Vara Research GmbH
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GK SOFTWARE AG

Date **14.11.2011**

Buy (old: Buy)

PT: € 53.45 (old: € 52.70)

Changes

	2011E		2012E	
	New	Delta	New	Delta
Sales	32.2	0.0%	37.3	3.6%
EBIT	6.4	0.0%	7.5	2.6%
EPS	2.60	0.0%	3.02	3.5%
EPS*	2.60	0.0%	3.02	3.5%
DPS	0.56	0.0%	0.65	3.0%

*clean

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

ISIN:	DE0007571424
Bloomberg:	GKS:GR
Reuters:	GKSG
Price (10.11.11):	€ 39.00
Market Cap:	€ 70 m
Enterprise Value:	€ 55.4 m
Ø-volume (100 days):	€ 40.485
52W High:	€ 54.00
52W Low:	€ 33.32
Free Float:	42.6 %

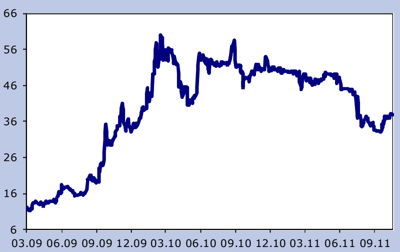
Financial Calendar

24.11.2011	Q3-Report
24.04.2012	FY-Report 2011

Shareholder structure

GK Software Holding	52.33%
R. Gläß	2.95%
S. Kronmüller	2.23%

Share performance



Source: OnVista

Retail software specialist GK at a bargain price - story intact, SAP as growth accelerator

Despite the fact that the company's growth record remains intact, the share price for GK SOFTWARE has fallen significantly during the stock market turbulence of the past few weeks. At the current level, it appears that the share price has bottomed out. With a price-earnings ratio of 15, we consider the share to be very attractively priced in principle. The company has achieved significant two-figure growth rates in the past. Against the background of the direct sales through SAP, which stated in May, we believe that two-figure growth rates will also be achievable in the coming year (CAGR 2010-2014: 18.7%). The environment will remain positive for GK despite the looming economic fluctuations. Sales to end customers (retail) remain comparatively stable and a fifth of installed POS systems are outdated. The internalisation of GK is still in its initial stages but offers great potential, not least due to the SAP cooperation.

Investment Highlights

- GK SOFTWARE's partnership with SAP represents a strong indirect sales channel - in particular for international business. The reputation of SAP will also facilitate direct sales. GK and SAP can now more effectively meet customers' IT requirements from one single source. However, GK will not fully replace direct sales in the long term, as customer proximity is an important success factor for GK SOFTWARE and the company wants to avoid too much dependence.

- The IT budgets for trade make up between 1.1% and 1.3% of the (comparatively stable) retail sales. Around 20% of proprietary IT has been used for over 10 years and is considered to be outdated. Typically, the replacement cycles have a duration of 5 to 7 years. This is a beneficial environment for GK SOFTWARE.

- Low sensitivity to business cycles. The 2008/2009 cycles showed that GK SOFTWARE is able to grow even in times of economic hardship, due to its focus on retail and the partial investment backlog in this sector. If the economy slows in 2012, as is feared by many, the negative effects on GK SOFTWARE's growth are likely to be very limited.

- Outlook: The company anticipates sales between € 30.0 and € 31.5 million in 2011. The company has forecast an EBIT margin of 18% to 20%. Two-figure growth in the GK/retail business is also expected for 2012.

Key figures

	Sales	Net result	Adj. EPS	Adj. P/E	EV/ Sales	EV/ EBIT	EBIT-Margin	ROE (%)
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	2.60	15.01	1.72	8.61	20.0%	17.7%
2012e	37.3	5.4	3.02	11.15	1.23	6.14	20.0%	17.8%
2013e	45.7	6.9	3.86	8.71	1.00	4.79	21.0%	19.6%

Source: Company information / Vara Research GmbH

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Company profile

GK SOFTWARE AG is a supplier of high-quality modular standard software geared towards retail requirements. Originally specialising in POS applications, infrastructure applications are becoming an increasingly important part of the company's portfolio. Using the proceeds from its IPO, the company has consistently driven ahead with the growth and internationalisation of its business. In terms of revenue, GK has strengthened significantly as a result of its partnership with SAP, which started at the end of 2009.

Company information

Foundation year:	**1990**
IPO	**2008**
Regulated market segment	**Prime Standard**
Index membership	**none**
Financial year	**1.1.- 31.12**
Reporting	**quarterly**
Share buy-backs	**no**
Shareholder structure	**GK Software Holding GmbH 52.33%; R. Gläß 2.95%; Deutsche S. Kronmüller 2.23%; widely held stock 42.49%**
IR Contact	**Dr. René Schiller**
Management Board	**Rainer Gläß, André Hergert, Ronald Schulz, Stephan Kronmüller**
Duration of contract CEO	**up to 2016**
Supervisory Board	**Uwe Ludwig, Thomas Bleier, Herbert Zinn**

Profit and Loss Account

(in €m)	2008	2009	2010	2011e	2012e
Sales revenues	15.0	23.3	27.7	32.2	37.3
Gross profit	14.5	23.7	28.2	33.8	39.2
EBITDA	3.5	6.2	8.0	8.2	9.6
EBIT	2.8	4.9	6.4	6.4	7.5
EBT	2.9	5.0	6.3	6.6	7.6
Net result	2.0	3.5	4.5	4.7	5.4
Net result (clean)	2.0	4.5	4.5	4.7	5.4
EPS (in €)	1.22	2.11	2.50	2.60	3.02
EPS clean(in €)	1.22	2.70	2.50	2.60	3.02
DPS	0.00	1.00	0.50	0.56	0.65

Source: GK SOFTWARE AG / Vara Research GmbH

Balance of Accounts

(in €m)	2008	2009	2010	2011e	2012e
Intangable assets	1.6	9.3	9.1	8.7	8.1
Trade receivables	3.8	5.8	14.1	9.7	11.3
Cash and securities	8.9	10.6	13.4	20.4	22.4
Total assets	19.6	32.4	44.8	48.4	52.9
Equity	11.8	15.3	24.3	28.1	32.5
Provisions	0.8	0.8	0.9	0.9	1.0
Interest bearing liabilities	1.3	6.7	6.0	6.0	6.0
Non-interest bearing liab.	4.0	7.5	10.6	10.6	10.6
Total liabilities	19.6	32.4	44.8	48.4	52.9

Source: GK SOFTWARE AG / Vara Research GmbH

Key Figures

(in %)	2008	2009	2010	2011e	2012e
EV/Sales	1.4	1.5	3.0	1.7	1.5
EV/EBITDA	5.9	4.8	10.3	6.7	5.8
EV/EBIT	7.5	5.9	12.8	8.6	7.4
P/E clean	13.9	8.5	20.0	15.0	12.9
PCPS	9.4	8.0	15.1	10.8	9.3
Price to book	2.4	2.5	3.7	2.5	2.2
Dividend yield (in %)	0.0	4.3	1.0	1.4	1.7
EBITDA margin (in %)	23.2	30.7	28.8	25.6	25.6
EBIT margin (in %)	18.5	25.2	23.2	20.0	20.0
Pre tax margin	19.1	25.8	22.8	20.4	20.4
Net margin (in %)	13.5	19.3	16.1	14.4	14.5
ROE (in %)	29.3	33.2	22.6	17.7	17.8
Sales/Employee (in €´000)	79.7	80.0	75.7	75.5	75.0
Net result/Empl. (in €´000)	10.8	15.5	12.2	10.9	10.9
Equity ration (in %)	60.0	47.3	54.3	58.0	61.4

Source: GK SOFTWARE AG / Vara Research GmbH

Valuation

Finance

2010 Sales growth at 19%...

During the 2010 financial year, GK SOFTWARE increased its revenue by € 27.7 million (+19%). A significant proportion of this revenue originated from the company's client Edeka and the LUNAR project, one of the world's largest retail IT projects and the first collaboration with sales partner SAP.

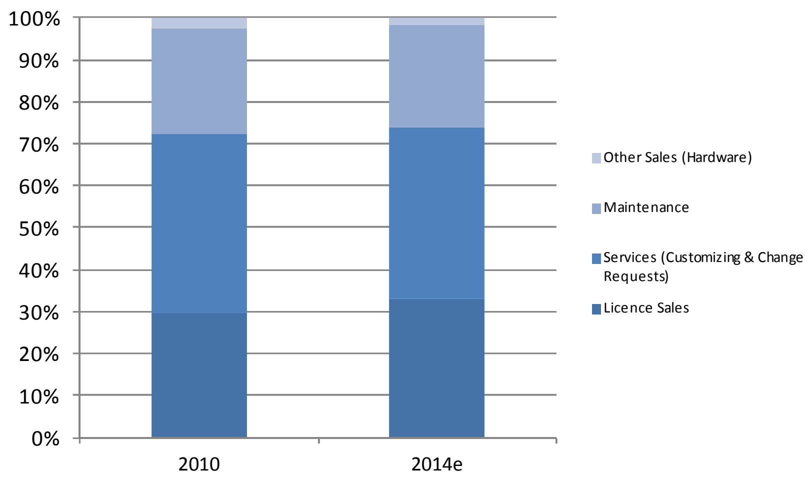
...Significant two-figure growth also expected for 2011 and 2012

After numerous new appointments during the first half of 2011, growth is expected to accelerate slightly in the second half of the year. During the first six months of 2011, sales growth was +15.8%. The Fressnapf project, which was acquired through the partnership with SAP, will not provide any additional revenue in 2011 and we do not anticipate any noteworthy effects from the cooperation with SAP until 2012. Our forecast for growth in 2012 is 16.0% (2011: 16.3%).

