

Date 10/11/2020

**Recommendation:**

**Buy** (previous: Buy)

**PT: € 116.00** (prev.: € 105.00)

**GK Software SE**

Industry: Software

Segment: Prime Standard

ISIN: DE0007571424

Reuters: GKSG

**Price (09/11/2020): € 83.00**

Market Cap € 157m

EV € 185m

Ø-volume `000€ 98

52W High € 87.80

52W Low € 35.00

**Financial Calendar**

Q3 2020 26/11/2020

FY 2020 28/04/2021

Q1 2021 27/05/2021

**Shareholder structure**

R.Gläß 29.4%

S.Kronmüller 25.5%

Freefloat 45.1%

**Share performance**



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**GK SOFTWARE SE**

**Growth accompanied by significant margin improvement; global co-sell model with Microsoft launched**

In the first nine months of the business year 2020, GK Software was able to increase the sales revenues by about 7% to € 85.3 million according to the provisionally reported figures. The result **increased** - driven by the efficiency increase program and the acquisition of new customers - **disproportionately**. Thus, the EBITDA improved by 9.6 million to € 11.8 million, the EBIT reached € 5.6 million (9M 2019: € -4.2 million), the net income for the period € 2.97 million. Our implicit expectations for Q4 assume a good year-end business with quarterly sales of just over € 40 million (Q4 2019: € 35.7 million). GK also recently announced a global co-sell agreement with **Microsoft** that will provide new sales opportunities and create value for customers of both companies. The price target has been raised as a result of significantly increased peer valuations. With a 2020 EV/sales of around 1.5, GK remains favorable in the peer comparison.

- ✓ The combination of GK's **cloud4retail** (the leading enterprise omni-channel solution) with **Microsoft's Azure platform** (infrastructure and services) creates added value for customers of both companies, especially in terms of efficiency and flexibility. By the status as "**Global Partner**" of Microsoft, GK Software also opens up worldwide access to Microsoft customers from the retail sector. By means of the **joint global co-sell agreement**, both companies participate when they sell solutions of the respective other company.
- ✓ According to the preliminary figures, GK achieved sales of about € 29.2 million in Q3 2020 (Q3 2019: € 29.5 million) with significantly higher profitability. The net income for the period improved by more than € 3.3 million compared to the same quarter of the previous year, which is attributable to the **efficiency program** and the **acquisition of new customers**. Three new customers were acquired in Q3 alone, two from other European countries and one Egyptian customer.
- ✓ A total of **six new customers** have already been acquired in the current year, including two US customers. In total, this corresponds to well over 10,000 new installations. In addition, two existing customers also opted for the new core products. Two retailers (one of them only in Q4) have opted for **cloud4retail in SaaS operation in the Azure cloud** (these two retailers stand for over 2,000 installations).

**Outlook:** For the final quarter, GK continues to see positive signs - both in current business and in new sales. It is currently difficult to assess whether the renewed lockdowns could delay the conclusion of contracts.

**Key figures - GK Software SE**

	Sales	EBITDA	EBIT	EPS (adj.)	EV/Sales	P/E
2018 a	106.2	6.8	1.6	0.48	2.01	204.6
2019 a	115.4	12.3	3.4	-1.55	1.44	-44.0
2020 e	126.2	21.9	12.6	3.65	1.47	22.8
2021 e	145.5	29.0	18.9	5.89	1.27	14.1
2022 e	162.1	35.0	24.3	7.83	1.14	10.6

Source: Company Data, EQUI.TS

## **German fiscal could exceed expectations - significant sales contributions not before 2021**

The 100% subsidiary "**DF Deutsche Fiskal GmbH**" is performing very positively. As the company remains the **only provider** to offer a **certified cloud solution** that meets the high requirements of German fiscalization, its market share could **exceed the internal target**. The period of nonobjection has been extended until 31.3.21 (except in Bremen). However, large retail chains conclude contracts much earlier - which provides a good indication of the future market division. In addition to the large retail chains, many medium-sized and small retailers also prefer a cloud solution to hardware-based concepts.

On November 2, 2020, the **Fiskal Cloud** was transferred to **regular operation** and the transfer of the dealers to productive operation started. However, significant revenues from this are not expected until 2021.

## **Positive consumer climate continues**

The German Retail Association (**HDE**) expects sales growth of 1.2% in the last two months of the year (**Christmas shopping**) in 2020, meaning that consumer sentiment will remain positive. Whereby the recently resolved "Lockdown Light" measures will lead to a shift in sales towards online business. In our opinion, this also demonstrates the importance of **omni-channel concepts** for customer retention during the pandemic.

