

Date 13/09/2017

Recommendation:

Hold (previous: Hold)

PT: € 135.00 (previous: € 84.70)

GK Software

Industry: Software

Segment: Prime Standard

ISIN: DE0007571424

Reuters: GKSG

Price (12/09/2017): € 122.70

Market Cap € 232 Mio.

EV € 226 Mio.

Ø-volume `000€ 232

52W High € 127.00

52W Low € 44.80

Financial Calendar

Q3 report 29/11/2017

FY 2017 26/04/2018

Shareholder structure

GK Software Hldg. 49.8%

SAP AG 5.3%

R.Gläß 3.3%

S.Kronmüller 2.3%

Share performance



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GK SOFTWARE AG

Strong licensing business in Q2, stock price target raised

In the second quarter, GK Software again recorded high growth rates, driven by a strong licensing business. Sales in H1 rose by 25.8%, EBITDA by close to 130%. With inter alia two new international clients from Top50 Retailers, GK extended its own market share in this demanding field to almost 25%. We are raising our previous estimates and presume that GK (like in previous years) will in H2 still surpass the sales of the (strong) first half year. The new licence business is naturally volatile when considered on a quarterly basis, but the GK pipeline is well filled and internationalisation is gaining in dynamics. Despite the rapid stock price increase of recent months, we see further stock price potential when looking at peers.

- ✓ The clear increase in sales was carried by all (substantial) types of sales. As a result, the **licensing business** could gain **10.2%** in H1, which lay above all in a strong Q2 and contributed decisively to the increase in profits. **Maintenance revenues** rose by **27%** as against the period in the previous year. **Service sales** - the largest type of sales with almost € 23.5 million - even gained **32.7%**. The internal process optimisations initiated in 2015 were also effective here, which have **sustainably raised** the level of efficiency at European locations. The same is now also planned for the regional companies in the USA and South Africa.
- ✓ In Q2 GK recorded **six new projects**, including three projects with Top50 Retailers. Besides a global leading retailer which is launching OmniPOS in South Africa and India (250 locations) - who may trade as the international arm of Walmart according to information from "Lebensmittelzeitung" - these are a leading Spanish supermarket chain (1,600 locations) and a large existing customer of GK from Switzerland (900 locations). A Canadian hardware store operator and another supermarket operator from Switzerland also decided on **OmniPOS**. The German hardware store chain "**Sonderpreis Baumarkt**" (200 locations) on the other hand decided on the solution "**AWEK euroSuite**" with which GK addresses medium-sized chains.

Outlook: GK Software is leaving its outlook unchanged and for 2017 still expects a not insignificant expansion of sales in the core segment GK/Retail and believe it possible to achieve the mid-term sales target (approx. € 93.9 million) ahead to time if there is further positive development. The EBIT margin is expected to exceed the previous year's figure of 5.1%, although postponements of projects and entry into new target markets, which GK affords high priority, may entail significant costs, which will have an impact on profitability.

Key figures - GK Software AG

	Sales	EBITDA	EBIT	EPS (adj.)	EV/Sales	P/E
2015 a	62.6	2.2	-1.3	-0.79	1.19	-43.7
2016 a	77.3	7.8	3.9	1.50	1.28	31.3
2017 e	93.1	11.9	7.8	2.72	2.44	45.0
2018 e	106.3	17.5	13.3	4.79	2.14	25.6
2019 e	118.8	20.1	15.7	5.73	1.91	21.4

Source: Company Data, EQUITS

Good employee utilisation through new projects, but no threat of capacity bottlenecks

In large projects, GK only deploys its own employees, and so does not resize by using certified employees of partners. This is due to the complexity and the lighthouse nature of such projects. But the three newly acquired OmniPOS projects with Top50 Retailers did not mean that personnel capacities turned into a restriction on growth. In H1, GK was able to increase the number of employees to 944 (+33) and is investing heavily in educating young talent and training its own employees. Further new hires are necessary to drive forward the growth trajectory; the focus here lies on highly qualified specialists, which is already reflected in the personnel costs which are increasing disproportionately relative to the number of employees.