Sales mix continues to improve - positive margin effects

The increasing product lifespan of standard applications in the GK/retail sector will be accompanied by a higher proportion of maintenance proceeds due to the dynamically growing demand for new licences. The company’s licence and maintenance business not only showed higher growth rates in 2010 (both over 20%) than the service division customizing and change requests, but also higher margins (+17.7%). On the basis of the SAP partnership, the sales mix is likely to shift towards licence revenue, although sales commission will also need to be passed on to SAP. The customizing may be taken over by a higher proportion of partners than is currently the case. All of these elements will lead to a steadily increasing operative margin, even if this will be balanced out to some extent by growth investments in the overall results for the next few years.

Figure 01: Comparison of the sales mix 2010 and 2014



Source: GK SOFTWARE AG/Vara Research GmbH

2014: Proportion of licences estimated conservatively

Due to the SAP cooperation, the proportion of licences will increase more rapidly than the service business, although we have also taken into account that sales commission will need to be paid for projects with SAP customers, which will proportionally reduce the recorded licence revenue for each project. This commission, which is expected to amount to around a third of the licence volume, will slow down the increase of declared licence revenue. We expect a share of licence revenue of 33% in 2014 (2010: 29.9%). We consider this to be quite a conservative forecast. The maintenance revenues will benefit significantly from the growing basis of installations and should be able to maintain their share of revenue. In the case of Support, GK is likely to benefit increasingly from scaling effects.

Personnel expenses is the main cost pool

In preparation for the new SAP cooperation, GK SOFTWARE expanded its own capacities and significantly increased its own personnel in 2011. The personnel cost share increased from 53.6% (2010 business year) to 61.7% (H1 2011) and we have calculated a share of 59% for 2011. We assume that the personnel expense share will fall again slightly from 2013 onwards due to increasing revenue. The company had 403 members of staff as of 30.06.2011 (30.06.2011: 314 members of staff).

Flexibility through purchased services (material costs)

In contrast, material costs play only a minor role in GK SOFTWARE's profit and loss statement. These are purchased services (use of freelance workers) and passed on hardware revenue. In 2010, the expenses for purchased services made up almost three quarters of the material costs. Especially at times of high capacity utilisation, the use of freelance workers provides GK with additional flexibility.

Share of other operational expenses expected to increase slightly

The other operational expenses made up 19.3% of the revenue in 2010 (2009:23.5%). This included legal and consultation costs, administrative and sales expenses in addition to exhibition appearances and travel costs. The latter may increase due to the increasing internationalisation of the project. We therefore anticipate a proportion of slightly more than 20% over the next few years.

Development expenses correspond to around 5% of revenue - Pilsen an advantageous location

The net development expenses came to around € 0.8 million in 2010 (previous year € 1.07). Around 75% of the development expenses are activated and the remainder is immediately recorded as expenses. Measured by revenue, the development expenses were 2.9% in 2010 and 5.5% in 2009. However, a great deal of development work which benefits the standard application is also developed and paid for in the form of change requests as commissioned by individual customers, so that the development budget is actually covered. Deviations in the budget result from larger projects, such as the preparation of a new release. The fact that GK SOFTWARE employs highly qualified members of staff with significantly lower wages at its site in Pilsen (Czech Republic) has a positive effect on the proportion of expenses. Significantly larger competitor Wincor and Micros reported R&D ratios of around 4.5%. However, over 30% of staff at GK SOFTWARE are involved in research. Around 10% of those employed by Wincor Nixdorf are researchers and 12.7% of the staff are in the F&E department at Micros.

Margin level at least 18%, medium-term increasing tendency

In the medium to long term, the operative margins of GK will increase due to indirect sales and the growing licence business share, which has higher margins. In 2011, the EBIT margin is likely to lie between 18% and 20%. In 2010 an even higher value of 23.2% was achieved. Taking scaling effects into consideration, the forecast EBIT should be easily achievable. The new licence business is difficult to forecast due to the nature of the project. The economy could be a potential hindering factor in 2011, as retail is considered to be robust but growth dynamics in the trade revenue has recently fallen. The final quarter of the year is typically the strongest of the year for GK.

Investor-friendly dividend payment policy

For the 2009 financial year, GK SOFTWARE paid out dividends for the first time since the IPO. The dividends, with a price of € 1.00 per share, consisted of the regular dividends (at € 0.50) and an equally high. The regular dividends remained at € 0.50 per share in the 2010 financial year. The business model delivers a high operative cash flow, so that we also expect the investor-friendly dividend payment policy to continue over the next few years.

Balance sheet

Despite high equity return of 17.7%

At 17.7%, GK SOFTWARE generates a high equity return, although the company has a high equity-to-assets ratio (compared to other companies in the sector) - over 60% as of 30.06.2011).

High level of cash assets keeps strategic options open

GK SOFTWARE has a strong balance sheet and a well-filled war chest. With a balance sheet total of € 41.5 million, cash assets were € 17 million as of 30.06.2001 (41% of the balance sheet total). Net liquidity was € 11.4 million. Considering the additional high equity-to-assets ratio, the company has many strategic options, such as acquisitions. Alternatively, the company could increase dividend payouts, thereby reducing capital costs and increasing equity return.

Valuable receivables..

The accounts receivable and receivables from work performed since latest invoice combined make up around € 7.1 million (17% of the balance sheet total). In the past, GK SOFTWARE was rarely confronted with bad debts. Customers are usually large retail chain stores and we therefore consider the risk of future bad debt to be low. In the case of the intangible fixed assets (€ 9.3 million), which consist of the active development costs (€ 2.1 million), business values (€ 6.4 million) and valuations of customer relationships and commercial property rights (€ 0.4 million), we do not consider there to be any unplanned need for capital consumption.

...clear bank liabilities

In view of the high cash assets, the bank liabilities are not a problem. As of 30.06.2011, there were € 0.74 million short-term and € 4.87 million long-term bank liabilities, which the company would be able to settle without a problem using its cash assets.

Free cash flow valuation

FCF: Fair value for GK with: € 60,60

We based the fair value for GK SOFTWARE on a free cash flow model and a peer group assessment. For information purposes, we also showed the margin situation of the comparison companies so that GK SOFTWARE could be categorised more accurately. Using the free cash-flow method, we have calculated a target share price of € 60.60.

Assumptions: Beta 1.5; WACC at 9.8%; target capital structure 60:40

We assumed a beta of 1.5 for the free cash-flow assessment. The beta estimation is an ex-ante consideration. The justification for the beta is the low liquidity of the share. We also applied a risk premium and interest on borrowed capital of 5% in each case during the valuation using the free cash-flow method and estimate the spread relevant to GK SOFTWARE at 1% due to the solid financial situation. We used a target capital structure of 60% (equity capital) to 40% (borrowed capital), which approximately corresponds to the current capital structure and equity-to-assets ratio of most of the peer companies. Using these values, we obtained a WACC of 9.8%.

We defined two phases for the determination of the free cash-flow. During the first phase from 2011 to 2015, we forecast an annual rate of growth between 16% and 22.3% (2013). We anticipate an annual rate of growth of 10% to 12% from 2016 to 2021. We established the perpetual growth rate from 2021 onwards at 1%. The short-term anticipated growth rates (GK business volumes CAGR 2010-2012: 16.1%) are significantly higher than the expected annual sector growth (comparison companies CAGR (2010-2012): 9%) and can, among other things, be traced back to the special product positioning and cooperation with SAP. We anticipate a slight increase of the EBIT to 21% during the period 2011 to 2013. This estimate is conservative, as the margins are likely to tend towards higher growth due to scaling effects; in the past, margins over 20% have been achieved. Nevertheless, we slightly reduced the margin after 2014 and 2017 to take potential risks such as the market entry of competitors into account. We therefore established the perpetual EBIT margin at 18.5%.

Table 01: Free cash flow valuation

(in € Mio.)	2011e	2012e	2013e	2014e	2015e	2016e	2017e	2018e	2019e	2020e	2021e
Revenue	32.2	37.3	45.7	55.0	63.8	71.5	80.0	88.0	96.8	106.5	117.2
EBITDA	8.2	9.6	11.8	14.2	16.5	18.4	20.6	21.6	23.7	26.1	28.7
EBIDA margin (in %)	25.6	25.6	26.6	26.6	25.8	25.8	25.8	24.5	24.5	24.5	24.5
EBIT	6.4	7.5	9.6	11.5	12.8	14.3	16.0	16.3	17.9	19.7	21.7
EBIT margin (in %)	20.0	20.0	21.0	21.0	20.0	20.0	20.0	18.5	18.5	18.5	18.5
Taxes	1.9	2.2	2.9	3.5	3.8	4.3	4.8	4.9	5.4	5.9	6.5
+ depreciation and amortization of fixed assets	1.8	2.1	2.2	2.6	3.7	4.1	4.6	5.3	5.8	6.4	7.0
- Investments	2.9	2.9	3.6	4.3	4.4	4.1	4.6	5.2	5.7	6.3	7.0
- Change to working c.	1.1	1.3	2.1	2.3	2.2	1.9	2.1	2.0	2.2	2.4	2.7
Operative cash-flow	2.3	3.1	3.2	4.1	6.0	8.1	9.1	9.5	10.4	11.4	12.6
Discounting 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 operative CF today	2.1	2.6	2.4	2.8	3.8	4.6	4.7	4.5	4.5	4.5	4.5
Cum. oper. cash-flow	41.0										
Cash value of remaining value	56.4										
Company value	97.4										
- Net debt	-11.1										
- Third-party shares	0.0										
Value of capital resources	108.4										
Fair value per share in EUR	60.58										
WACC	9.8%										
Long-term growth rate	1.0%										

Source: Vara Research GmbH

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Sensitivity analysis

To assess the sensitivity of our valuation, we created variations of perpetual growth rates and the average weighted capital costs for the company. We assumed a WACC of 9.78% for GK SOFTWARE in our valuation and obtained a fair value of € 60.58 per share.

