail market

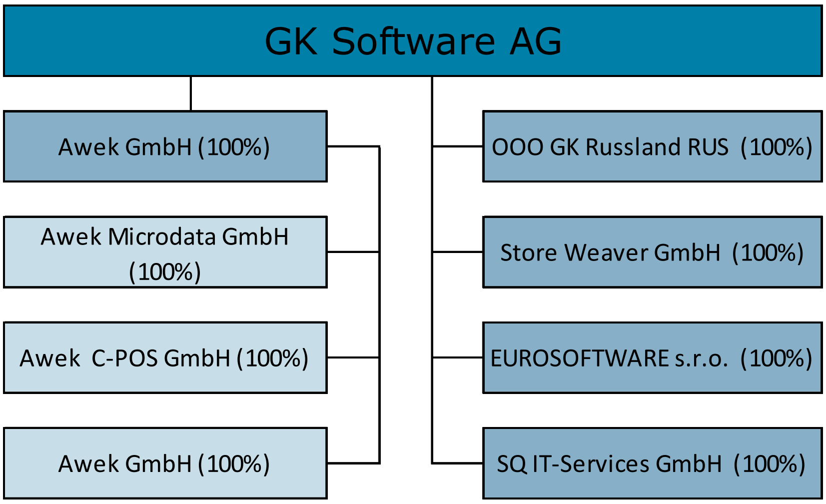
GK SOFTWARE AG, with its headquarters in Schoeneck (Vogtland) is a technologically leading provider of standard software for retail companies. The company has its domestic branches in Berlin, Cologne, St. Ingbert and Bielefeld. In addition it has four international branches in Pilsen/Czech Republic, Zurich/Switzerland, Moscow/Russia and in the USA. Of its approx. 570 employees worldwide, around 350 work in product development which underlines the high technological standards. The sales of the past fiscal year was € 42.5 million.

Acquisition of AWEK strengthened the service business

GK SOFTWARE is a company that strongly focuses on the further development and distribution of its own standard software GK Retail. With the acquisition of AWEK group in 2012, GK not only expanded its range of services to on-site service (previously only remote access was possible) but has also gained a solution which handles a segment in the retail market for which GK solution is tedious and complex.

Despite some complementary acquisitions in the past few years the group continues to have a clear structure. Minority interests do not exist.

Graphic 01: Organisation Chart



Source: GK SOFTWARE AG

Table 07: Company history

Time	Event
1990	Foundation of the company as G&K Datasysteme GmbH in Schoeneck (Saxony), by R. Gläß and S. Kronmüller.
1996/1997	Shifting the industry focus on retail and Java-based POS solutions; foundation of EUROSOFTWARE s.r.o. (Pilsen / Czech Republic)
1998	First productive project with a Java POS solution
2000	Certification of store solution GK/Retail for SAP
2001	Conversion of G&K Datasysteme GmbH into GK SOFTWARE AG
2002	Start of the first project with GK/Retail Workflow at Netto-Markendiscount
2003	Contribution of the Czech development subsidiary; first project with full SAP integration
2004	Start of first productive project with GK/Retail Mobile at Netto-Markendiscount
2007	First productive application of GK/Retail Enterprise Storeweavers at EDEKA Minden-Hannover
2008	IPO of the company; commencement of international marketing; foundation of the subsidiary StoreWeaver GmbH, Riehen (Switzerland)
2009	Acquisition of Solquest (Asset-Deal); agreement on a distribution partnership with SAP
2010	GK pays dividend for the first time since IPO; expansion of distribution partnership with SAP
2011	Fressnapf became the first customer that was gained through the SAP cooperation
2012	Acquisition of AWEK group
2013	Expansion of SAP-cooperation to North American cooperation (5/13); Migros project (12/13)
2014	With Bentley Leathers Inc. the very first customer from North America was announced in January

Source: GK SOFTWARE AG

Business model und (growth) strategy

Products and Services

Product world and technology leadership take centre stage

Key aspect of GK Software's business model is the distribution of its own (modular) software solutions (GK/Retail Business Suite and StoreWeaver). In this regard, the company has developed an innovation and technology leadership which inter alia lead to a distribution partnership with SAP and since then among other things through further development of processes that are tailored to the SAP world (for example: the development of world's fastest POS based on SAP HANA technology).

Over half of the employees are engaged in R&D

With approximately 10% as compared to its peers GK's R&D ratio appears to be just slightly above average at first glance. However, this impression is only because of cost advantage afforded by its location which GK realises through its large R&D unit in Czech Republic. 350 out of around 570 employees, which constitute to slightly above 60%, are engaged in R&D – this is a record figure in comparison to its competitors. The figure also specifies the path of GK Software: currently the company's software has a high market penetration particularly in Germany; therefore it is now essential to launch its technologically leading solution worldwide and thus benefit from scaling effects.