F&E Agenda

Besides the continuous further development of its own omni-channel platform, GK is striving to broaden its own range of solutions. The company is considering the subjects of the Cloud, Artificial Intelligence and the Internet of Things as central **future focal points** of retail and is positioning itself accordingly already. Besides that, the company is working on complementary solutions which address particular market segments (hospitality, petrol stations). With **GK/Retail OmniPOS** (for large retail groups) and the **AWEK euroSUITE** (medium-sized retail companies), GK has not yet addressed the small (stationary) retailers as a client group. A cloud solution which would have to be sold through partners and represents the central requirements of smaller retailers would be practical here.

GK Software compared with peers

With regard to multiples, the peer group (generally made up of IT/software providers related to the retail industry) is very heterogeneous. Within the peer group, GK Software - after Shopify, which primarily addresses smaller retailers - has the largest rates of growth and clear margin dynamics. Against this background, we are refraining from a size cut for GK and are drawing upon the median instead of an average (which is distorted by outliers).

Table 01: Peer group analysis (based on 2018e)

Company	Market capitalisation in € m	P/E (2018e)	EV/Sales (2018e)	EV/EBITDA (2018e)	EV/EBIT (2018e)	CAGR (Sales) 2017e-19e (in %)
Zebra Technologies Corp	4,582.9	13.5	2.09	11.1	12.4	2.1
NCR Corp	3,682.3	10.0	1.10	6.6	8.4	2.6
Manhattan Associates Inc	2,449.4	21.3	4.54	12.6	13.1	7.1
Vectron Systems AG	205.9	77.0	4.79	39.5	47.1	-3.4
Diebold Nixdorf Inc	1,282.6	12.0	0.69	7.6	12.4	3.3
Mettler-Toledo Inc	13,396.5	31.9	5.93	22.2	24.0	5.6
Atoss Software AG	288.7	25.6	4.31	14.9	15.7	12.0
Shopify Inc	9,730.2	537.6	11.49	229.1	483.4	38.1
Intershop Communications AG	50.4	39.8	1.01	n.a.	29.7	9.5
MEDIAN	2,449.4	25.6	4.3	13.8	15.7	
GK Software AG	232.4	25.7	2.2	13.4	17.6	12.9
Discount/premium		0.5%	-48.9%	-2.9%	12.3%	
<i>Implied Fair Value</i>		<i>122.38</i>	<i>237.61</i>	<i>123.01</i>	<i>105.70</i>	
					147.17	

Source: EQUITS GmbH (GK Software estimates); Thomson Reuters (Consensus estimates peers)

Valuation conclusion

Based on the peer comparison with 2018 as the base year, GK Software has an average fair value of € 147.17. The DCF valuation (WACC 6.3%; TGR 1%) delivers a fair value of € 122.98 on the basis of the raised estimates so that an average of both methods produces a fair value of about € 135.00.