Table 02: Sensitivity analysis

Perpetual	Weighted capital costs (WACC)							
growth rate	8.3%	8.8%	9.3%	9.8%	10.3%	10.8%	11.3%	11.8%
0.50%	71.90	66.96	62.61	58.74	55.29	52.19	49.39	46.86
0.75%	73.25	68.09	63.57	59.56	55.99	52.80	49.92	47.32
1.00%	74.68	69.30	64.58	60.43	56.73	53.44	50.48	47.81
1.25%	76.22	70.53	65.66	61.34	57.52	54.11	51.06	48.31
1.50%	77.87	71.95	66.81	62.31	58.34	54.82	51.67	48.84
1.75%	79.65	73.42	68.04	63.35	59.22	55.57	52.31	49.40
2.00%	81.57	75.00	69.35	64.45	60.15	56.36	52.99	49.98

Source: Vara Research GmbH

Peer group comparison

American values determine the peer group

The peer group for GK SOFTWARE consists mainly of American companies who have a significantly higher market capitalisation. The reason for this is that there are barely any independent stock market-listed players of the same size as GK in the specialist software sector for retail following the takeover of SAF by SAP in Europe.

MICROS Systems Inc. considers itself to be the leading supplier of corporate applications for hotels, gastronomy and retail. Numerous leading hotel chains focus on regular customers. The company created around 330,000 installations and is present in approximately 50 countries with over 90 distributors. . **Manhattan Associates Inc.** and **JDA Software Group Inc**. offer their customers supply chain and management/logistics applications. Retailers pay a major role in JDA's group of customers, which also includes the gastronomy, leisure and logistics sectors.

Woncor: Hardware and software for retail and banks

The German company **Wincor Nixdorf AG** provides hardware and software applications in addition to associated services for banks (share of revenue 2010: 67%) and retail companies (share of revenue 2010: 33%). In the same way as GK, Wincor has opted for an open system structure and is the world's largest player in the programmable POS market with a strong lead. The comparability of both companies is, however, limited by two factors. Wincor is much larger and does not come close to generating the same operative margins of GK SOFTWARE due to a significantly higher proportion of hardware. We deliberately left the US American company NCR, which was founded as the manufacturer of the first mechanical cash register in 1884, out of the peer group. The company is not at all comparable with GK SOFTWARE due to market capitalisation, its broad range of services for many different sectors and the very low operative margins (2010: 2.3%).

Table 03: Peer group analysis, valuation (as of 11/10/2011)

	Market Cap. (in € Mio.)	P/E (11e)	EV/ Sales (11e)	EV/ EBITDA (11)	EV/ EBIT (11e)
Micros Systems	2826.3	25.0	3.4	14.2	15.2
Manhattan Associates	705.4	21.8	2.6	12.2	13.5
Wincor Nixdorf	1114.3	9.8	0.5	5.6	7.7
JDA	985.0	14.5	2.1	8.3	9.9
Average	1407.8	17.8	2.2	10.1	11.6
GK SOFTWARE	69.8	15.0	1.9	7.6	9.7
		46.20	42.94	50.39	45.60
Implied fair value					46.28

Source: JCF / company information / Vara Research GmbH

Table 04: Peer group analysis, key figures

	EBITDA margin 2011e	EBIT-margin 2011e	Net margin 2011e	Equity ratio (2010)	ROE 2010
Micros Systems	24.1%	22.4%	15.4%	71.3%	14.4%
Manhattan Associates	21.1%	19.1%	13.4%	65.6%	17.1%
Wincor Nixdorf	9.6%	7.0%	4.9%	27.7%	31.5%
JDA	25.7%	21.6%	13.7%	55.5%	13.9%
Average	20.1%	17.5%	11.8%	55.0%	19.2%
GK SOFTWARE	25.6%	20.0%	14.4%	54.3%	18.4%

Source: JCF / company information / Vara Research GmbH

GK can keep up with the US companies in margin comparison

With regards to the EBITDA, EBIT and net margins, GK SOFTWARE is at the same level as the US American competitor, while the Germany company Wincor-Nixdorf lags far behind. With regards to the equity-to-assets ratio, GK SOFTWARE is at the level of the peer group. Wincor-Nixdorf, which had the lowest equity-to-assets ratio at the end of 2010 at approximately 28%, reported the highest rate of return on equity.

Table 05: Peer group analysis, growth (CAGR 07-10)

	Sales CAGR (2010-2012e)	EBITDA CAGR (2010-2012e)	EBIT CAGR (2010-2012e)	EPS CAGR (2010-2012e)
Micros Systems	10.2%	18.0%	18.0%	15.7%
Manhattan Associates	11.4%	15.4%	19.0%	26.3%
Wincor Nixdorf	4.0%	2.5%	3.8%	5.9%
JDA	10.2%	10.5%	8.1%	15.7%
Average	9.0%	11.6%	12.2%	15.9%
GK SOFTWARE	16.1%	9.4%	7.7%	10.0%

Source: JCF / company information / Vara Research GmbH

GK SOFTWARE is fastest-growing company in peer group

With a 2010-2012 CAGR of 16%, GK SOFTWARE is by far the most rapidly growing company in the peer group. As the internationalisation of the major American players is already complete, the growth rates are limited to 10% to 11% despite the beneficial conditions.

Weighted target share price at € 53.45

While the DCF method resulted in a fair value of € 60.60 per share, the fair value determined using the peer group comparison was € 46.30. The target share value, which we determined with an equal weighting of both valuation methods, gives a fair value of € 53.45 per share.

SWOT analysis

Strengths

- Competitive advantages due to leading technology and cost leadership in research and development (Pilsen site)
- In Germany, the company developed a leading role in the bid invitations of the past few years and has several noteworthy reference customers (EDEKA, Lidl, Netto and Douglas).
- the founder and directors hold a significant stake of around 57.5% in the company
- the expansion aboard is bearing its first fruits (X5 Retail Group, Coop (Switzerland), JYSK Nordic, MPREIS).
- The company has a very strong balance sheet (equity-to-assets ratio 60.6%, net liquidity € 11.4 million). This is also of significance with regards to bid invitations (as customers need a long-term reliable partner).
- The partnership with SAP has provided a significantly broad sales base and facilitates contact with major international customers.
- The company has grown dynamically since its foundation and is highly profitable.
- The complexity of the products results in high customer retention.
- GK SOFTWARE is an innovative leader in its market segment.
- As Java-based standard software, the GK application is independent of defined hardware, specific end devices in the branches or operating systems used.

Weaknesses

- The business mainly involves high-volume projects. As a result, business development can be very volatile, although this effect has less impact as the company grows.
- In comparison with many competitors, GK SOFTWARE is relatively small.
- The established market segments in Germany already have been very well developed by GK. Abroad, GK has not yet created a comparable sales network, but has found a strong sales partner in SAP.
- In comparison to other standard software manufacturers, revenue per employee is still low. However, the Czech development site has enabled the company to reduce personnel costs per employee under those of comparison companies.
- The market for POS systems is highly competitive.
- GK does not yet have any major retail companies as a reference customer in the largest and important regional US market.
- The widely held stock of around 42% was still relatively low, even after the capital increase at the end of 2010.

Opportunities

- The sales partnership with SAP provides GK SOFTWARE with additional opportunities, particularly in business with large international retail chain stores. The partnership is not exclusive.
- The company has major growth potential abroad. Initial sales success has demonstrated that the internationalisation strategy is picking up speed.
- New sectors help with the expansion of functionalities and increase the value of the standard application for existing customers. GK/retail is therefore a learning application.
- The GK share of revenue for applications in the field of infrastructure (for retail) is already gaining momentum. This strategic area in particular promises potential for GK SOFTWARE.
- GK benefits from scale effects as a supplier of standard software.
- A takeover offer for GK by a major player would prospectively include a significant premium for strategic value.

Threats

- The time window for retail companies to implement their POS software and IT infrastructure is limited. GK may encounter capacity bottlenecks.
- Project rescheduling could lead to loss of revenue in the event of limited capacities.
- In the case of a POS system fault which is caused by an error of GK SOFTWARE, the customers could try to claim for damages.
- GK customers frequently tend to be major retail chain stores with corresponding market power. This could tend to put pressure on the margins, but no effects are currently evident.
- Even though the sales partnership with SAP represents a milestone, GK needs to ensure that no one-sided dependence develops with this important sales partner.
- Increasing transfer of revenue to the internet. Many franchisers have observed that a proportion of classic retail revenues have migrated to the internet (and corresponding e-commerce sales channels are used in parallel). The number of stores and POS systems could fall as a result, which would cause the GK's potential addressable market to shrink.
- Macro-risks. The debt crisis could affect consumer spending and the IT budget of the multinational retail chain stores.

Company profile

Standard software applications for the retail industry

GK SOFTWARE AG, based in Schöneck (Vogtland) is a supplier of standard software for retail companies. The company has subsidiaries in Berlin, Pilsen, Basel/ Riehen and St. Ingbert. Sales subsidiaries have operated in Great Britain and the USA since 2009. In 2010, GK SOFTWARE's consolidated revenues reached € 27.7 million and the operative result (EBIT) was € 6.44 million. In comparison to the previous year, this represents an increase of 19% of revenue and 32% of the EBIT. The number of employees as of 31.12.2010 was around 26% higher than in the previous year and was increased to 403 employees as of 30.06.2011.