## Appendix

<b>Income Statement (in EURm)</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020e</b>	<b>2021e</b>	<b>2022e</b>
<b>Sales</b>	<b>90.452</b>	<b>106.151</b>	<b>115.448</b>	<b>126.173</b>	<b>145.495</b>	<b>162.066</b>
Change in finished goods	0.000	0.000	0.000	0.000	0.000	0.000
Other own costs capitalized	0.000	0.000	0.000	0.000	0.000	0.000
Other operating income	5.197	3.617	3.837	4.193	4.836	5.386
<b>Total performance</b>	<b>95.649</b>	<b>109.768</b>	<b>119.285</b>	<b>130.366</b>	<b>150.331</b>	<b>167.452</b>
Cost of material	-8.530	-7.733	-6.229	-8.048	-9.220	-10.210
<b>Gross profit</b>	<b>87.119</b>	<b>102.035</b>	<b>113.056</b>	<b>122.319</b>	<b>141.111</b>	<b>157.242</b>
Personnel expenses	-57.809	-68.791	-78.134	-77.834	-86.498	-93.309
Other operating expenses	-20.537	-26.411	-22.666	-22.540	-25.658	-28.967
<b>EBITDA</b>	<b>8.773</b>	<b>6.833</b>	<b>12.256</b>	<b>21.945</b>	<b>28.954</b>	<b>34.966</b>
Depreciation/amortisation	-3.780	-5.237	-8.826	-9.328	-10.040	-10.656
<b>EBIT</b>	<b>4.993</b>	<b>1.596</b>	<b>3.430</b>	<b>12.617</b>	<b>18.914</b>	<b>24.310</b>
Financial result	-0.653	-1.425	-2.197	-2.103	-1.915	-1.726
Non operating result before taxes	0.000	0.000	0.000	0.000	0.000	0.000
EBT	4.340	0.171	1.233	10.515	16.999	22.584
Non operating result after taxes	0.000	0.000	0.000	0.000	0.000	0.000
Taxes	-0.456	0.752	-4.372	-3.110	-5.029	-6.681
Minority interest	0.002	0.002	0.002	0.002	0.002	0.002
<b>Net result</b>	<b>3.885</b>	<b>0.925</b>	<b>-3.137</b>	<b>7.406</b>	<b>11.972</b>	<b>15.905</b>
Adjustments	0.00	0.00	0.00	0.00	0.00	0.00
<b>Adjusted net result</b>	<b>3.885</b>	<b>0.925</b>	<b>-3.137</b>	<b>7.406</b>	<b>11.972</b>	<b>15.905</b>
Average number of shares	1.90	1.93	2.02	2.03	2.03	2.03
Average number of shares (dil.)	1.95	1.95	2.06	2.06	2.06	2.06
EPS	2.05	0.48	-1.55	3.65	5.89	7.83
Adjusted EPS	2.05	0.48	-1.55	3.65	5.89	7.83
Adjusted EPS (diluted)	2.00	0.47	-1.52	3.59	5.80	7.71
DPS	0.00	0.00	0.00	0.73	1.18	1.57

Source: EQUI.TS; company data

<b>Cash Flow Statement (in EURm)</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020e</b>	<b>2021e</b>	<b>2022e</b>
Net cash provided by operating activities	15.224	-5.670	-0.214	13.503	16.092	21.510
Net cash used in investing activities	-9.278	-15.732	-3.591	-5.881	-6.891	-7.336
Net cash provided by financing activities	19.121	-0.294	-0.118	-2.000	-3.481	-4.394
Change in cash and securities	25.067	-21.696	-3.923	5.622	5.720	9.780
Cash and secur. at the end of the period	30.479	11.790	8.086	13.708	19.427	29.207

Source: EQUI.TS; company data

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

<b>Balance Sheet (in EURm)</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020e</b>	<b>2021e</b>	<b>2022e</b>
Long term assets	39.575	52.799	59.908	56.461	53.312	49.992
Intangible assets	25.359	30.019	27.607	25.507	24.607	23.707
Tangible assets	14.183	16.936	16.988	16.105	14.630	13.042
Usage rights (IFRS 16)	0.000	0.000	8.914	8.451	7.676	6.844
Financial assets	0.033	5.844	6.399	6.399	6.399	6.399
<b>Current assets</b>	<b>61.424</b>	<b>53.304</b>	<b>52.748</b>	<b>61.962</b>	<b>74.155</b>	<b>89.486</b>
Inventories	0.990	0.486	0.416	0.455	0.524	0.584
Trade Accounts Receivables	17.710	26.030	22.240	24.306	28.028	31.220
Trade Accounts Rec. from ongoing work	5.129	10.289	16.020	17.508	20.189	22.489
Other current assets	7.116	4.709	5.986	5.986	5.986	5.986
Cash and securities	30.479	11.790	8.086	13.708	19.427	29.207
Other assets	5.599	5.079	1.533	1.533	1.533	1.533
<b>Total assets</b>	<b>106.598</b>	<b>111.182</b>	<b>114.189</b>	<b>119.957</b>	<b>129.001</b>	<b>141.011</b>
<b>Equity</b>	<b>38.669</b>	<b>40.256</b>	<b>42.329</b>	<b>49.733</b>	<b>60.222</b>	<b>73.731</b>
Reserves	37.598	39.187	41.261	48.667	59.093	72.539
Minorities	1.071	1.069	1.068	1.066	1.129	1.192
Provisions	3.226	2.789	4.183	4.316	4.455	4.601
<b>Liabilities</b>	<b>59.364</b>	<b>64.484</b>	<b>64.805</b>	<b>63.036</b>	<b>61.452</b>	<b>59.808</b>
Interest bearing liabilities	32.323	34.819	33.820	31.820	29.820	27.820
Leasehold liabilities	0.000	0.000	8.868	8.451	7.676	6.844
Accounts Payables	1.835	2.365	2.484	2.715	3.131	3.487
Initial payments received	0.858	1.509	3.547	5.656	6.285	6.913
Other non-interest bearing liabilities	24.348	25.791	16.086	14.394	14.540	14.744
Other liabilities	5.340	3.653	2.872	2.872	2.872	2.872
<b>Total equity and liabilities</b>	<b>106.598</b>	<b>111.182</b>	<b>114.189</b>	<b>119.957</b>	<b>129.001</b>	<b>141.011</b>