Strengths lie in software architecture…

GK Software uses a modular principle for its solutions which provides greatest possible flexibility to its customers. The parameters of standard solution also provide the possibility to reflect the specific business processes and features (e.g. bonus card system) for each customer. In addition, the software has a centralised architecture that allows the customer to define how centralised or decentralised its solution should be. It could also be envisaged to operate in a (hosted) Cloud which would inter alia lead to reduction in complexities in stores and thus entail lower support or on-site maintenance costs. GK solution can be implemented as an offline and online solution which means that work can be continued even if the data connection is interrupted.

…and open interfaces

As GK solution is independent of the used hardware and operating system and can, for example, integrate scales and reverse vending machines from different manufacturers, it provides effective cost containment of a complex IT environment to the customers. Besides the open interfaces GK solution also has a certified SAP interface and interfaces for the widely used ERP systems.

Numerous novelties at EuroSHOP underline innovative strength

At this year's EuroSHOP in Düsseldorf, Europe's largest retail trade ((16-20.02.2014) GK Software introduced numerous innovations. Among other things "GK-in-the-cloud". The cloud approach facilitates the retail market with efficiency gains and cost benefits and thereby ensures reliability in the form of uninterrupted operations through GK Smart Clients that works as a security mechanisms in case the system goes offline. In addition, the cloud technology is a prerequisite to operate POS based on SAP HANA. Another innovation at the trade fair was the „app-enabled POS" – this implies a new characteristic of POS software which is specially designed to integrate Apps in the POS system at reasonable expense. This enables the retail market to load the App directly in the POS system without any additional development and configuration costs and hence cover potential topics of the future such as dynamic prizing and awarding at a reasonable expense.

Strategic Positioning

Positioned alongside SAP – but open for non-SAP projects

The technological innovations point the way directly to strategic positioning. Thus, for the first time in Europe, a complete omni channel solution was presented at the EuroShop. This is set up by the seamless integration of GK store solution, SAP-Backend and SAP-Hybris-Webshop. The central component is GK-Retail-Bus which is used for data exchange. From a customer perspective this should be an advantage to get a package of solutions whose smooth interaction is guaranteed – however the customer is not committed and can replace individual parts of the package (for example the Webshop) with competing solutions if necessary.

Product enhancements strengthen the ties with SAP

Some of the product enhancements and new product developments of GK are closely aligned to the strategic line of approach of SAP and thus strengthen the ties between the two companies. Examples include the first SAP HANA-enabled POS and the adjustment of GK's own solutions to SAP ERP and to the offers of the new SAP subsidiary Hybris.

Sales strategy

SAP, the key to scaling

A key element in the internationalisation of sales is the partnership with SAP. This enables GK Software to achieve a significantly greater range than it would have achieved through direct sales. Also, it is easier for the SAP-sales to establish access to large international customers.

North America is the most important foreign market

The USA is of particular importance to SAP in a number of respects: Most of the Top200 retailers are from the USA and the retail sector with its abundance of data provides SAP, like no other market, the possibility to distribute its own solutions/technologies that are grouped around the core ERP (BI-solutions, SAP HANA, Cloud approach). For this purpose, GK solutions provide a central link, i.e. the data exchange. Therefore, we expect North America to become the most important and strongest foreign market.

GK as an official migration path for SAP Triversity

GK was designated as the official migration path of the SAP retail solution. Although Triversity has more than 200 customers in North America, we only expect a dozen or so companies that would follow the migration path within the next three years. There are various reasons for this: Many of the solutions are still at the beginning of their life cycle and many old customers do not use SAP ERP (the acquisition of Triversity by SAP took place only in 2005). It should be noted for the valuation model that customers that follow the official migration path do not pay any initial licence fee. On the one hand this might be a competitive advantage (a change of provider is with high probability more expensive), however, it does not achieve the usual project margins. Bentley Leather did not come through migration path, it is a real SAP retail new customer.

Let no sales dependency occur

Despite the sales cooperation with SAP it is important for GK to always have its own direct sales. On the one hand this ensures early access to customers (SAP involves GK only when a certain interest already exists) and on the other hand the company's own distribution channel contributes to a better visibility and less dependence on the partner.

Management Board

Downsized management..

After the successful restructuring in November 2013, the management board of GK Software currently comprises of the founder and CEO Rainer Gläß as well as the long-standing member of the management board André Hergert. Within the board, Mr. Hergert is responsible for finance and human resources. Since the restructuring of the board, the management is supported by a group management board.