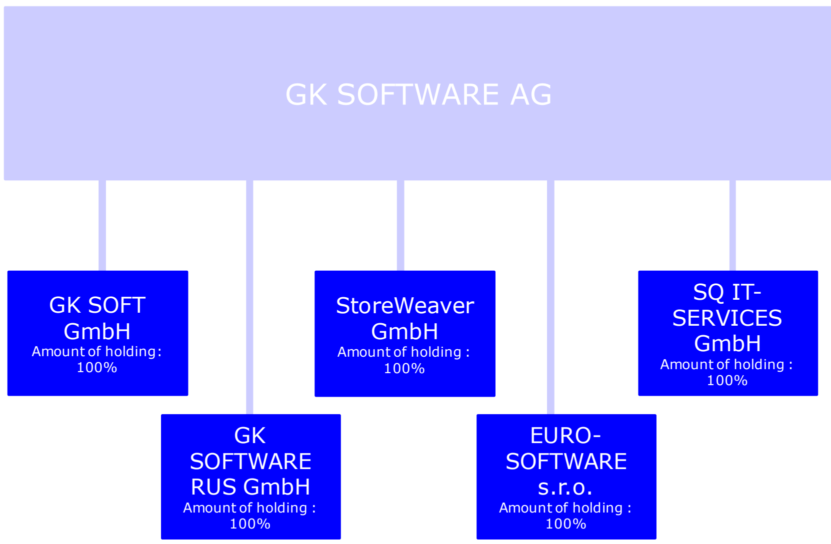
Solquest acquisition strengthens infrastructure applications

Previously, GK SOFTWARE focussed on POS applications for the retail industry. Over the course of time, infrastructure applications were added to the company's range of services. These have a high strategic value for the retail companies and are also an ideal supplement to the existing product portfolio.

Clear structure for subsidiaries

The group structure of GK SOFTWARE is highly transparent. GK SOFTWARE AG has four 100% co-operations, which each fulfil clearly defined tasks for the group. The Czech subsidiary EUROSOFTWARE s.r.o. (Pilsen) is of particular importance, as the development capacities of the Group are focused at this site.

Figure 02: Organisational chart (as of 08/2001)



Source: GK SOFTWARE AG

Solquest, acquired in 2009, is now fully integrated

From our point of view, the 2009 takeover of Solquest enabled the rapid development of expertise in the field of infrastructure. The integration of the acquired unit is complete. The Solquest application, which is not being continued as an independent product, continues to provide maintenance proceeds, while the Solquest expertise has been integrated into the existing GK application. Solquest customers are gradually being transferred into GK's retail world.

Table 06: Company history

Time	Event
1990	Foundation of the company as G & K Datensysteme GmbH in Schöneck (Sachsen), by R. Gläß and S. Kronmüller.
1992	First productive implementation of a FiBu application (DOS-based) for medium-sized businesses
1996/1997	Shift of the sector focus to retail and Java-based POS applications; foundation of EUROSOFTWARE s.r.o.. (Pilsen/Czech Republic)
1998	First productive project with a Java POS application
2000	Certification of the proprietary application GK/Retail for SAP.
2001	Change from G & K Datensysteme GmbH to GK SOFTWARE AG
2002	Start of the first project with GK/Retail Workflow with Netto Markendiscount
2003	Integration of the Czech subsidiary; first project with complete SAP integration
2004	Start of the first productive project with GK/Retail Mobile at Netto Markendiscount
2005	Release of StoreWeaver (integration platform) as own product
2006	Branch opened in Berlin
2007	First productive use of GK/Retail Enterprise Storeweavers at EDEKA Minden-Hannover
2008	Company IPO; beginning of international marketing; foundation of subsidiary StoreWeaver GmbH, Riehen (Switzerland)
2009	Acquisition of Solquest (asset deal); conclusion of sales partnership agreement with SAP
2010	GK pays dividends for first time since IPO; the sales partnership with SAP is expanded
2011	Fressnapf is the first acquired customer of the SAP cooperation

Source: GK SOFTWARE AG

Business model

Modular GK/Retail application stands at the centre of service range

GK/Retail also forms the core of GK SOFTWARE's application portfolio. All customer projects use this standard product. GK SOFTWARE‵s target customer group is retail chain stores/franchisees. The platform and hardware-independent, Java-based standard software has a modular structure based on the modular principle and is SOA-compatible (SOA - Service oriented architecture). The customer therefore only selects those products/modules which it requires. The parameters for the selected modules are then set in such a way that all specifics for the retail chain store, such as bonus card models and special discounts, can be included. The application has been continuously developed to include new features, such as the stock into server, which can be used for the decentralised relocation of stock and the IBM self-checkout (2010).

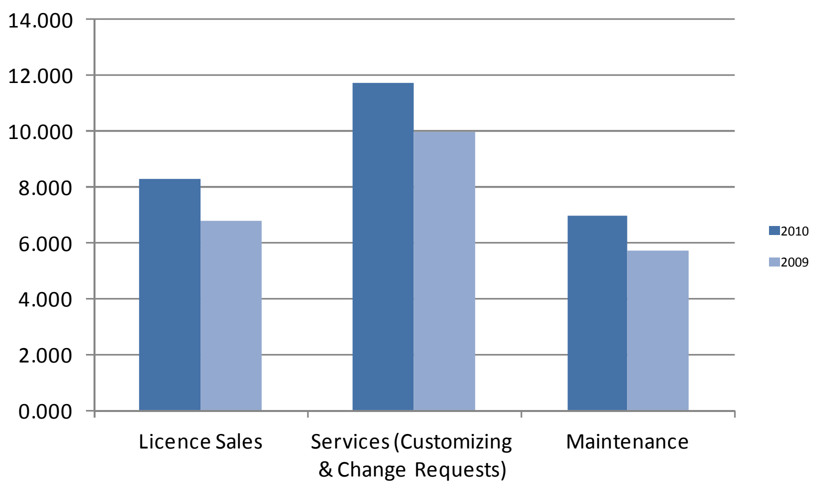
GK's performance promise: Efficient processes, higher customer retention and improved flow of information

GK's applications address various central themes in retail. In addition to customer retention and the exchange of information in real time, the optimisation of goods management is a specific focus. The stock info server is an example of this development, enabling store employees to view the stock levels of other stores and actively request a stock transfer. GK/Retail enables the retail industry to increase inventory turnover, optimise internal processes and offer added value to its customers.

New licences are the best growth indicator, stable maintenance proceeds follow development

The best indicator for growth in a software business model is the licence sales. They create the foundations for maintenance earnings, usually with high margins, in future years and increase the base of potential customers for new releases and product generations. Each new customer project not only provides licence earnings but also service revenue from the requirement for individual adjustments and on-site installations. Revenue which is not part of GK's core business is categorised under Other, for example the transferred hardware revenue.

Figure 03: Sales mix 2009 and 2010



Source: GK SOFTWARE AG

Research and development highly prioritised

GK SOFTWARE has a comparatively high development team, which currently makes up a third of the entire personnel, with the aim of gaining a technological advantage and securing the innovative leadership of GK/Retail. The development department is located abroad, near to the German border. The Pilsen site (Czech Republic) with its 132 members of staff is ideal for two reasons: For one thing, the local university provides a good source of well-trained programmers who provide a high level of quality. Secondly, the salary levels are lower than, for example, in Germany.

Country versions internationalised

As a supplier of standard software with many national versions, internationalisation plays an important role at GK. The national versions developed within the scope of international customer projects, which reflect both the language and the country's legal framework, are a prerequisite for the acquisition of additional foreign retail chain stores. Versions for four new countries, China, Bulgaria, Serbia and Bosnia, were developed in 2010. By the end of 2010, 37 national versions were therefore available.

Management Board

Company founder leads the BM

The Chairman of the BM at GK SOFTWARE, Mr. Rainer Gläß, founded GK SOFTWARE AG in 1990 with Mr. Stephan Kronmüller, who acted as the Head of Technology for many years. As Chairman of the Management Board, Mr. Gläß is responsible for Administration, Marketing and Sales. Mr. Kronmüller recently stepped down from his position on the Management Board for Technology and Development but remains Head of the GKFutureLab and representative member of the Management Board at GK SOFTWARE. Both founders directly and indirectly hold large stakes in GK SOFTWARE.

The third member of the Management Board is Mr. André Hergert, who is responsible for Finances. Mr. Ronald Scholz, the former head of operative business, went on parental leave in the second half of 2011 and decided to leave the company on 31.10.2011. The committees of GK SOFTWARE have selected Oliver Kantner, an experienced manager, as the successor in the role of Head of Operations. Due to his many years of professional experience, including his position as Head of Shop Operations & Development/Customer Service at Tchibo and as a Senior Customer Services Manager (Amazon Germany), Mr. Kantner has good contacts with retail and service companies operating at an international level The new Head of Technology, Mr. Michael Jaszczyk, has been working at GK SOFTWARE for around a year. Mr. Jaszczyk previous work includes his position as CTO at the stock market-listed company Pironet AG.

GK aims for continuity: Management Board contracts extended

The expired executive contracts of Mr. Gläß and Mr. Hergert were each extended by a further five years in Q1 2011. This guarantees continuity on the BM and allows the Supervisory Board to recognise the successful work of the executives.

Supervisory Board

Experienced Supervisory Board

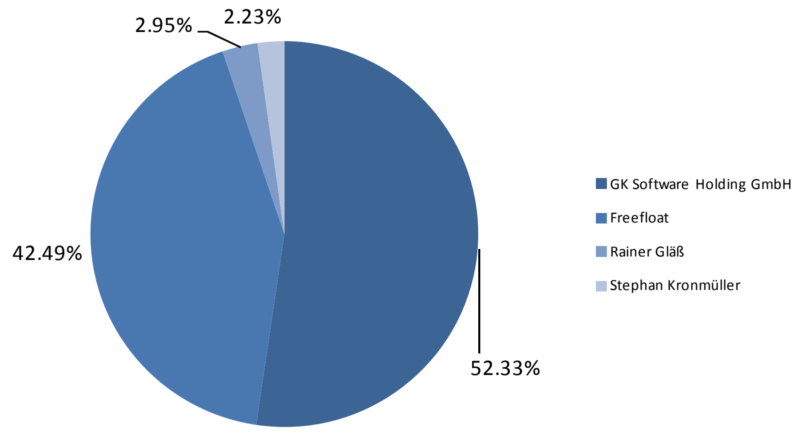
The Supervisory Board is lead by Dipl. Economy Uwe Ludwig, who has been a member of the board since 2001. The appointment of Mr. Ludwig was extended at the Annual General Meeting of 2011 with no dissenting votes. The appointment of banking economist Thomas Bleier, who was appointed as a member of GK's Supervisory Board in 2003 for the first time, will continue until 2014. The retail specialist Herbert Zinn, who is also CEO of Sübet Rhein-Main Handels- und Beteiligungsgesellschaft mbH & Co. KG, was voted as a new member of GK's Supervisory Board at the Annual General Meeting of 2011.