Source: EQU1.TS; company data

<b>Key Ratios</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020e</b>	<b>2021e</b>	<b>2022e</b>
<b>Ratios for corporate valuation</b>						
EV/Sales	2.03	2.01	1.44	1.47	1.27	1.14
EV/EBITDA	20.90	31.30	13.59	8.45	6.40	5.30
EV/EBIT	36.72	134.00	48.57	14.69	9.80	7.63
P/E reported	46.22	204.62	-44.02	22.77	14.08	10.60
P/E clean	46.22	204.62	-44.02	22.77	14.08	10.60
PCPS	23.50	33.23	22.00	10.00	7.61	6.31
Price-to-book ratio	4.78	4.83	3.35	3.46	2.85	2.32
<b>Profitability ratios</b>						
EBITDA margin	9.7%	6.4%	10.6%	17.4%	19.9%	21.6%
EBIT margin	5.5%	1.5%	3.0%	10.0%	13.0%	15.0%
Pre tax margin	4.8%	0.2%	1.1%	8.3%	11.7%	13.9%
Net margin	4.3%	0.9%	-2.7%	5.9%	8.2%	9.8%
Free-cash-flow-margin	n.m.	n.m.	2.3%	8.7%	10.5%	12.0%
ROE	11.0%	2.3%	-7.6%	16.1%	21.8%	23.7%
<b>Productivity ratios</b>						
Sales/employees (in EUR '000)	89.5	92.3	92.6	106.5	119.2	129.0
Personnel expenses/employees (in '000)	57.2	59.8	62.7	65.7	70.9	74.2
Net result/employees (in '000)	3.8	0.8	-2.5	6.3	9.8	12.7
Number of employees	1011	1150	1247	1185	1220	1257
<b>Financial ratios</b>						
Equity ratio	36.3%	36.2%	37.1%	41.5%	46.7%	52.3%
Gearing	175.7%	176.2%	169.8%	141.2%	114.2%	91.3%
Dividend yield	0.0%	0.0%	0.0%	0.9%	1.4%	1.9%
<b>Cash-flow ratio</b>						
Cash-flow per share	4.02	2.96	3.10	8.30	10.90	13.15
Free-Cash-flow per share	-0.27	-5.46	1.30	5.41	7.51	9.54
<b>Other ratios</b>						
Depreciation/Sales	4.2%	4.9%	7.6%	7.4%	6.9%	6.6%
Capex/Sales	9.0%	11.3%	3.2%	3.2%	3.2%	3.1%
Working Capital/Sales	24.3%	32.4%	31.3%	31.3%	31.3%	31.3%
Tax rate	10.5%	-439.8%	354.6%	29.6%	29.6%	29.6%

Source EQUI.TS

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<b>Company</b>	<b>Analyst</b>		<b>Rating</b>	<b>Price Target</b>
GK SOFTWARE AG	D.Grossjohann/T.Schießle	04/09/2019	Buy	€ 106.50
GK SOFTWARE AG	D.Grossjohann/T.Schießle	04/12/2019	Buy	€ 105.00
GK SOFTWARE AG	D.Grossjohann/T.Schießle	24/04/2020	Buy	€ 84.00
GK SOFTWARE AG	D.Grossjohann/T.Schießle	12/06/2020	Buy	€ 87.90
GK SOFTWARE AG	D.Grossjohann/T.Schießle	01/09/2020	Buy	€ 105.00
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3. **Date of initial/original publication of the financial analysis:**

**(10/11/2020; 9:00 am)**

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

**(Closing price on 09/11/2020)**

5. Updates:

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

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