

Date 06/12/2017

Recommendation:

Buy (previous: Buy)

PT: € 136.00 (prev.: € 135.70)

GK Software

Industry: Software

Segment: Prime Standard

ISIN: DE0007571424

Reuters: GKSG

Price (05/12/2017): € 114.30

Market Cap € 216m

EV € 211m

Ø-volume `000€ 268

52W High € 132.50

52W Low € 51.80

Financial Calendar

FY 2017 26/04/2018

Q1 Report 30/05/2018

Shareholder structure

GK Software Hldg. 49.8%

SAP AG 5.3%

R.Gläß 3.3%

S.Kronmüller 2.3%

Share performance



Daniel Grossjohann

dg@equits.de

+49 (0)69 95 41 16 08

Thomas J. Schiessle

ts@equits.de

+49 (0)69 95 45 43 60



EQUITS GmbH
Am Schieferstein 1
D-60435 Frankfurt

GK SOFTWARE AG

Further expansion of market shares

With a 24.2% growth in sales after the first 9 months of 2017, GK is growing significantly faster than the relevant target market. The previous nine GK/retail new licence projects this year are distributed across nine countries/three continents and documents the success of the **internationalisation strategy** in close partnership with SAP. In the medium term, the American market, in which many of the largest retailers are domiciled, should gain weight in the regional sales mix of GK. We are leaving our estimates unchanged and further assume that GK will also record a strong final quarter this year. In a peer comparison, GK is doing rather well with a 2018e EV/sales of about 2, against the background of its own growth strength and promising technology portfolio.

✓ GK was able to grow significantly in the first months in the essential types of sales **licences (+26%), maintenance (+30%) and services (+23%)**. What is notable is that the service sales grew **disproportionately** to the increase in personnel within the annual period (+16%), which suggests a significant **increase in the efficiency of internal processes** (Since, generally speaking, new employees do not yet possess the productivity of their colleagues, an increase in sales per employee would not have been assumed).

✓ As a result of efficiency gains and higher licence revenues, the EBIT margin rose from 2.0% to 6.2% (in terms of revenue). Scaling effects could allow the margin to grow further, and for 2018e we are already assuming a value >12%.

✓ In Q3 2017, GK was able to win over a significant Italian food retailer with its own solutions world, and an international fashion retailer headquartered in the Netherlands was also gained as a client. The **close partnership with SAP** is having very positive effects: All nine new GK/retail customers in 2017 came from the connection to SAP. With the "SAP hybris Mobile Customer Assistant by GK", GK has also developed another joint product, so that the number of GK solutions listed with SAP has increased to seven. The GK subsidiary AWEK, which focuses on mid-sized retail, was able to sell five licences in 2017.

Company outlook: The company expects further success in direct and partner sales for the fourth quarter and beyond. The **sales pipeline** is by all accounts **very well filled**, and GK sees itself as being in an excellent position in several ongoing tenders. The mid-term forecast, which predicts sales of about €94 million in 2018, could already be achieved this year. The mid-term EBIT target margin level for the core business should be above 15%.

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	93.8	12.0	7.9	2.67	2.25	42.9
2018 e	110.1	18.1	13.8	4.69	1.92	24.4
2019 e	122.8	20.7	16.2	5.63	1.72	20.3

Source: Company Data, EQUITS

The **proportion of recurring revenue** could lie close to 50% because the project/service sales are also of a recurring nature in parts. As far as the licence business is concerned, GK can depict a SaaS offer not only technically, but also on the contract side. To date only a few clients use this contractual opportunity, which would lead to sales being smoothed over from GK's perspective.

For additional growth, GK is setting its sights on new solutions and complementary products, including new client groups and **new client segments** like petrol stations and hospitality. Besides that, modern **technologies** (like AI, Internet of Things) play an essential role in the growth strategy. With the takeover of **prudsys**, GK recently strengthened its own technology portfolio and further technology acquisitions are possible.

Appendix

Income Statement	2014	2015	2016	2017e	2018e	2019e
Sales	44.634	62.602	77.333	93.825	110.050	122.800
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	0.463	0.543	0.606
Other operating income	2.188	1.726	1.769	2.146	2.517	2.809
Total performance	47.333	64.853	79.483	96.434	113.110	126.215
Cost of material	-5.151	-8.266	-7.681	-9.151	-9.932	-10.523
Gross profit	42.182	56.587	71.802	87.283	103.178	115.692
Personnel expenses	-28.749	-39.668	-47.669	-55.211	-62.453	-69.908
Other operating expenses	-13.397	-14.742	-16.330	-20.110	-22.655	-25.097
EBITDA	0.037	2.177	7.803	11.961	18.070	20.687
Depreciation/amortisation	-3.052	-3.453	-3.861	-4.080	-4.314	-4.477
EBIT	-3.015	-1.276	3.942	7.881	13.756	16.210
Financial result	0.028	-0.107	-0.491	-0.670	-1.018	-0.898
Non operating result before taxes	0.000	0.000	0.000	0.000	0.000	0.000
EBT	-2.987	-1.383	3.452	7.211	12.738	15.312
Non operating result after taxes	0.000	0.000	0.000	0.000	0.000	0.000
Taxes	1.117	-0.117	-0.626	-2.164	-3.822	-4.594
Minority interest	0.000	0.000	0.000	0.015	0.065	0.065
Net result	-1.870	-1.500	2.826	5.063	8.981	10.783
Adjustments	0.00	0.00	0.00	0.00	0.00	0.00
Adjusted net result	-1.870	-1.500	2.826	5.063	8.981	10.783
Average number of shares	1.89	1.89	1.89	1.90	1.91	1.91
Average number of shares (dil.)	1.94	1.97	2.00	2.09	2.09	2.09
EPS	-0.99	-0.79	1.50	2.67	4.69	5.63
Adjusted EPS	-0.99	-0.79	1.50	2.67	4.69	5.63
Adjusted EPS (diluted)	-0.96	-0.76	1.41	2.42	4.30	5.16
DPS	0.00	0.00	0.00	0.60	1.01	1.26