Majority of shares held by founders

Shareholder structure

The two founders of GK SOFTWARE AG hold the majority of the company's shares via GK Software Holding GmbH (stake: 52.33%). Mr. Gläß directly holds a stake of 2.95%, while Mr. Kronmüllers also holds a direct 2.23% stake. Institutional investors who have subscribed to a stake of more than three percent include Universal-Investment-Gesellschaft mbH and Deutsche Asset Management Investmentgesellschaft mbH, although the dilution resulting from the capital increase at the end of 2010 is likely to have reduced their stakes to under the 3% marker. The widely held stock is currently 42.49%.

Figure 04: Shareholder structure as of 30.06.2011



Source: GK SOFTWARE AG

Strategy

Technologically leading software application

GK SOFTWARE offers a technologically leading IT application for the retail industry. The range of applications is based 100% on Java and open standards. The functions have been developed during the course of numerous projects and many special functions for the various retail sectors are already available. The ongoing expansion of the application secures and improved GK SOFTWARE's own market position.

Early focus on standard software pays off

The time of isolated applications in retail has passed, as it is becoming increasingly difficult to keep up with the functions of standard applications. The internal company applications which were widely used in the past are now becoming increasingly rare among the retail chain stores. GK SOFTWARE recognised this development at an early stage and created a standard application with a wide range of optional features and functions, which can be tailored the respective customer. As the GK application "learns" from new projects and is being constantly developed, it would be almost impossible for a retail company to create their own application with the same performance characteristics at a reasonable cost. Improvements of the GK standard application are made available to all existing customers within the scope of new releases.

Cost leadership in (further) development

GK SOFTWARE has a large development site in Pilsen (Czech Republic). As highly qualified specialists can be employed here at salaries under the level in Germany and the USA< GK SOFTWARE has a decisive cost advantage in the field of development. This is of particular benefit when processing customers' change requests.

Research and development strategy

Research and development of major importance

Research and development is a particularly important field. In comparison to many competitors, GK SOFTWARE is a fairly small company which therefore needs to play the trump card of innovative leadership when acquiring new customers. The importance of development activities is clearly demonstrated by that around a third of the company's staff is employed at the research site in Pilsen with its 132 members of staff. 17 of these members of staff are dedicated to the observation of current trends in the software market. We expect investments in the field of research and development will remain high over the coming years, but will grow more slowly than turnover due to scaling effects.

Infrastructure applications become increasingly important for GK

GK is increasingly directing its own service portfolio, which is grouped around the GK/Retail Suite, in the direction of infrastructure applications. GK originally specialised in the area of POS applications, a highly competitive market. Infrastructure applications (such as StoreWeaver) have high strategic significance in retail, as they form the basis for efficient central management of stock distribution to individual stores. This service is provided by fewer competitors than in the market for POS applications. GK SOFTWARE offers both applications as a package.

Sales strategy

Indirect sales: Sales partnership with SAP as leverage

GK SOFTWARE has also gained access to SAP through the issue of infrastructure, as the applications provided by GK SOFTWARE ideally supplement SAP's product portfolio in the area of POS applications. At the end of 2009, both companies therefore entered into a sales partnership which was then extended in July 2010. The sale of the GK applications via SAP is not exclusive. GK has reached new heights as a result of its sales partnership. Profits from the major EDEKA project were generated as a result. The reputation gained by the partnership with SAP is also an advantage in the case of direct sales. This also applies to the certification which GK has received from IBM.

Insertion: SAP partnership

GK modules for SAP and end customers of high strategic importance

The sales partnership with SAP relates to the GK modules which address the topics "Store Device Control" and "Offline-capable mobile store processes". A package providing the POS application and "Store Device Control" is also distributed by SAP. The "Store Device Control" can be used to integrate external hardware at the store, such as reverse vending machines and fruit scales. Their integration is essential for an efficient real time ERP application and the service therefore has a high strategic value. GK SOFTWARE consequently represented by its own modules in all POS system projects acquired by SAP in the retail sector. Even if SAP sells its own POS application, GK's infrastructure modules will still be used.

Strong partner as confirmation of quality

For a small company like GK SOFTWARE, a sales partnership with a leading company in the sector is always a signal for the market. This seal of quality may also support GK SOFTWARE's direct sales. The majority of larger retailers and chain stores also aim to harmonise their own systems as extensively as possible. The partnership between GK and SAP can achieve this with regards to ERP and goods management systems.

Project example EDEKA

EDEKA was the first customer acquired by SAP and GK within the scope of a joint project. Previously, EDEKA did not have a standard company application and used different systems at the individual regional companies. The conclusion of the agreement regarding the major EDEKA project Lunar was, in our opinion, possible because GK had SAP, economically strong partner, at its side and because SAP was able to connect peripheral devices to the ERP system using the GK modules. At this point in time, the project was the largest of its kind in Germany and had a corresponding signal effect.

2011: SAP partnership enters productive sales phase

After the successful completion of the pilots at EDEKA at the beginning of 2001, the sale of the GK application by SAP entered the productive phase. An initial visible success is the acquisition of the specialist retailer Fressnapf. The provision of equipment for the approx. 1,150 stores by SAP will take several years, with the majority of revenue generated in 2012. It can be assumed that indirect sales will significantly pick up speed in the coming years. SAP already has a high market penetration with around 9500 customers in the retail and wholesale sectors. The combination of SAP and GK applications provide clear added value for customers, as both applications work together smoothly. In this respect it should be possible to reach many existing SAP customers on the basis of the cooperation.

Direct sales will remain a major pillar

GK does not intend to develop a one-sided dependency on its partnership with SAP. In the long term, GK SOFTWARE aims to work in the market with its own sales staff to sustain feeling for the market through customer contact () and maintain a high level of visibility with its own order pipeline. Foreign customers will also be acquired, partially though our own sales companies (USA, GB).

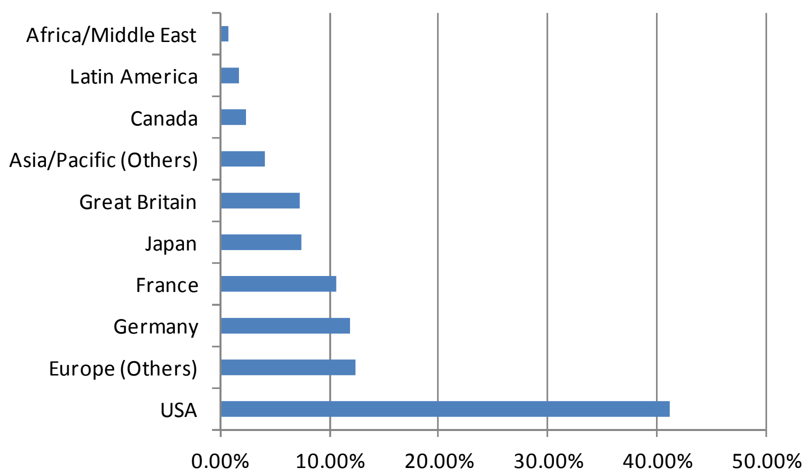
Growth in new regions and customer segments.

GK SOFTWARE's expansion strategy consists of tapping into new regions and customer groups with company's self-developed GK/Retail application. As the GK product will play a central role customers' value creation, successful project references play a vital role. In the case of international projects and customers it is helpful if a national version already exists. Otherwise, they are created within the scope of the supra-regional customer projects. Versions for four new countries, China, Bulgaria, Serbia and Bosnia, were developed in 2010. The cooperation with SAP has facilitated the expansion into other countries considerable and has also strengthened GK SOFTWARE's own sales team.

USA is most important target market, Germany in second place

Measured by the revenues of the top 250 retail chains, Germany was the second most important national market in 2008 with a share of 11.9%. GK SOFTWARE is already strongly represented in this country. Germany is significantly behind the USA (41.2%), but ahead of France (10.7%), Japan (7.4%) and Great Britain (7.3%). Five of the ten largest European retail chain stores are based in Germany and four in France.

Figure 05: Global sales distribution of the top 250 retailers



Source: Deloitte

Option to expand customer range available

The two customer segments where GK SOFTWARE has previously been the most strongly represented are food store chains and discounters, but the company's customers also include specialist traders (books, clothing, construction markets). Specific application modifications are available for the areas already addressed. Related customer segments, such as franchise restaurants and petrol station companies represent potential targets. Only minor adjustments to the standard application would be required for such customers.

GK plans to grow organically with its own application platform - acquisitions are not a central element of the strategy

Acquisitions are not a central element of the growth strategy. As the core of the applications is created by GK/Retail, it would not make sense for GK SOFTWARE to acquire an external manufacturer of standard software, as two platforms would then need to be either integrated or developed in parallel. The acquisition of Solquest should therefore not be regarded as a traditional acquisition: The main purpose of this measure was to acquire beneficial expertise which GK SOFTWARE would otherwise have had to develop itself. This expertise was used to save development time and strengthen the company's own application. The establishment of a second development platform, on the other hand, would not have made economic sense. Solquest customers are therefore being transferred to the GK application in the medium term.

