

Date **06/20/2011**

Buy (old: Buy)

PT: € 56.45 (old: € 56.45)

Changes

	2011E		2012E	
	New	Delta	New	Delta
Sales	32.2	0%	38.7	0%
EBIT	6.4	0%	7.6	0%
EPS	2.58	0%	3.00	0%
EPS*	2.58	0%	3.00	0%
DPS	0.55	0%	0.65	0%

*clean

Homepage: www.gksoftware.de

Industry: IT/Software

ISIN: DE0007571424
 Bloomberg: GKS:GR
 Reuters: GKSG
 Price (06/17/11): € 46.60
 Market Cap: m€ 83
 Enterprise Value: m€ 76
 Ø-volume (100 days): € 24.608
 52W High: € 59.15
 52W Low: € 41.50
 Free Float: 42.6 %

Financial Calendar

08/30/2011 HY-Report
 11/24/2011 Q3-Report
 04/24/2012 FY-Report
 2011

Shareholder structure

GK Software Holding 52.33%
 R. Gläß 2.95%
 S. Kronmüller 2.09%

Share performance



Michael Vara

+49 (0)69 - 66 36 80 71
vara@vararesearch.de

Daniel Grossjohann

+49 (0)69 - 61 99 33 31
grossjohann@vararesearch.de

GK SOFTWARE AG

GK SOFTWARE remains on target

With growth in sales of 17% in the first quarter, GK SOFTWARE's growth has continued as expected. The environment also supports further dynamic growth. The retail industry has assessed the current economic situation very positively, with around 30% planning to change their point-of-sale systems within the next few years. Against this background, GK SOFTWARE is in an excellent position for further two-figure growth due to its own solutions and partnerships (SAP, IBM and Bizerba). Our forecasts, which are at the top end of company guidance, remain unchanged. Fundamentally, we believe that the share, which has moved within a narrow range for around a year, has further potential. With a dynamic price-earnings ratio of less than 1, we consider the GK share to still be a buy.

Investment Highlights

- The company's growth in sales of around 17% is in line with expectations. We believe the EBIT margin, which is just slightly below last year's value (18.4%), to be the result of the company's sales mix. License proceeds (€ 0.39 million) were significantly lower than in the previous quarter (€ 1.0 million). This development, however, is linked solely with the project phases. Apart from LUNAR, all projects were in the post-pilot phase in Q1, which is defined by a high proportion of services. Accordingly, services sales were at € 4.57 million and approximately 52% higher than in the same quarter of the previous year.
- The existing 95,000 installations (incl. SQRS) developed by GK SOFTWARE form a solid and constantly growing basis for future maintenance revenues. Maintenance revenues increased accordingly during Q1 to 1.73 million (+28%).
- GK SOFTWARE was awarded the Retail Technology Award (Category: Best Enterprise Solution) in February for its production rollout of the first pilot markets for EDEKA within the scope of the LUNAR project. As a direct consequence of the LUNAR project and successful premium qualification in SAP test laboratories, three GK solutions were also sold by SAP in the DACH region. The "EMEA" (Europe, Middle East, Africa) region and "Rest of World" will follow in further stages and will significantly increase the international sales potential of GK solutions in the medium term.
- The company's expectations for the financial year remain unchanged. The company considers its forecast for 2011 to have been confirmed by the good results in Q1. 2011 sales are expected to fall within a range of € 30.5 million to € 31.5 million and the EBIT margin between 18% and 20%. The company also anticipated a two-figure growth rate in 2012.

Key figures

	Sales	Net result	Adj. EPS	Adj. P/E	EV/Sales	EV/EBIT	EBIT-Margin	ROE (%)
2008	15.0	2.0	1.22	13.92	1.38	7.46	18.5%	29.3%
2009	23.3	4.5	2.70	8.51	1.48	5.85	25.2%	33.2%
2010	27.7	4.5	2.50	20.02	2.96	12.75	23.2%	22.6%
2011e	32.2	4.6	2.58	18.09	2.36	11.80	20.0%	17.6%
2012e	38.7	5.4	3.00	15.52	1.96	10.05	19.5%	17.8%