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	4.840	9.017	11.908
Net cash used in investing activities	-1.569	-18.583	-5.099	-7.724	-5.307	-5.143
Net cash provided by financing activities	-1.606	12.574	-2.119	13.000	-3.139	-3.940
Change in cash and securities	-3.569	-3.813	-3.519	10.115	0.571	2.825
Cash and secur. at the end of the period	10.173	7.377	6.017	16.133	16.704	19.528

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	36.381	37.374	38.040
Intangible assets	8.474	25.190	23.828	25.635	24.342	22.849
Tangible assets	4.970	5.753	8.902	10.739	13.025	15.184
Financial assets	0.002	0.002	0.007	0.007	0.007	0.007
Current assets	28.270	33.074	33.963	48.918	54.250	60.816
Inventories	1.159	1.655	1.180	1.432	1.680	1.874
Accounts Receivables	12.375	19.100	21.512	26.100	30.613	34.160
Other current assets	4.563	4.943	5.254	5.254	5.254	5.254
Cash and securities	10.173	7.377	6.017	16.133	16.704	19.528
Other assets	2.957	3.742	4.915	4.915	4.915	4.915
Total assets	44.673	67.760	71.615	90.214	96.539	103.771
Equity	30.555	28.967	31.654	36.702	44.479	53.258
Reserves	30.555	28.967	31.654	36.117	43.894	52.673
Minorities	0.000	0.000	0.000	0.585	0.585	0.585
Provisions	3.321	4.081	3.222	3.307	3.396	3.489
Liabilities	8.600	32.085	33.183	46.650	45.109	43.469
Interest bearing liabilities	1.132	14.723	14.763	27.763	25.763	23.763
Accounts Payables	1.634	2.091	2.187	2.653	3.112	3.473
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	90.214	96.539	103.771

Source: EQUI.TS; company data

Key Ratios	2014	2015	2016	2017e	2018e	2019e
Ratios for corporate valuation						
EV/Sales	1.61	1.19	1.28	2.25	1.92	1.72
EV/EBITDA	1969.16	34.17	12.67	17.64	11.68	10.20
EV/EBIT	-23.84	-58.32	25.08	26.78	15.34	13.02
P/E reported	-42.38	-43.72	31.27	42.87	24.37	20.30
P/E clean	-42.38	-43.72	31.27	42.87	24.37	20.30
PCPS	41.00	24.45	15.24	23.52	16.35	14.25
Price-to-book ratio	2.59	2.26	2.79	6.01	4.99	4.16
Profitability ratios						
EBITDA margin	0.1%	3.5%	10.1%	12.7%	16.4%	16.8%
EBIT margin	-6.8%	-2.0%	5.1%	8.4%	12.5%	13.2%
Pre tax margin	-6.7%	-2.2%	4.5%	7.7%	11.6%	12.5%
Net margin	-4.2%	-2.4%	3.7%	5.4%	8.2%	8.8%
Free-cash-flow-margin	0.3%	n.m.	0.7%	1.6%	7.3%	8.3%
ROE	-5.9%	-5.0%	9.3%	14.8%	22.0%	21.9%
Productivity ratios						
Sales/employees (in EUR '000)	78.0	84.7	84.9	95.4	103.5	110.0
Personnel expenses/employees (in '000)	50.3	53.7	52.3	56.1	58.7	62.6
Net result/employees (in '000)	-3.3	-2.0	3.1	5.1	8.4	9.7
Number of employees	572	739	911	984	1063	1116
Financial ratios						
Equity ratio	68.4%	42.7%	44.2%	40.7%	46.1%	51.3%
Gearing	46.2%	133.9%	126.2%	145.8%	117.0%	94.8%
Dividend yield	0.0%	0.0%	0.0%	0.5%	0.9%	1.1%
Cash-flow ratio						
Cash-flow per share	1.02	1.42	3.07	4.86	6.99	8.02
Free-Cash-flow per share	0.08	-8.45	0.27	0.79	4.22	5.33
Other ratios						
Depreciation/Sales	6.8%	5.5%	5.0%	4.3%	3.9%	3.6%
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

DISCLAIMER

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

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

Company responsible for the publication: EQUI.TS GmbH

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

EQUI.TS GmbH is subject to regulation through the Federal Financial Supervisory Authority (BaFin).