Market

IT in retail

IT budgets increased significantly in 2010

Retail IT budgets typically represent 0.3% to 1.8% of revenue, depending on the range of products and retailer. Across the sub-segments, average annual budgets tend to be slightly over 1%. In 2010, the average IT budgets represented 1.3% of revenue, according to a survey of responsible CIOs. With sales revenue of over € 390 billion alone in Germany, this would represent a volume of over € 5 billion. In comparison: According to BITKOM forecasts, the entire IT market in Germany will have a volume of € 68.8 billion in 2011. (Hardware: € 19.2 billion; software: € 15.4 billion; IT services € 34.2 billion)

Significant budget increase from 2009 to 2010 due to cycle

The increased IT budget in relation to revenue of just under 1% in 2009 to 1.3% in 2010 resulted in a market volume increase of around 30%, as the sales revenue remained unchanged from 2009 to 2010. We believe that this growth is mainly due to a pro-cyclical effect. According to our expectations, 2011 is likely to be similar to the IT budget relations of 2010, although they will fall slightly. The EHI Retail Institute predicted that the IT budget will make up 1.12% of net revenues. Net revenue increased by 2.7% during the first six months of 2011.

Potential market volume of 250 million to € 290 million can be addressed in Germany alone

The management of GK SOFTWARE estimates that around € 250 million to € 290 million of the entire IT budget in retail (around € 5 billion) can be addressed by GK SOFTWARE. From our point of view this implies, taking the size and technical status of the German market into account, a global addressable market volume of slightly over € 2 billion.

20% of German store software applications are outdated

The software proportion of the IT budget in retail is of particular importance to GK SOFTWARE, and here in particular the amount used for POS and infrastructure applications. On average, the store software/POS applications currently being used is around 5.8 years old and the average lifetime of these applications is accordingly around 6 years, whereby the typical deprecation for software is 3 to 5 years. In fact, 20% of the applications are actually 10 years old. Modernisation requirements with revenue potential of approx. € 320 million can be deduced on the basis of these figures

IT for the retail industry still changing

The IT retail market has changed completely over the past decade. During the 80s, hardware still played a major role, in contrast to the current island position and value creation of software. The players in the market are changing correspondingly - former hardware specialists such as IBM have gradually developed IT services as one of their mainstays in this area.

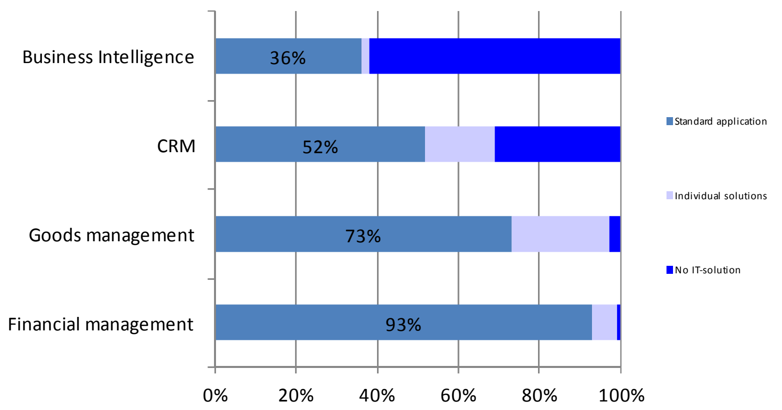
Individual applications no longer used

Customers' software preferences have also changed over the years. While many retailers initially preferred individual applications and in-house developments, externally produced standard applications have now become more popular. However, this trend is evident to varying degrees in the individual areas of implementation within the retail industry. This is due to the fact that financial processes, for example, are very easy to standardise. In goods management, the increasing requirements regarding data integration and the ability to interact with other internal and external IT systems can help standard software providers to replace individual applications. According to a market survey conducted in 2011, around 24% of retail companies still use isolated applications/in-house developments. In the financial industry, the standardisation is more advanced - here, 93% of companies use a standard application.

Costs and complexity are the main arguments in favour of standard applications

The high costs of (further) development, the maintenance of individual systems and the lack of flexibility in such systems are several of the reasons why companies prefer standard applications. This also applies to the interfaces. There is also a risk that is the company develops applications in-house, they will miss out on market trends. Hardware-independent modular standard applications such as GK/Retail are therefore up to date, as the retail companies want to be able to make individual adjustments to the product according to their respective requirements using the modular functions and product features. Customers are provided with a solid guarantee that the systems will remain fully up to date due to external maintenance of their own systems and access to updates and new releases.

Figure 06: Use of software in retail (2011)



Source: RAAD Research 6/2011

Business intelligence as a driver for GK infrastructure applications!?

Business intelligence applications are not common in retail due to the fact that the assessment of existing date is often possible without taking any further measures. Through the use of real time data, GK applications can make the use of business intelligence tools much easier through the implementation of SAP. This may be another motivation for SAP to actively push ahead with its partnership with GK SOFTWARE, as SAP significantly increased its involvement in the area of business intelligence with the takeover of Business Objects in 2007.

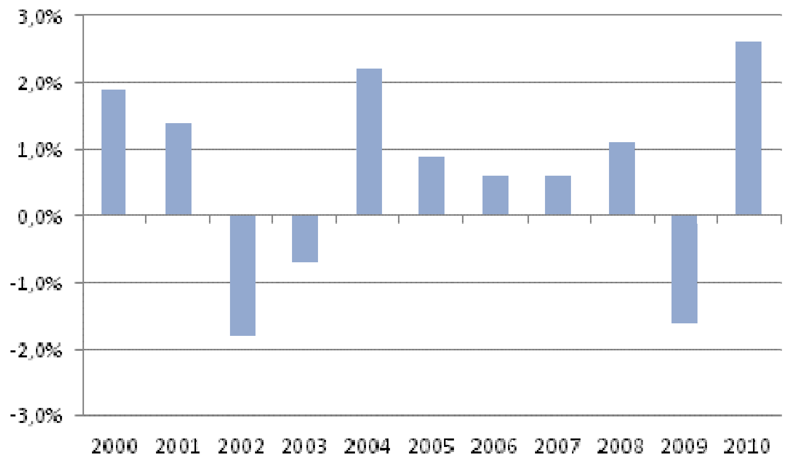
Harmonisation of IT is highly prioritised

The harmonisation of IT is a priority for the CIOs of the retail companies. 82% of decision-makers categorised this point as "very important" or "important". Indirectly, this preference indicates a clear rejection of isolated applications. An IT landscape from one source is still rare in retail: over two thirds of those retail companies questioned by RAAD stated that the production of reports was associated with medium to high manual costs. GK SOFTWARE's applications make all retail data available in real time at the company's headquarters by automatically integrating the individual stores. The cooperation with SAP will also enable the company to drive ahead with the harmonisation of the goods management and financial management applications in the interests of customers and can be used as a sales argument.

Retail is barely affected by economic fluctuations

As one of GK's main target groups, retail is not as affected by revenue fluctuations caused by economic circumstances as most other branches. In the crisis year of 2009, retailers' revenues in Germany fell by only 1.6%, while the gross domestic product plummeted by 5%. The recovery with 2.6% in 2010, on the other hand, was a very positive result. The gross revenue in retail (not including car sales, petrol stations, fuel sales and pharmacies) was around € 402.3 billion in 2010.

Figure 07: Changes in retail net sales in Germany 2000 to 2010, in each case compared to previous year



Source: destatis, HDE

Different drivers for investment

There is doubtless a specific uncertainty about future economic developments and also the development of the IT budget in retail, although the IT budgets in retail have remained over the rate of 1% during the recent difficult economic times. In addition to the effect of the investment backlog which is now impacting the market and which is particularly noticeable in beneficial economic environments, the topics of "process optimisation" and "customer acquisition" are investment reasons which become appealing during difficult times. This is particularly the case for software applications.

Strengths of GK/Retail Solutions are in the technical integration and real time access…

The Java-based GK/Retail Solution offers customers maximum freedom to choose. The application is independent from specific hardware and operating systems, SOA-compatible (SOA=Software-oriented Architecture) and has interfaces with all important other software systems. Retail companies therefore remain free to choose their hardware suppliers and can integrate old peripheral devices into the new system themselves with relatively little effort. The simple connection and disconnection of external systems is an important unique feature of the GK application, which is an ideal way to direct the flow of information into decentralised structures and cut process costs. The GK/Retail Lean Store Server is also responsible for the latter by slim-lining the hardware structures at the stores and thereby helping to cut maintenance costs.

… only real time systems enable quick and qualified decisions

A further significant benefit of the GK application is that the store data is recorded in real time. Previously, store data was recorded at regular intervals by writing over the data once a week/day. With GK/Retail, the data is immediately available at the company's headquarters. The real time recording allows the efficiency of processes and stock management to be optimised and the real time data is also a better basis for business intelligence assessments. With a new function presented at the EuroCIS, the stores will also be able to view the real time stock levels of other stores in the future so that they are able to request the relocation of goods at low stock levels. This will enable stock to be managed more efficiently, reduce capital commitment and ultimately provide a better availability of goods and therefore increased customer satisfaction. The applications provided in the GK/Retail Suite are described and characterised in detail below.

SAP interface - infrastructure application as bridge

GK SOFTWARE recently changed its product structure for even better integration with the shared SAP application. The overall GK SOFTWARE application is still based on two central aspects: Store Operations (POS applications) and StoreWeaver Enterprise Edition (infrastructure applications). The infrastructure application in particular creates an important link with the ERP world of SAP, as it enables peripheral devices to be integrated. As a result, customers can be offered IT systems as if they were from the same source. We have described the SAP applications and modules below.