..and consulting Board

The newly introduced group management board consists of six members: both the members of the management board as well as Michael Jaszczyk (CTO), who is also the CEO of the developing US subsidiary. Other members include Achim Sieren (Divisional Director Consulting and Solutions), Harald Kehl (Senior Vice President „Global Services") and Stefan Krueger (Senior Vice President „Sales").

Shareholders

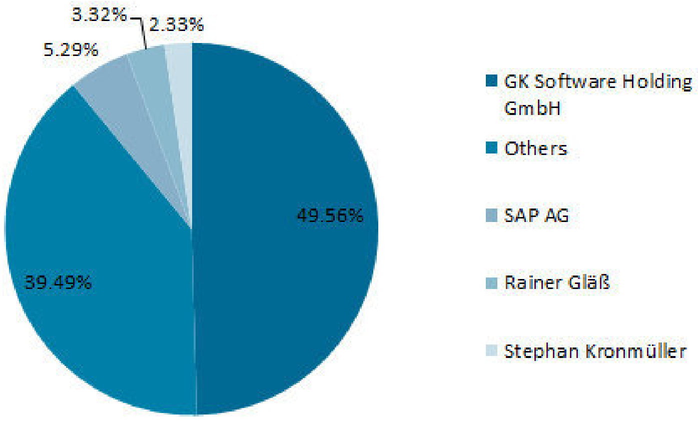
Founders continue to have a majority shareholding

Even after the capital increase on 1.1.2014, the founders of GK SOFTWARE continue to have a majority shareholding: the largest shareholder (with 49.56%) is GK Software Holding which belongs to both the founders equally. The CEO, Mr. Gläß directly holds 3.32% in the company and the co-founder Mr. Kronmüller holds 2.33%. In addition, with Deutschen Balaton and Scherzer, two institutional investor positions have been reported in GK SOFTWARE; even after the dilution they are expected to have a share of over 3% and are shown within the other shareholders in the following chart below.

SAP holds 5.29% and has pre-emption right till the end of 2020

Since the capital increase in January 2014 which was completely subscribed by SAP, GK's cooperation partner SAP has 5.29% voting rights. The notification of voting rights from 17.12.2013 in which 58.9% voting rights of SAP were announced can be attributed to the stricter German Securities Trading Act (§ 25a): Even the pre-emption right (non-option) which is contractually valid till 31.12.2020 is sufficient to trigger the obligation to report. After the capital increase the free float of GK SOFTWARE (as defined in the German Stock Exchange) is now 44.79%.

Graphic 02: Shareholder structure



Source: GK SOFTWARE AG

SAP entry no share price hedging, but a clear signal for the upcoming business in the USA

The entry of SAP through equity participation and the pre-emption right till the end of 2020 do not represent a direct share price hedging in our view, however it shows two things: 1) The cooperation with GK as part of a joint omni-channel strategy and the possibility to place its own products in the retail sector are of great importance to SAP. 2) The simple pre-emption right prevents possible disturbance to the SAP retail strategie, such as the entry of a SAP competitor at GK. The capital increase is meant to accelerate capacity development of GK in the most important retail market, the USA – a market which is of key importance to SAP. In our opinion, a complete acquisition of GK by SAP is unlikely as a call option on the part of SAP does not exist. We rather see the primary motivation of SAP to flank its own business development in the retail sector and to prevent the takeover of GK by third parties or rather create the possibility to forestall the same.

Market and Competition

The retail market invests approx. 1% of its sales in IT.

Depending on the segment the IT budget of the retail market lies historically between 0.3% and 1.8% of sales. The weighted average across all the segments nationally as well as internationally results in slightly over 1%. Even though these budgets are not fully allocated to external service providers, the external addressable volume in view of the sales figures of the retail market represents a billion dollar market.

2013: IT expenditure of the retail sector was € 130 billion; growth accelerates

As per the estimates of market analysts of PAC, IT-expenditure of the retail sector increased by 3% in 2013. Accordingly the IT-expenditure of business groups increase to € 131 billion worldwide in 2013; for 2014 an expansion of market volume by 3.7% to € 136 billion is expected. However, a majority thereof is accounted to hardware and outsourcing services respectively. Areas where GK is mainly active are “Project Services” and “Software” and they account to € 15 billion and € 13 billion respectively. The market which is actually addressable for GK is of course significantly smaller, but nevertheless provides enormous growth potential.