Reference pursuant to section 4 subsection 4 point 4 FinAnV:

Company	Analyst		Rating	Price Target
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
GK SOFTWARE AG	D.Grossjohann/T.Schießle	12/09/2017	Hold	€ 135.00
GK SOFTWARE AG	D.Grossjohann/T.Schießle	07/11/2017	Hold	€ 135.70
GK SOFTWARE AG	D.Grossjohann/T.Schießle	21/11/2017	Buy	€ 135.70

II. Additional information:

1. Information sources:

Material sources of information for preparing this document are publications in domestic and foreign media such as information services (including but not limited to Reuters, VWD, Bloomberg, DPA –AFX), business press (including but not limited to Börsenzeitung, Handelsblatt, Frankfurter Allgemeine Zeitung, Financial Times), professional publications, published statistics, rating agencies as well as publications of the analysed issuers.

Furthermore, discussions were held with the Management for the purpose of preparing the company study. The analysis was provided to the issuer prior to publication; no substantial changes were made afterwards.

2. Summary of the valuation principles and methods used in preparation of the analysis: EQUI.TS GmbH uses a 3-level absolute share rating system. The ratings pertain to a time horizon of up to 12 months.

BUY: the expected price trend of the share amounts to at least +15%. NEUTRAL: The expected price trend lies between -15% and +15%.

SELL: The expected price trend amounts to more than -15%.

The following valuation methods are used when valuing companies: Multiplier models (price/earnings, price/cash flow, price/book value, EV/revenues, EV/EBIT, EV/EBITA, EV/EBITDA), peer group comparisons, historical valuation approaches, discounting models (DCF, DDM), break-up value approaches or asset valuation approaches. The valuation models are dependent upon macroeconomic measures such as interest, currencies, raw materials and assumptions concerning the economy. In addition, market moods influence the valuation of companies. Furthermore, the approaches are based on expectations that can change quickly and without warning, according to industry-specific developments. As a result, the results of the valuation and target prices derived from the models can change correspondingly. The results of the valuation are based on a period of 12 months. They are, however, subject to market conditions and represent a snapshot. They can be reached more quickly or more slowly or be revised upwards or downwards.

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

(06/12/2017)

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

(Closing price on 05/12/2017)

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.

III. Disclosure on possible conflicts-of-interest by the use of the following numeration as reference:

1. the author has a shareholding in an amount of more than 5% of the share capital,
2. the author has participated in the management of a consortium which has publicly issued financial instruments of the issuer within the last twelve months,
3. the author has carried out sales/purchase transactions on the analysed contents,
4. there exists personnel ties between the author and the issuer,
5. the author belongs to a controlling body of the issuer or by any other means exercises a corresponding control function,
6. the author has an agreement with the issuer on the preparation of analysis (assignment),
7. the author receives payments from the issuer,
8. the author concluded an agreement on services in connection with investment banking transactions in the last 12 months, and he has received consideration or promise of consideration from such agreement

In the present financial analysis the conflict-of-interest mentioned under 6. applies.

B. General disclosures/liability arrangement:

1. This document was prepared by EQUI.TS GmbH exclusively for information purposes.
2. This publication, if sold in the UK, may only be made available to those persons who, in the meaning of the Financial Services Act 1986 are authorised and exempt, or persons as defined in section 9 (3) of the Financial Services Act 1986 (Investment Advertisement) (Exemptions) Decree 1988 (amended version) and must not be transmitted directly or indirectly to other persons or groups of persons.
3. Neither this document nor any copy of it may be taken into, transferred to or distributed within the United States of America or its territories and possessions. The distribution of this document in Canada, Japan or other jurisdictions may be restricted by law, and persons who come into possession of this publication should find out about any such restrictions and respect them. Any failure to respect these restrictions may represent a breach of the US, Canadian or Japanese securities laws or laws governing another jurisdiction.
4. By accepting this document you accept all disclaimers of liability and the restrictions cited above.
5. **This document is neither a recommendation nor an offer nor application of an offer for the purchase, sale or subscription of any security or investment. It is by no means meant to provide investment advice.**
6. This document, prepared by EQUI.TS GmbH, is based on information from sources (publicly available information and tax rates at the time of publication, which can, however, change), which, according to EQUI.TS GmbH, are dependable, yet not actually available for independent verification. Despite diligent verification, EQUI.TS GmbH cannot provide a guarantee, assurance or warranty for completeness and correctness; responsibility and liability is therefore excluded insofar as there is no intent or gross negligence on the part of EQUI.TS GmbH. All statements and opinions are exclusively those of EQUI.TS GmbH and can be changed without prior notice. Any error-caused misstatements of the document can be corrected by EQUI.TS GmbH, without EQUI.TS GmbH being held responsible for damages as a result of these misstatements.
7. This document is a translation of the legally binding German original version of December 6, 2017.