Table 07: Product overview

Product group/product	Description
Store Operations	Includes applications for use in retailers' stores and headquarters for processes in the warehouse, shelves, back office and at the POS. The applications are coordinates but can be used individually.
GK/Retail POS (marketed by SAP under the name *"GK point-of-sale from SAP"*)	Market-leading application for the operation of POS systems; secure management of all processes at the POS and in the back office for financial management, store administration and reporting; use in mobile devices or self-check systems is possible
GK/Retail Task Management	Guarantees the automatic, controlled and simultaneous distribution of information (such as announcements or product call backs); can also be used on mobile end devices
GK/Retail Open Scale	Open platform-independent application which can be used on any modern PC scale; development partner is Bizerba
GK/Retail Lean Store Server	Enables the centralisation of all back office servers, transferring IT systems from the stores to the headquarters and significantly reducing maintenance and service costs; GK is the global leader in this field
GK/Retail Enterprise Store Manager	Market leader in the administration, management and techn. monitoring of international store networks; this is an important unique selling point of the GK application
GK/Retail Enterprise Cockpit	Quick overview of technical and specialist key figures, real time assessment of sales data, transparency with regards to system statuses and central operational data
GK/Retail Enterprise Promotions Management	Complete application for the composition, administration and execution of promotions and campaigns (sales, customer card systems, coupons etc.)
GK/Retail Stored Value Server	Central database for all coupon campaigns; management of all processes associated with the handling of coupons
GK/Retail Digital Content Management	Takes over the distribution of multimedia content (images, videos, text) to different distribution devices
GK/Retail Sales Cockpit	Prepares key figures relevant to sales for the different management levels in real time; can be used on mobile end devices
StoreWeaver Enterprise Edition	Includes the service components Store Device Control and Mobile store processes. Although closely associated with the "Store Operations" application, this application can also be used completely independently
GK/Retail Store Device Control (sold by SAP under the name *"GK store device control software from SAP"*)	For end-to-end connection to all of the store's peripheral devices. Automatic data distribution to all devices from the SAP system; guarantees secure and current master data (e.g. prices) and ensures that the central system is supplied with movement data (e.g. sales data).
GK/Retail Mobile Goods management processes (sold by SAP under the name *"GK offline mobile handheld application from SAP"*)	For all store goods management processes (e.g. label printing, merchandise planning, stock-taking, incoming goods) which are available on mobile devices. End-to-end connection of braches to the headquarters (near real time)
SQRS application	Was acquired during the course of the Solquest takeover, will be integrated into the GK application and no longer developed as an independent application

Source: GK SOFTWARE AG

Lean Store Manager and Enterprise Store Manager provide unique selling point in the market

Two application modules are to be particularly highlighted: The GK/Retail Lean Store Server and the GK/Retail Enterprise Store Manager. GK SOFTWARE is the global market leader in the centralisation of all back office servers provided by the0020Lean Store Server. As the application can result in a significant reduction of costs, it is a significant selling point. The same is true of the GK/Retail Enterprise Store Manager: The option of managing stores internationally is a further unique selling point of the GK SOFTWARE.

Pressure from competition has led to willingness to invest in the retail sector

As competitive pressure is particularly high in the retail sector, retail chain stores cannot afford to do without features used by competitors for long. This might include, for example, customer retention programmes, coupon schemes by the manufacturer or the use of analysis tools. The POS applications used must be able to handle these requirements in addition to any newly developed customer retention programmes (such as loyalty rewards, bonus cards or discount vouchers).

GK/Retail as a learning application…

New customers always offer GK with the opportunity of increasing its sector knowledge. The first customers in a new segment are of particular significance, as additional features are added to the standard GK/Retail application during the course of these initial projects. The standard GK application therefore learns during new projects. Successful sector projects have a signalling effect and may be the reason who GK has come to have a very high market share among food discounters (Lidl, Netto, Plus and EDEKA). However, GK SOFTWARE has also become involved in the fashion (ESCADA, Ludwig Beck), book retailer (Thalia), perfume (Douglas) and construction markets (Hornbach).

…Project experience is a decisive entry barrier

Project and the associated knowledge about customer requirements and processes are the decisive market entry barriers, alongside research and development activities. Furthermore, the reputation gained from successful projects is important in the acquisition of new customers.

Market segments and competitors

Germany: Around 10% of the potential market acquired - GK is growing more quickly than competitors

In 2010, GK SOFTWARE had a market share of approx. 10% with regards to the potential addressable market. A precise market classification is difficult as in general, the company often works with specialised partners. We nevertheless assume that GK will grow much more quickly than its competitors and the relevant overall market. While annual growth rates of slightly over 10% have been forecast for competitors from the peer group (excl. Wincor Nixdorf), we anticipate an average of 18% p.a. for GK SOFTWARE.

Competitors are specialised software manufacturers and international suppliers

the company’s competitors include international companies and niche specialist software companies. International companies providing IT services for the retail sector include NCR, IBM and Wincor Nixdorf, which originally focused on hardware for retailers and have now shifted to an IT service portfolio. GK, on the other hand, has always been clearly positioned as a software company since its foundation in the early 90s.

Regional players also remain active in the POS system market…

In addition to the large globally active companies, smaller companies are also active in the European market for POS systems. DdD, based in Denmark, has specialised in the fashion retail sector for over 20 years, with a majority of customers in the fields of clothing, shoes and make-up. According to some sources, the company has 800 customers in ten countries. Reference customers include ESPRIT, Saint Tropez, Royal Copenhagen, PUB, and BERTONI. We consider it likely that DdD's customers are mainly smaller stores and there will therefore be less direct competition with GK SOFTWARE which, for example, has referees such as Ludwig Beck in the fashion segment. TCPOS AG in Switzerland addresses the areas of gastronomy (hotel, catering) and retail. The company's referees include Clarins (Paris), Del Maitre, Elizabeth Arden and Nestlé Shop.

...as do many (smaller) specialists and niche suppliers

The POS system applications of DICOM Dischinger Computer GmbH (mainly for specialist beverage wholesale, beverage collection markets and the wine industry), the very small Micro Systems (ticketing for museums, zoos and galleries) and ABACUS Retail GmbH are not considered to be direct competitors. The sheer number of suppliers shows, however, that the market for POS systems is still highly fragmented and that there are a numerous specialists and niche suppliers. With its general approach and the integration of infrastructures, GK SOFTWARE has clear distinguishing features compared to these competitors.

End customer markets

USA largest end market - growth potential in the developing countries

The most important market is the USA, where five of the ten major retail chain stores are located. Problems in the USA, which have resulted in changes in consumer behaviour, and in Great Britain have encouraged many chain stores to look for new markets. The rapidly growing emerging economies are also becoming more appealing to retail companies. These economies include the BRIC and eastern European countries. Many European retail chain stores have already orientated themselves in the direction of eastern Europe over the past few years.

Table 08: The 250 largest retail chains in 2010 (extract)

	Retail chain store (segment)	Home country (represented in ... countries) .	Revenue (retail) in billion US-$ (2008)	CAGR 2003-2008 (Retail)
1	Wal-Mart Stores Inc. (Hypermarket/Superstore)	USA (15)	401.2	9.4%
2	Carrefour S.A. (Hypermarket/Superstore)	F (36)	128.0	4.3%
3	**Metro AG (*1)** (Cash&Carry/Warehouse Club)	**D (32)**	99.0	4.8%
4	Tesco plc (Hypermarket/Superstore)	GB (13)	96.2	12.0%
5	**Schwarz Unternehmens Treuhand KG (*2)** (Discount Store)	**D (24)**	80.0	12.3%
6	The Kroger Company (Supermarket)	USA (1)	76.0	7.2%
7	The Home Depot, Inc. (Home Improvement)	USA (7)	71.3	1.9%
8	Costco Wholesale Corp. (Cash&Carry/Warehouse Club	USA (8)	71.0	11.2%
9	Aldi GmbH (Discount Store)	D (18)	66.1	5.1%
10	Target Corp. (Discount Department Store)	USA (1)	62.9	6.1%
19	**Edeka Zentrale AG (*3)** (Supermarket)	**D (1)**	47.4	4.9%
52	**Coop Group (Schweiz)** (Supermarket)	**Swiss (1)**	15.6	4.8%
105	**X5 Retail Group** (Discount Store)	**Russia (3)**	8.3	n.m.
170	**Douglas Holding AG** (Speciality)	**D (24)**	4.7	6.9%
206	**HORNBACH Baumarkt AG** (Home Improvement)	**D (9)**	3.8	4.8%

Source: Deloitte "Global Powers of Retailing 2010"
(*1) Galeria Kaufhof is a GK reference customer; (2*) Lidl; (3*) Edeka, Netto and Plus

In the overview of the largest retail chain stores above, we highlighted the chain store which is a reference customer of GK SOFTWARE for at least one of the subsidiaries. In the case of the Metro, for example, this is the subsidiary Galeria Kaufhof. The table shows that GK SOFTWARE is already well-known and has noteworthy referees among some of the major retail chain stores, but on the other hand still has plenty of potential, especially in the international market.