Innovation impetuses as budget driver

The service providers not only benefit from the growing retail sales (which determine the budgets) and increased outsourcing, but also in particular from innovation impetuses that require IT-investments and forks out the (relative) IT budgets. In our opinion, a topic of innovation of broader relevance exists currently with “omni-channel” which should cause a multi-annual increase of IT budgets in the retail market.

Concentrated customer structure, high annual budget fluctuations

From the point of view of IT service providers and software companies there is a concentrated customer structure in retail sector. The image is characterised by a few large (multinational) retail chains. Comprehensive project with larger chains occasionally cause large fluctuations of the addressable market volume. The following graphic demonstrates the changes in the IT budget in Germany in the past few years. The trend is likely to be very similar in other industrial nations.

Table 08: Annual changes in IT budgets (Germany)

	2009	2010	2011	2012
IT-budgets to share of retail sales	1,0%	1,3%	1,12%	1,14%
Percentage change of IT-Budgets (yoy)	n.a.	30%	-13,8%	1,8%

Source: EHI Retail Institute, own calculation

GK/Retail occupies a central niche with an interface character

The product range of GK Software includes special software solutions for retail chains as well as the associated IT services (support and maintenance). With its own software solution GK is positioned at a central interface within large IT projects of the retail market. The deep integration of data from the stores in the central ERP system are the basis for business intelligence reports, sales forecasts and efficiency enhancing (logistic) processes (e.g. supply of goods between the stores). The potentially addressable annual market volume for GK Software (software and services) is likely to be in the single digit billion euro range, it is however not clearly distinguishable, as with regards to on-site service (business segment acquired from AWEK) the retailers may have internal resources.

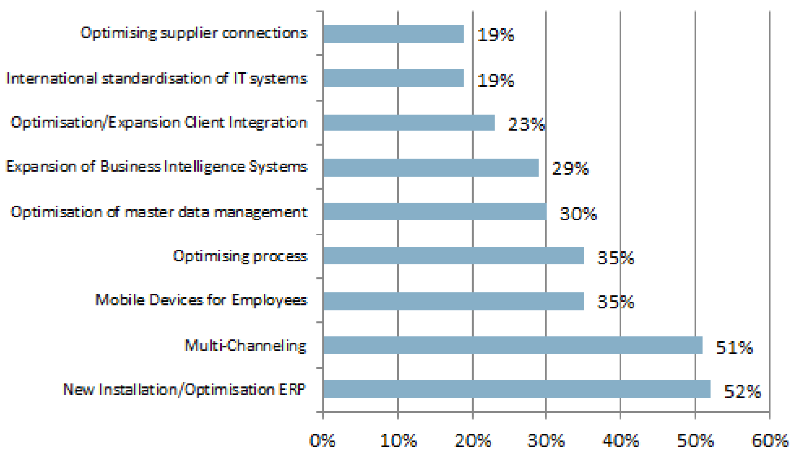
Omni-Channel strategy provides growth opportunities …

It is interesting for the investor that the market segment in which GK currently operates is faced with a new strategic course. This provides (specialized) IT companies in particular with excellent growth opportunities. Through comprehensive multi-channel or omni-channel approaches of the retailers the software and Saas approaches become even more crucial, but even the hardware business will benefit. Thus, 87% of retails for example, are planning to access ERP through mobile devices in the stores.

… GK covers the right topics…

A glance on the IT topics that are currently of high priority to the retailers underlines the right positioning of GK. Almost all of these topics are based on the retail infrastructure data and require a high degree of information depth and data availability in real time.

Graphic 03: Strategic IT projects upcoming in the medium term



Source: „Trends in Handel 2013" – EHI Retail Institute

..and has the right partner with SAP

When asked which strategic IT topics shall be of priority for retail groups in the medium term; more than half referred to ERP and Multi-Channel-Retailing: In this respect, GK is excellently positioned due to the partnership with SAP. Together the companies can offer ERP- and omni channel-solution from a single source. Also for the other top issues such as mobile device for employees (35%), development of business intelligence systems (29%) and optimised master data management (30%), the real-time capable GK/Retail solution provides the appropriate data infrastructure.

Digression: Multichannel-Integration

Omni-channel termed as highest level of multi-channel approaches

Multi-channel integration is a generic term which comprises of three levels of integration - out of these the omni-channel is the highest level of integration. Accordingly, the omni-channel projects have the highest requirements in terms of software and hardware – particularly with respect to data integration, availability and real-time capability.