Appendix

Income Statement	2014	2015	2016	2017e	2018e	2019e
Sales	44.634	62.602	77.333	93.125	106.250	118.800
Change in finished goods	0.000	0.000	0.000	0.000	0.000	0.000
Other own costs capitalized	0.512	0.525	0.382	0.460	0.524	0.586
Other operating income	2.188	1.726	1.769	2.130	2.430	2.717
Total performance	47.333	64.853	79.483	95.714	109.204	122.103
Cost of material	-5.151	-8.266	-7.681	-9.081	-9.560	-10.129
Gross profit	42.182	56.587	71.802	86.633	99.644	111.974
Personnel expenses	-28.749	-39.668	-47.669	-54.780	-60.263	-67.629
Other operating expenses	-13.397	-14.742	-16.330	-19.963	-21.843	-24.240
EBITDA	0.037	2.177	7.803	11.891	17.538	20.105
Depreciation/amortisation	-3.052	-3.453	-3.861	-4.068	-4.257	-4.423
EBIT	-3.015	-1.276	3.942	7.823	13.281	15.682
Financial result	0.028	-0.107	-0.491	-0.467	-0.356	-0.207
Non operating result before taxes	0.000	0.000	0.000	0.000	0.000	0.000
EBT	-2.987	-1.383	3.452	7.356	12.925	15.475
Non operating result after taxes	0.000	0.000	0.000	0.000	0.000	0.000
Taxes	1.117	-0.117	-0.626	-2.207	-3.878	-4.643
Minority interest	0.000	0.000	0.000	0.000	0.000	0.000
Net result	-1.870	-1.500	2.826	5.149	9.048	10.832
Adjustments	0.00	0.00	0.00	0.00	0.00	0.00
Adjusted net result	-1.870	-1.500	2.826	5.149	9.048	10.832
Average number of shares	1.89	1.89	1.89	1.89	1.89	1.89
EPS	-0.99	-0.79	1.50	2.72	4.79	5.73
Adjusted EPS	-0.99	-0.79	1.50	2.72	4.79	5.73
DPS	0.00	0.00	0.00	0.60	1.03	1.28

Source: EQUI.TS; company data

Cash Flow Statement	2014	2015	2016	2017e	2018e	2019e
Net cash provided by operating activities	-0.394	2.196	3.699	5.115	9.914	12.021
Net cash used in investing activities	-1.569	-18.583	-5.099	-4.476	-5.107	-4.932
Net cash provided by financing activities	-1.606	12.574	-2.119	-2.000	-3.133	-3.954
Change in cash and securities	-3.569	-3.813	-3.519	-1.362	1.674	3.134
Cash and secur. at the end of the period	10.173	7.377	6.017	4.656	6.329	9.464

Source: EQUI.TS; company data

- Please consider the disclaimer at the end of this document -

Balance Sheet	2014	2015	2016	2017e	2018e	2019e
Long term assets	13.445	30.944	32.736	33.145	33.994	34.504
Intangible assets	8.474	25.190	23.828	22.435	21.142	19.649
Tangible assets	4.970	5.753	8.902	10.703	12.846	14.848
Financial assets	0.002	0.002	0.007	0.007	0.007	0.007
Current assets	28.270	33.074	33.963	37.236	42.761	49.578
Inventories	1.159	1.655	1.180	1.421	1.622	1.813
Accounts Receivables	12.375	19.100	21.512	25.905	29.556	33.047
Other current assets	4.563	4.943	5.254	5.254	5.254	5.254
Cash and securities	10.173	7.377	6.017	4.656	6.329	9.464
Other assets	2.957	3.742	4.915	4.915	4.915	4.915
Total assets	44.673	67.760	71.615	75.296	81.671	88.997
Equity	30.555	28.967	31.654	36.803	44.718	53.596
Reserves	30.555	28.967	31.654	36.803	44.718	53.596
Minorities	0.000	0.000	0.000	0.000	0.000	0.000
Provisions	3.321	4.081	3.222	3.307	3.396	3.489
Liabilities	8.600	32.085	33.183	31.630	30.001	28.356
Interest bearing liabilities	1.132	14.723	14.763	12.763	10.763	8.763
Accounts Payables	1.634	2.091	2.187	2.634	3.005	3.360
Other non-interest bearing liabilities	5.835	15.271	16.233	16.233	16.233	16.233
Other liabilities	2.196	2.628	3.555	3.555	3.555	3.555
Total equity and liabilities	44.673	67.760	71.615	75.296	81.671	88.997