Profit and Loss Account

in €m.	2008	2009	2010	2011e	2012e	2013e
Sales revenues	**15.029**	**23.277**	**27.690**	**32.191**	**37.339**	**45.656**
Change in finished goods and work in progress	-1.260	-0.873	0.000	0.000	0.000	0.000
Other own cost capitalized	0.815	1.067	0.649	1.046	1.213	1.483
Other operating income	0.424	0.826	1.368	1.657	1.922	2.350
Total performance	**15.008**	**24.296**	**29.706**	**34.893**	**40.474**	**49.489**
Cost of material	-0.514	-0.561	-1.540	-1.072	-1.243	-1.064
Gross profit	**14.494**	**23.735**	**28.166**	**33.822**	**39.231**	**48.426**
Personnel expenses	-8.047	-12.117	-14.840	-18.996	-22.034	-27.382
Other operating expenses/income	-2.954	-5.448	-5.344	-6.588	-7.642	-9.269
EBITDA	**3.493**	**6.171**	**7.982**	**8.238**	**9.555**	**11.775**
Depreciation/amortisation	-0.719	-1.281	-1.548	-1.800	-2.087	-2.187
EBIT	**2.775**	**4.890**	**6.435**	**6.438**	**7.468**	**9.588**
Financial result	0.090	0.143	-0.128	0.116	0.151	0.161
Non operating result before taxes	0.000	0.000	0.000	0.000	0.000	0.000
Pre tax result	**2.864**	**5.033**	**6.307**	**6.554**	**7.619**	**9.749**
Non operating result after taxes	0.000	0.000	0.000	0.000	0.000	0.000
Taxes	-0.830	-1.516	-1.836	-1.904	-2.214	-2.833
Minority interest	0.000	0.000	0.000	0.000	0.000	0.000
Net result	**2.034**	**3.517**	**4.471**	**4.650**	**5.405**	**6.916**
Adjustments	0.000	0.984	0.000	0.000	0.000	0.000
Adjusted net result	2.034	4.501	4.471	4.650	5.405	6.916
Average number of shares	1.665	1.665	1.790	1.790	1.790	1.790
EPS	**1.22**	**2.11**	**2.50**	**2.60**	**3.02**	**3.86**
Adjusted EPS	1.22	2.70	2.50	2.60	3.02	3.86
DPS	0.00	1.00	0.50	0.56	0.65	0.80

Source: GK SOFTWARE AG / Vara Research GmbH

in % of Sales	2008	2009	2010	2011e	2012e	2013e
Sales revenues	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Total performance	99.9	104.4	107.3	108.4	108.4	108.4
Cost of material	-3.4	-2.4	-5.6	-3.3	-3.3	-2.3
Gross profit	**96.4**	**102.0**	**101.7**	**105.1**	**105.1**	**106.1**
Personnel expenses	-53.5	-52.1	-53.6	-59.0	-59.0	-60.0
Other operating expenses/income	-19.7	-23.4	-19.3	-20.5	-20.5	-20.3
EBITDA	**23.2**	**26.5**	**28.8**	**25.6**	**25.6**	**25.8**
Depreciation/amortisation	-4.8	-5.5	-5.6	-5.6	-5.6	-4.8
EBIT	**18.5**	**21.0**	**23.2**	**20.0**	**20.0**	**21.0**
Financial result	0.6	0.6	-0.5	0.4	0.4	0.4
Non operating result before taxes	-	-	-	-	-	-
Pre tax result	**19.1**	**21.6**	**22.8**	**20.4**	**20.4**	**21.4**
Non operating result after taxes	-	-	-	-	-	-
Taxes	-5.5	-6.5	-6.6	-5.9	-5.9	-6.2
Minority interest	-	-	-	-	-	-
Net result	**13.5**	**15.1**	**16.1**	**14.4**	**14.5**	**15.1**
Adjustments	-	4.2	-	-	-	-
Adjusted net result	13.5	19.3	16.1	14.4	14.5	15.1

Source: GK SOFTWARE AG / Vara Research GmbH

Balance of Accounts

in €m.	2008	2009	2010	2011e	2012e	2013e
Long term assets	**4.226**	**12.743**	**13.166**	**14.248**	**15.103**	**15.714**
Intangible assets	1.633	9.333	9.116	8.697	8.092	7.652
Tangible assets	2.593	3.410	4.050	5.551	7.011	8.061
Financial assets	0.000	0.000	0.000	0.000	0.000	0.000
Current assets	**15.382**	**19.242**	**31.110**	**33.651**	**37.270**	**42.516**
Inventories	0.738	0.000	0.000	0.000	0.000	0.000
Trade receivables	3.023	5.846	14.110	9.740	11.298	13.815
Receivables	2.765	2.759	3.558	3.558	3.558	3.558
Cash and securities	8.855	10.637	13.442	20.353	22.414	25.143
Other assets	**0.018**	**0.390**	**0.529**	**0.529**	**0.529**	**0.529**
Total assets	**19.626**	**32.375**	**44.805**	**48.428**	**52.902**	**58.758**
Equity	**11.782**	**15.300**	**24.332**	**28.086**	**32.491**	**38.244**
Reserves	11.782	15.300	24.332	28.086	32.491	38.244
Minorities	0.000	0.000	0.000	0.000	0.000	0.000
Provisions	**0.847**	**0.847**	**0.921**	**0.937**	**0.954**	**0.972**
Liabilities	**5.803**	**14.953**	**17.060**	**16.913**	**16.966**	**17.051**
Interest bearing liabilities	1.256	6.724	5.983	5.983	5.983	5.983
Trade payables	0.526	0.774	0.476	0.329	0.381	0.466
Non interest bearing liabilities	4.021	7.455	10.601	10.601	10.601	10.601
Other liabilities	**1.193**	**1.276**	**2.491**	**2.491**	**2.491**	**2.491**
Total equity and liabilities	**19.626**	**32.375**	**44.805**	**48.428**	**52.902**	**58.758**

Source: GK SOFTWARE AG / Vara Research GmbH

in %	2008	2009	2010	2011e	2012e	2013e
Long term assets	**21.5**	**39.4**	**29.4**	**29.4**	**28.5**	**26.7**
Intangible assets	8.3	28.8	20.3	18.0	15.3	13.0
Tangible assets	13.2	10.5	9.0	11.5	13.3	13.7
Financial assets	-	0.0	0.0	0.0	0.0	0.0
Current assets	**78.4**	**59.4**	**69.4**	**69.5**	**70.5**	**72.4**
Inventories	3.8	-	-	-	-	-
Trade receivables	15.4	18.1	31.5	20.1	21.4	23.5
Receivables	14.1	8.5	7.9	7.3	6.7	6.1
Cash and securities	45.1	32.9	30.0	42.0	42.4	42.8
Other assets	**0.1**	**1.2**	**1.2**	**1.1**	**1.0**	**0.9**
Total assets	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Equity	**60.0**	**47.3**	**54.3**	**58.0**	**61.4**	**65.1**
Reserves	60.0	47.3	54.3	58.0	61.4	65.1
Minorities	-	-	-	-	-	-
Provisions	**4.3**	**2.6**	**2.1**	**1.9**	**1.8**	**1.7**
Liabilities	**29.6**	**46.2**	**38.1**	**34.9**	**32.1**	**29.0**
Interest bearing liabilities	6.4	20.8	13.4	12.4	11.3	10.2
Trade payables	2.7	2.4	1.1	0.7	0.7	0.8
Non interest bearing liabilities	20.5	23.0	23.7	21.9	20.0	18.0
Other liabilities	**6.1**	**3.9**	**5.6**	**5.1**	**4.7**	**4.2**
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.	2008	2009	2010	2011e	2012e	2013e
Net cash provided by operating activites	1.4	5.7	1.7	10.7	6.0	6.7
Net cash used in investing activities	-2.6	-9.4	-2.7	-2.9	-2.9	-2.8
Net cash provided by financing activities	7.1	5.5	3.8	-0.9	-1.0	-1.2
Change in cash and securities	5.9	1.8	2.8	6.9	2.1	2.7
Cash and securities at the end of the period	8.9	10.6	13.4	20.4	22.4	25.1

Source: GK SOFTWARE AG / Vara Research GmbH

Key Figures*

	2008	2009	2010	2011e	2012e	2013e
Valuation ratios						
Market capitalization (in € m)	28.31	38.30	89.50	69.81	69.81	69.81
Enterprise Value (in € m)	20.71	34.38	82.04	55.44	55.44	55.44
EV/Sales	1.38	1.48	2.96	1.72	1.48	1.21
EV/EBITDA	5.93	4.81	10.28	6.73	5.80	4.71
EV/EBIT	7.46	5.85	12.75	8.61	7.42	5.78
P/E reported	13.92	10.89	20.02	15.01	12.92	10.09
P/E clean	13.92	8.51	20.02	15.01	12.92	10.09
PCPS	9.36	7.98	15.13	10.80	9.30	7.65
Price to book	2.40	2.50	3.68	2.49	2.15	1.83
Profitability ratios						
EBITDA margin	23.2%	30.7%	28.8%	25.6%	25.6%	25.8%
EBIT margin	18.5%	25.2%	23.2%	20.0%	20.0%	21.0%
Pre tax margin	19.1%	25.8%	22.8%	20.4%	20.4%	21.4%
Net margin	13.5%	19.3%	16.1%	14.4%	14.5%	15.1%
Free cash flow margin	12.0%	n.m.	10.6%	11.1%	12.2%	13.9%
ROE	29.3%	33.2%	22.6%	17.7%	17.8%	19.6%
Productivity ratios						
Sales/employees (in € `000)	79.7	80.0	75.7	75.5	75.0	82.6
Net result/employees (in € `000)	10.8	15.5	12.2	10.9	10.9	12.5
Number of employees	189	291	366	426	498	552
Financial ratios						
Equity ratio	60.0%	47.3%	54.3%	58.0%	61.4%	65.1%
Gearing	-64.1%	-25.3%	-29.3%	-49.9%	-49.4%	-49.1%
Dividend yield	0.0%	4.3%	1.0%	1.4%	1.7%	2.1%
Cash flow ratios						
Cash flow per share	1.82	2.88	3.30	3.61	4.20	5.10
Free cash flow per share	1.09	-2.41	1.64	2.00	2.55	3.53
Other ratios						
Depreciation/sales	4.8%	5.5%	5.6%	5.6%	5.6%	4.8%
Capex/sales	8.1%	37.8%	10.8%	9.0%	7.9%	6.1%
Working capital/sales	10.0%	15.0%	15.0%	15.0%	15.0%	15.0%
Tax rate	29.0%	30.1%	29.1%	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	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
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

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(11/14/2011)

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

(Price on 11/10/2011)

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