Levels of integration

Multi-channel retailing as the lowest level of integration refers initially to customer contact only through multiple sales channels of the retailer (for example via online, mobile and retail stores). At this level of integration it is only ensured that the prices and promotions are coordinated across all platforms. The underlying systems, however, are operated completely separate. As an additional possibility the **cross-channel retailing** provides bridging functions between channels, for example it is possible to collect a product at the store that was purchased online (*In-Store Pick up*). Even with the cross-channel approach the channels are technically as well as organisationally still separate. The merger of sales channels (online, stationary, catalogue, mobile) in a shared shopping environment takes place only at the **Omni-channel retailing**, which provides customers with a consistent and if required a personalised shopping experience. Product and customer data are centralised and are continuously updated. The customer has access to the inventory ("What is in stock in our store"), regardless of which sales channel the customer chooses.

Omni-Channel retailing: Increases customer loyalty creates up-sell potential ...

It is obvious that the omni-channel approach places by far the most stringent requirements on the software solution in the background. The retailer should be capable to know what is the customer interested in (costumer-oriented offers), he must be able to state where and which products can be acquired ("Is the desired trouser still available in the shop around the corner or is it worthwhile to order online? How long would be the delivery time?") and the retailer can also use this information to increase its own sales through customer loyalty and up-selling (for example by recommending the matching belt to the trouser).

.. and can also improve the process efficiency (inventory control)

But also with regards to inventory and its allocation, the available data and uniform systems provide more efficiency (lower capital commitment, appropriate availability). The GK/Retail solution fulfils all the necessary omni-channel requirements such as the deep data integration and real-time availability. On the basis of this available data it is practical for the retailers to also evaluate this data using Business Intelligence (in order to see, when the recommendations function particularly well), this will enable other forms of software companies to benefit from the data infrastructure made by GK. Accordingly, there is a wide range of companies that benefit from the omni-channel investments and many of these companies offer software/services that complement GK.

Omni-channel creates prerequisites for other strategic topics

Omni-Channel requires a high data depth and real-time availability of data – in order to be able to clear the customer enquiries and availabilities alone. Especially business intelligence applications can be usefully placed on the data volume. It is possible to track how the customer contact was made, from where the customer got information about the product and through which channel the purchase was ultimately made. Based on such information the retail market can implement customer loyalty programmes that are tailored to specific customer behaviour, and also to see which customer is interested in which product (without making any purchase) and subsequently alert them to appropriate special offers.

Does the market prefer one-stop solutions?

Generally in omni-channel projects a number of companies are involved as the customer selects the relevant partner respectively from the market for special topics. Typically, with a certain amount of effort the interaction of solutions can be implemented well in practice – one-stop solution (as the partners have coordinated their solutions in advance with each other) would, however save considerable amount of implementation efforts. SAP, GK and SAP subsidiary Hybris are following this idea and have recently introduced a seamlessly coordinated omni-channel solution – this can at least be seen as a constructive suggestion to the retail market which convinces through cost and better integration. We are not aware of any similar coordinated system that the competitors may have; especially in the field of ERP, SAP is virtually indispensable (particularly in Europe). Another possible way to cover several topics (seamlessly) within larger projects is acquisitions.

Omni-channel approach triggers strong acquisition activities amongst major players.

The major players already reacted with strategic acquisitions in order to be ideally positioned for omni-channel investments of the market. This was evident inter alia through the acquisition of **Hybris** by **SAP** (6/2013), **SAP's** shareholding (with pre-emption rights) in **GK Software** (1/2014) as well as the acquisition of "**DATEC Retail Systems a.s.**" by **Wincor Nixdorf (1/2014)**.

Even the traditional hardware manufacturers are focussing on Software..

Therewith**, Wincor Nixdorf** follows its announced strategy of expanding its software business. Even the US group **NCR**, which has a similar set up as Wincor, generates sales mainly from special hardware for end-user retail and financial services. In a recent analyst conference in New York (11/2013), NCR stated that it intends to increase its software share (2013e: 12%) in the medium term to 16%-17% (in 2016). In the financial sector, NCR has already made good progress with the acquisition of specialised software manufacturer „Digital Insight" (purchase price € 1.65 billion). We view the strengthening of software competence by leading hardware companies as rather a defensive measure: Both the companies need to adapt better to the new conditions and customer requirements. This could be better represented on one hand by an offer from a single-source, then again software provides more possibility for differentiation. In addition, margin considerations are likely to play a significant role.

..but there is no threat to specialised software providers

As already mentioned, the tasks/topics of larger IT projects – particularly hardware and software - are typically tendered seperately. Although the traditional hardware manufacturers require proprietary software capability in order to avoid getting percieved as replaceable. In specific projects however, it will be hardly possible for the established hardware manufacturers to exclude specialised software providers – therefore we doubt that the acquisition of DATEC by Wincor would have any high leverage effect on DATEC. We do not believe that through acquisitions by traditional hardware manufacturers the smaller, local players in the software industry would pose any geniune threat to the established and technologically leading providers of software solutions for the retail market.