Source: EQUITS; company data

Key Ratios	2014	2015	2016	2017e	2018e	2019e
Ratios for corporate valuation						
EV/Sales	1.61	1.19	1.28	2.44	2.14	1.91
EV/EBITDA	1969.16	34.17	12.67	19.08	12.93	11.28
EV/EBIT	-23.84	-58.32	25.08	29.00	17.08	14.47
P/E reported	-42.38	-43.72	31.27	45.04	25.63	21.41
P/E clean	-42.38	-43.72	31.27	45.04	25.63	21.41
PCPS	41.00	24.45	15.24	24.93	17.31	15.11
Price-to-book ratio	2.59	2.26	2.79	6.30	5.19	4.33
Profitability ratios						
EBITDA margin	0.1%	3.5%	10.1%	12.8%	16.5%	16.9%
EBIT margin	-6.8%	-2.0%	5.1%	8.4%	12.5%	13.2%
Pre tax margin	-6.7%	-2.2%	4.5%	7.9%	12.2%	13.0%
Net margin	-4.2%	-2.4%	3.7%	5.5%	8.5%	9.1%
Free-cash-flow-margin	0.3%	n.m.	0.7%	5.2%	7.8%	8.8%
ROE	-5.9%	-5.0%	9.3%	15.0%	22.2%	22.0%
Productivity ratios						
Sales/employees (in EUR '000)	78.0	84.7	84.9	94.7	102.8	109.5
Personnel expenses/employees (in '000)	50.3	53.7	52.3	55.7	58.3	62.3
Net result/employees (in '000)	-3.3	-2.0	3.1	5.2	8.8	10.0
Number of employees	572	739	911	984	1033	1085
Financial ratios						
Equity ratio	68.4%	42.7%	44.2%	48.9%	54.8%	60.2%
Gearing	46.2%	133.9%	126.2%	104.6%	82.6%	66.1%
Dividend yield	0.0%	0.0%	0.0%	0.5%	0.8%	1.0%
Cash-flow ratio						
Cash-flow per share	1.02	1.42	3.07	4.92	7.09	8.12
Free-Cash-flow per share	0.08	-8.45	0.27	2.55	4.38	5.51
Other ratios						
Depreciation/Sales	6.8%	5.5%	5.0%	4.4%	4.0%	3.7%
Capex/Sales	4.0%	29.8%	6.8%	4.8%	4.8%	4.2%
Working Capital/Sales	26.7%	29.8%	26.5%	26.5%	26.5%	26.5%
Tax rate	37.4%	-8.5%	18.1%	30.0%	30.0%	30.0%

Source EQUITS

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Authors of this financial analysis: Daniel Großjohann, Analyst, and Thomas Schießle, Analyst.

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Reference pursuant to section 4 subsection 4 point 4 FinAnV:

Company	Analyst		Rating	Price Target
GK SOFTWARE AG	D.Grossjohann/T.Schießle	09/09/2015	Buy	€ 45.00
GK SOFTWARE AG	D.Grossjohann/T.Schießle	04/12/2015	Buy	€ 46.80
GK SOFTWARE AG	D.Grossjohann/T.Schießle	07/03/2016	Buy	€ 45.20
GK SOFTWARE AG	D.Grossjohann/T.Schießle	17/05/2016	Buy	€ 54.35
GK SOFTWARE AG	D.Grossjohann/T.Schießle	21/06/2016	Buy	€ 54.35
GK SOFTWARE AG	D.Grossjohann/T.Schießle	12/09/2016	Buy	€ 59.60
GK SOFTWARE AG	D.Grossjohann/T.Schießle	05/12/2016	Hold	€ 61.10
GK SOFTWARE AG	D.Grossjohann/T.Schießle	12/04/2017	Hold	€ 68.40
GK SOFTWARE AG	D.Grossjohann/T.Schießle	22/05/2017	Hold	€ 80.40
GK SOFTWARE AG	D.Grossjohann/T.Schießle	08/06/2017	Hold	€ 84.70

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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 publication; no substantial changes were made afterwards.

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3. Date of initial/original publication of the financial analysis:

(13/09/2017)

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

(Closing price on 12/09/2017)

5. Updates:

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

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4. there exists personnel ties between the author and the issuer,
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