Source: Company information / Vara Research GmbH

Profit and Loss Account

in €m.	2007	2008	2009	2010	2011e	2012e
Sales revenues	10.745	15.029	23.277	27.690	32.193	38.739
Change in finished goods and work in progress	-0.002	-1.260	-0.873	0.000	0.000	0.000
Other own cost capitalized	0.558	0.815	1.067	0.649	0.754	0.908
Other operating income	0.379	0.424	0.826	1.368	1.591	1.914
Total performance	11.680	15.008	24.296	29.706	34.538	41.561
Cost of material	-0.486	-0.514	-0.561	-1.540	-2.833	-3.603
Gross profit	11.194	14.494	23.735	28.166	31.706	37.959
Personnel expenses	-6.152	-8.047	-12.117	-14.840	-17.329	-20.927
Other operating expenses/income	-2.183	-2.954	-5.448	-5.344	-6.139	-7.312
EBITDA	2.859	3.493	6.171	7.982	8.238	9.720
Depreciation/amortisation	-0.527	-0.719	-1.281	-1.548	-1.800	-2.166
EBIT	2.332	2.775	4.890	6.435	6.439	7.554
Financial result	-0.115	0.090	0.143	-0.128	0.060	0.022
Non operating result before taxes	0.000	0.000	0.000	0.000	0.000	0.000
Pre tax result	2.217	2.864	5.033	6.307	6.498	7.576
Non operating result after taxes	0.000	0.000	0.000	0.000	0.000	0.000
Taxes	-0.656	-0.830	-1.516	-1.836	-1.888	-2.201
Minority interest	0.000	0.000	0.000	0.000	0.000	0.000
Net result	1.561	2.034	3.517	4.471	4.610	5.375
Adjustments	0.000	0.000	0.984	0.000	0.000	0.000
Adjusted net result	1.561	2.034	4.501	4.471	4.610	5.375
Average number of shares	1.250	1.665	1.665	1.790	1.790	1.790
EPS	1.25	1.22	2.11	2.50	2.58	3.00
Adjusted EPS	1.25	1.22	2.70	2.50	2.58	3.00
DPS	0.64	0.00	1.00	0.50	0.55	0.65

Source: GK SOFTWARE AG / Vara Research GmbH

in % of Sales	2007	2008	2009	2010	2011e	2012e
Sales revenues	100.0	100.0	100.0	100.0	100.0	100.0
Total performance	108.7	99.9	104.4	107.3	107.3	107.3
Cost of material	-4.5	-3.4	-2.4	-5.6	-8.8	-9.3
Gross profit	104.2	96.4	102.0	101.7	98.5	98.0
Personnel expenses	-57.3	-53.5	-52.1	-53.6	-53.8	-54.0
Other operating expenses/income	-20.3	-19.7	-23.4	-19.3	-19.1	-18.9
EBITDA	26.6	23.2	26.5	28.8	25.6	25.1
Depreciation/amortisation	-4.9	-4.8	-5.5	-5.6	-5.6	-5.6
EBIT	21.7	18.5	21.0	23.2	20.0	19.5
Financial result	-1.1	0.6	0.6	-0.5	0.2	0.1
Non operating result before taxes	-	-	-	-	-	-
Pre tax result	20.6	19.1	21.6	22.8	20.2	19.6
Non operating result after taxes	-	-	-	-	-	-
Taxes	-6.1	-5.5	-6.5	-6.6	-5.9	-5.7
Minority interest	-	-	-	-	-	-
Net result	14.5	13.5	15.1	16.1	14.3	13.9
Adjustments	-	-	4.2	-	-	-
Adjusted net result	14.5	13.5	19.3	16.1	14.3	13.9

Source: GK SOFTWARE AG / Vara Research GmbH

Balance of Accounts

in €m.	2007	2008	2009	2010	2011e	2012e
Long term assets	3.748	4.226	12.743	13.166	14.431	15.553
Intangible assets	1.128	1.633	9.333	9.116	8.697	8.092
Tangible assets	2.620	2.593	3.410	4.050	5.733	7.461
Financial assets	0.000	0.000	0.000	0.000	0.000	0.000
Current assets	8.064	15.382	19.242	31.110	33.654	37.045
Inventories	1.999	0.738	0.000	0.000	0.000	0.000
Trade receivables	2.263	3.023	5.846	14.110	16.405	19.741
Receivables	0.898	2.765	2.759	3.558	3.558	3.558
Cash and securities	2.904	8.855	10.637	13.442	13.691	13.746
Other assets	0.018	0.018	0.390	0.529	0.529	0.529
Total assets	11.830	19.626	32.375	44.805	48.614	53.126
Equity	2.081	11.782	15.300	24.332	28.047	32.430
Reserves	2.081	11.782	15.300	24.332	28.047	32.430
Minorities	0.000	0.000	0.000	0.000	0.000	0.000
Provisions	0.577	0.847	0.847	0.921	0.937	0.954
Liabilities	8.388	5.803	14.953	17.060	17.138	17.251
Interest bearing liabilities	1.376	1.256	6.724	5.983	5.983	5.983
Trade payables	0.471	0.526	0.774	0.476	0.554	0.666
Non interest bearing liabilities	6.541	4.021	7.455	10.601	10.601	10.601
Other liabilities	0.784	1.193	1.276	2.491	2.491	2.491
Total equity and liabilities	11.830	19.626	32.375	44.805	48.614	53.126