Omni-channel package a plus point

Even if the definite selection of technology partner ultimately depends on individual preferences and a SAP customer in the retail sector does not have to automatically use GK/Retail or Hybris, the seamlessly coordinated omni-channel solution is an enormous sales advantage: the interaction of solution components is proven (interfaces etc. do not need to be created), implementation time and cost will be saved and all omni-channel aspects can be covered by the four solutions without redundancies. Besides, no other software manufacturer provides a solution that is as closely coordinated with SAP ERP and SAP HANA as GK. We believe that from a functional point of view this is to be given higher importance than to a package of offer consisting of hardware and software.

Conclusion: GK is excellently positioned in terms of product and distribution to participate in the omni-channel investments

GK is positioned as one of the technology and innovation leader in the market. As a result of the partnership with SAP it should be easier for GK to communicate these strengths internationally– in addition, the market coverage increases enormously due to the partnership. However, GK does not leave the matter there and develops its own team in the most important retail market of the world, the USA (the team would already have about 30 employees at the year end 2014). The implementation partnership with HP and RedIron ensures that GK always has sufficient capacities in non-European projects in the medium term (without having to maintain them completely). In our opinion GK is excellently positioned in terms of product and stronger distribution network to participate in the omni-channel investments of the market - particularly when compared to the valuation levels of American players in this market, this opportunity is not sufficiently taken into account in the evaluation. We believe that large (omni-channel) projects such as Migros are an important signal to the market and other major retailers will follow soon. The "lighthouse character" of Migros reference will then benefit GK.

Profit and Loss Account*

in €m.	2011	2012	2013e	2014e	2015e	2016e
Sales revenues	**31.753**	**28.426**	**42.460**	**49.556**	**56.412**	**62.053**
Change in finished goods and work in progress	0.000	-0.127	-0.190	-0.222	-0.253	-0.278
Other own cost capitalized	1.489	0.748	0.422	0.493	0.561	0.617
Other operating income	0.729	1.658	3.720	4.342	4.942	5.437
Total performance	**33.971**	**30.704**	**46.412**	**54.168**	**61.662**	**67.828**
Cost of material	-0.611	-0.673	-3.157	-1.376	-1.567	-1.723
Gross profit	**33.360**	**30.031**	**43.255**	**52.792**	**60.096**	**66.105**
Personnel expenses	-18.601	-19.773	-26.457	-28.053	-30.881	-33.113
Other operating expenses/income	-6.158	-7.401	-13.155	-15.278	-17.317	-18.974
EBITDA	**8.601**	**2.858**	**3.643**	**9.461**	**11.897**	**14.018**
Depreciation/amortisation	-1.947	-2.073	-2.374	-2.770	-3.154	-3.469
EBIT	**6.654**	**0.785**	**1.269**	**6.690**	**8.744**	**10.549**
Financial result	-0.085	0.035	0.006	0.039	0.149	0.251
Non operating result before taxes	0.000	0.000	0.000	0.000	0.000	0.000
Pre tax result	**6.569**	**0.819**	**1.275**	**6.729**	**8.893**	**10.800**
Non operating result after taxes	0.000	0.000	-0.232	0.000	0.000	0.000
Taxes	-2.005	-0.144	-0.327	-1.724	-2.279	-2.767
Minority interest	0.000	0.000	0.000	0.000	0.000	0.000
Net result	**4.564**	**0.675**	**0.716**	**5.005**	**6.614**	**8.033**
Adjustments	0.000	0.000	0.000	0.000	0.000	0.000
Adjusted net result	4.564	0.675	0.716	5.005	6.614	8.033
Average number of shares	1.790	1.790	1.790	1.890	1.890	1.890
EPS	**2.55**	**0.38**	**0.40**	**2.65**	**3.50**	**4.25**
Adjusted EPS	2.55	0.38	0.40	2.65	3.50	4.25
DPS	0.50	0.10	0.13	0.52	0.68	0.83

Source: GK SOFTWARE AG / getinsight Research GmbH

in % of Sales	2011	2012	2013e	2014e	2015e	2016e
Sales revenues	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Total performance	107.0	108.0	109.3	109.3	109.3	109.3
Cost of material	-1.9	-2.4	-7.4	-2.8	-2.8	-2.8
Gross profit	**105.1**	**105.6**	**101.9**	**106.5**	**106.5**	**106.5**
Personnel expenses	-58.6	-69.6	-62.3	-56.6	-54.7	-53.4
Other operating expenses/income	-19.4	-26.0	-31.0	-30.8	-30.7	-30.6
EBITDA	**27.1**	**10.1**	**8.6**	**19.1**	**21.1**	**22.6**
Depreciation/amortisation	-6.1	-7.3	-5.6	-5.6	-5.6	-5.6
EBIT	**21.0**	**2.8**	**3.0**	**13.5**	**15.5**	**17.0**
Financial result	-0.3	0.1	0.0	0.1	0.3	0.4
Non operating result before taxes	-	-	-	-	-	-
Pre tax result	**20.7**	**2.9**	**3.0**	**13.6**	**15.8**	**17.4**
Non operating result after taxes	-	-	-0.5	-	-	-
Taxes	-6.3	-0.5	-0.8	-3.5	-4.0	-4.5
Minority interest	-	-	-	-	-	-
Net result	**14.4**	**2.4**	**1.7**	**10.1**	**11.7**	**12.9**
Adjustments	-	-	-	-	-	-
Adjusted net result	14.4	2.4	1.7	10.1	11.7	12.9

Source: GK SOFTWARE AG / getinsight Research GmbH

* Provisional figures for 2013 announced for sales, EBIT and EPS

Balance of Accounts

in €m.	2011	2012	2013e	2014e	2015e	2016e
Long term assets	**13.664**	**15.770**	**14.415**	**12.835**	**11.035**	**9.356**
Intangible assets	9.540	10.884	9.591	8.298	7.005	5.712
Tangible assets	4.124	4.884	4.823	4.535	4.029	3.642
Financial assets	0.000	0.002	0.002	0.002	0.002	0.002
Current assets	**29.084**	**26.462**	**29.084**	**39.333**	**47.062**	**55.745**
Inventories	0.000	1.019	1.522	1.776	2.021	2.224
Trade receivables	11.945	11.629	17.370	20.273	23.077	25.385
Receivables	3.279	3.550	3.550	3.550	3.550	3.550
Cash and securities	13.859	10.265	6.642	13.734	18.414	24.586
Other assets	**0.727**	**1.826**	**1.826**	**1.826**	**1.826**	**1.826**
Total assets	**43.475**	**44.058**	**45.325**	**53.994**	**59.924**	**66.927**
Equity	**28.231**	**28.187**	**28.956**	**37.328**	**42.965**	**49.706**
Reserves	28.231	28.187	28.956	37.328	42.965	49.706
Minorities	0.000	0.000	0.000	0.000	0.000	0.000
Provisions	**1.109**	**4.271**	**4.353**	**4.439**	**4.529**	**4.623**
Liabilities	**11.462**	**10.114**	**10.530**	**10.740**	**10.944**	**11.111**
Interest bearing liabilities	5.243	3.475	3.475	3.475	3.475	3.475
Trade payables	0.329	0.843	1.259	1.470	1.673	1.840
Non interest bearing liabilities	5.891	5.795	5.795	5.795	5.795	5.795
Other liabilities	**2.672**	**1.487**	**1.487**	**1.487**	**1.487**	**1.487**
Total equity and liabilities	**43.475**	**44.058**	**45.325**	**53.994**	**59.924**	**66.927**

Source: GK SOFTWARE AG / getinsight Research GmbH

in %	2011	2012	2013e	2014e	2015e	2016e
Long term assets	**31.4**	**35.8**	**31.8**	**23.8**	**18.4**	**14.0**
Intangible assets	21.9	24.7	21.2	15.4	11.7	8.5
Tangible assets	9.5	11.1	10.6	8.4	6.7	5.4
Financial assets	0.0	0.0	0.0	0.0	0.0	0.0
Current assets	**66.9**	**60.1**	**64.2**	**72.8**	**78.5**	**83.3**
Inventories	-	2.3	3.4	3.3	3.4	3.3
Trade receivables	27.5	26.4	38.3	37.5	38.5	37.9
Receivables	7.5	8.1	7.8	6.6	5.9	5.3
Cash and securities	31.9	23.3	14.7	25.4	30.7	36.7
Other assets	**1.7**	**4.1**	**4.0**	**3.4**	**3.0**	**2.7**
Total assets	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Equity	**64.9**	**64.0**	**63.9**	**69.1**	**71.7**	**74.3**
Reserves	64.9	64.0	63.9	69.1	71.7	74.3
Minorities	-	-	-	-	-	-
Provisions	**2.6**	**9.7**	**9.6**	**8.2**	**7.6**	**6.9**
Liabilities	**26.4**	**23.0**	**23.2**	**19.9**	**18.3**	**16.6**
Interest bearing liabilities	12.1	7.9	7.7	6.4	5.8	5.2
Trade payables	0.8	1.9	2.8	2.7	2.8	2.7
Non interest bearing liabilities	13.6	13.2	12.8	10.7	9.7	8.7
Other liabilities	**6.1**	**3.4**	**3.3**	**2.8**	**2.5**	**2.2**
Total equity and liabilities	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: GK SOFTWARE AG / getinsight Research GmbH