Source: GK SOFTWARE AG / Vara Research GmbH

in %	2007	2008	2009	2010	2011e	2012e
Long term assets	31.7	21.5	39.4	29.4	29.7	29.3
Intangible assets	9.5	8.3	28.8	20.3	17.9	15.2
Tangible assets	22.1	13.2	10.5	9.0	11.8	14.0
Financial assets	-	-	0.0	0.0	0.0	0.0
Current assets	68.2	78.4	59.4	69.4	69.2	69.7
Inventories	16.9	3.8	-	-	-	-
Trade receivables	19.1	15.4	18.1	31.5	33.7	37.2
Receivables	7.6	14.1	8.5	7.9	7.3	6.7
Cash and securities	24.5	45.1	32.9	30.0	28.2	25.9
Other assets	0.2	0.1	1.2	1.2	1.1	1.0
Total assets	100.0	100.0	100.0	100.0	100.0	100.0
Equity	17.6	60.0	47.3	54.3	57.7	61.0
Reserves	17.6	60.0	47.3	54.3	57.7	61.0
Minorities	-	-	-	-	-	-
Provisions	4.9	4.3	2.6	2.1	1.9	1.8
Liabilities	70.9	29.6	46.2	38.1	35.3	32.5
Interest bearing liabilities	11.6	6.4	20.8	13.4	12.3	11.3
Trade payables	4.0	2.7	2.4	1.1	1.1	1.3
Non interest bearing liabilities	55.3	20.5	23.0	23.7	21.8	20.0
Other liabilities	6.6	6.1	3.9	5.6	5.1	4.7
Total equity and liabilities	100.0	100.0	100.0	100.0	100.0	100.0

Source: GK SOFTWARE AG / Vara Research GmbH

Cash Flow Statement

in €m.	2007	2008	2009	2010	2011e	2012e
Net cash provided by operating activities	1.9	1.4	5.7	1.7	4.2	4.3
Net cash used in investing activities	-2.0	-2.6	-9.4	-2.7	-3.1	-3.3
Net cash provided by financing activities	0.6	7.1	5.5	3.8	-0.9	-1.0
Change in cash and securities	0.4	5.9	1.8	2.8	0.2	0.1
Cash and securities at the end of the period	2.9	8.9	10.6	13.4	13.7	13.7

Source: GK SOFTWARE AG / Vara Research GmbH

Key Figures*

	2007	2008	2009	2010	2011e	2012e
Valuation ratios						
Market capitalization (in € m)	-	28.31	38.30	89.50	83.41	83.41
Enterprise Value (in € m)	-	20.71	34.38	82.04	75.95	75.95
EV/Sales	-	1.38	1.48	2.96	2.36	1.96
EV/EBITDA	-	5.93	4.81	10.28	9.22	7.81
EV/EBIT	-	7.46	5.85	12.75	11.80	10.05
P/E reported	-	13.92	10.89	20.02	18.09	15.52
P/E clean	-	13.92	8.51	20.02	18.09	15.52
PCPS	-	9.36	7.98	15.13	12.98	11.04
Price to book	-	2.40	2.50	3.68	2.97	2.57
Profitability ratios						
EBITDA margin	26.6%	23.2%	30.7%	28.8%	25.6%	25.1%
EBIT margin	21.7%	18.5%	25.2%	23.2%	20.0%	19.5%
Pre tax margin	20.6%	19.1%	25.8%	22.8%	20.2%	19.6%
Net margin	14.5%	13.5%	19.3%	16.1%	14.3%	13.9%
Free cash flow margin	n.m.	12.0%	n.m.	10.6%	10.4%	11.0%
ROE	88.7%	29.3%	33.2%	22.6%	17.6%	17.8%
Productivity ratios						
Sales/employees (in € `000)	76.8	79.7	80.0	75.7	81.4	90.9
Net result/employees (in € `000)	11.2	10.8	15.5	12.2	11.7	12.6
Number of employees	140	189	291	366	395	426
Financial ratios						
Equity ratio	17.6%	60.0%	47.3%	54.3%	57.7%	61.0%
Gearing	-70.9%	-64.1%	-25.3%	-29.3%	-26.2%	-22.8%
Dividend yield	-	0.0%	4.3%	1.0%	1.2%	1.4%
Cash flow ratios						
Cash flow per share	1.57	1.82	2.88	3.30	3.59	4.22
Free cash flow per share	-0.52	1.09	-2.41	1.64	1.88	2.39
Other ratios						
Depreciation/sales	4.9%	4.8%	5.5%	5.6%	5.6%	5.6%
Capex/sales	24.3%	8.1%	37.8%	10.8%	9.5%	8.5%
Working capital/sales	5.9%	10.0%	15.0%	15.0%	15.0%	15.0%
Tax rate	29.6%	29.0%	30.1%	29.1%	29.1%	29.1%

* Based on clean figures

Source: GK SOFTWARE AG / Vara Research GmbH

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

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Previous financial analyses:

Company	Date	Rating	Target price
GK SOFTWARE AG	12/19/2008	Buy	€ 28.45
GK SOFTWARE AG	03/27/2009	Buy	€ 28.45
GK SOFTWARE AG	05/14/2009	Buy	€ 21.60
GK SOFTWARE AG	06/16/2009	Buy	€ 21.60
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

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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.

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**3. Date of initial publication of the financial analysis:
(06/20/2011)**

**4. Date and time of the prices of financial instruments disclosed therein:
(Price on 06/17/2011)**

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.

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