Cash Flow Statement

in €m.	2011	2012	2013e	2014e	2015e	2016e
Net cash provided by operating activites	4.7	3.1	-2.4	4.9	7.0	9.3
Net cash used in investing activities	-2.7	-4.0	-1.0	-1.2	-1.4	-1.8
thereof Capex	-2.4	-2.1	-1.0	-1.2	-1.4	-1.8
Net cash provided by financing activities	-1.6	-2.7	-0.2	3.4	-1.0	-1.3
Change in cash and securities	0.4	-3.6	-3.6	7.1	4.7	6.2
Cash and securities at the end of the period	13.9	10.3	6.6	13.7	18.4	24.6

Source: GK SOFTWARE AG / getinsight Research GmbH

Key Figures

	2011	2012	2013e	2014e	2015e	2016e
Valuation ratios						
Market capitalization (in € m)	76,52	68,02	56,21	80,04	80,04	80,04
Enterprise Value (in € m)	68,10	67,94	51,15	74,43	74,43	74,43
EV/Sales	2,14	2,39	1,19	1,50	1,32	1,20
EV/EBITDA	7,92	23,77	12,63	7,87	6,26	5,31
EV/EBIT	10,23	86,58	30,99	11,13	8,51	7,06
P/E reported	16,77	100,79	44,70	15,99	12,10	9,96
P/E clean	16,77	100,79	44,70	15,99	12,10	9,96
PCPS	11,42	15,63	15,03	10,18	8,12	6,90
Price to book	2,71	2,41	1,71	2,14	1,86	1,61
Profitability ratios						
EBITDA margin	27,1%	10,1%	8,6%	19,1%	21,1%	22,6%
EBIT margin	21,0%	2,8%	3,0%	13,5%	15,5%	17,0%
Pre tax margin	20,7%	2,9%	3,0%	13,6%	15,8%	17,4%
Net margin	14,4%	2,4%	2,2%	10,1%	11,7%	12,9%
Free cash flow margin	13,4%	8,1%	5,6%	13,5%	15,1%	15,8%
ROE	17,4%	2,4%	3,3%	15,1%	16,5%	17,3%
Productivity ratios						
Sales/employees (in € `000)	78,4	59,6	73,2	77,7	81,9	85,8
Net result/employees (in € `000)	11,3	1,4	1,6	7,8	9,6	11,1
Number of employees	405	477	580	638	689	724
Financial ratios						
Equity ratio	64,9%	64,0%	63,9%	69,1%	71,7%	74,3%
Gearing	-29,8%	-0,3%	-4,8%	-22,5%	-30,2%	-38,3%
Dividend yield	1,2%	0,3%	0,3%	1,2%	1,6%	2,0%
Cash flow ratios						
Cash flow per share	3,74	2,43	1,90	4,16	5,22	6,14
Free cash flow per share	2,37	1,28	1,33	3,53	4,50	5,19
Other ratios						
Depreciation/sales	6,1%	7,3%	5,6%	5,6%	5,6%	5,6%
Capex/sales	7,7%	7,2%	2,4%	2,4%	2,4%	2,9%
Working capital/sales	15,0%	15,0%	15,0%	15,0%	15,0%	15,0%
Tax rate	30,5%	17,6%	25,6%	25,6%	25,6%	25,6%

Source: GK SOFTWARE AG / getinsight Research GmbH

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Company responsible for the publication: getinsight Research GmbH

Authors of this financial analysis: Daniel Großjohann, Analyst , and Benjamin Ludacka, Analyst.

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Reference pursuant to section 4 subsection 4 point 4 FinAnV:

Previous financial analyses:

Company	Date	Rating	Target price
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
GK SOFTWARE AG	04/15/2013	Buy	€ 46.75
GK SOFTWARE AG	05/13/2013	Buy	€ 46.75
GK SOFTWARE AG	06/26/2013	Buy	€ 46.75
GK SOFTWARE AG	09/24/2013	Buy	€ 42.20
GK SOFTWARE AG	12/04/2013	Buy	€ 42.20

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3. Date of initial/original publication of the financial analysis:
(04/25/2014)

4. Date and time of the prices of financial instruments disclosed therein:
(Price on 04/23/2014)

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

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