

Date 04/05/2021

Recommendation:

Buy (previous: Buy)
PT: € 162.00 (prev.: € 133.50)

GK Software SE

Industry: Software
Segment: Prime Standard
ISIN: DE0007571424
Reuters: GKSG

Price (03/05/2021): € 133.00
Market Cap € 299m
EV € 326m
Ø-volume `000€ 408
52W High € 133.00
52W Low € 52.80

Financial Calendar

Q1 2021 27/05/2021
AGM 2021 17/06/2021
Q2 2021 26/08/2021

Shareholder structure

R.Gläß 24.2%
S.Kronmüller 18.4%
Freefloat 57.4%

Share performance



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GK SOFTWARE SE

Medium-term targets for 2023 announced

The final business figures for 2020 **slightly exceeded** those reported provisionally. While sales (€ 117.6 million; +1.8%) rose moderately, the efficiency enhancement program, among other things, ensured a disproportionate increase in the key earnings figures. EBITDA (€ 19.1 million; +56%) and EBIT (€ 10.5 million; +207%) showed significant increases, while net income (€ 6.3 million) improved by around € 9.4 million. The **persistence of the pandemic** - and the associated short-term uncertainties - have prompted GK Software to issue a **medium-term outlook** for 2023 (revenue: € 160 million to € 175 million; target EBIT margin 15%). The outlook only takes into account the **currently offered solutions and products**, but not the development of new regions, GK SPOT sales or acquisitions. With a 2021 EV/EBIT of 20.2, GK compares rather favorably with peers (2021 EV/EBIT of 34 (median)) - especially considering the successfully started cloud transformation and market share gains.

- ✓ **The share of recurring and repeatable revenues is growing.** While 62.6% of the revenues of the core segment CLOUD4RETAIL belonged to this category in 2019, it was already 79.8% in 2020. For the **SaaS business** in the core segment (excluding Deutsche Fiskal), the company expects growth at the level of 2020, so the share of subscription revenues will grow continuously.
- ✓ In 2020, **Deutsche Fiskal** has concluded **SaaS contracts** with well over 100 customers to meet German fiscalization requirements. The total contract value over the term (TCV) is around €33 million to €35 million with average contract terms of three years. We estimate the revenue contribution in 2021 at € 8 million, as the legal requirements came into force on April 1, 2021.
- ✓ In the future, **GK SPOT** is to expand GK SOFTWARE's solution world with **cloud-based Big Data applications** built on the proven CLOUD4RETAIL platform. The development costs should be in the mid single-digit million range. Annual revenue potential could be between €25 million and €35 million p.a., but we do not see initial revenue contributions here before 2023.

Medium-term outlook. The medium-term forecast plans to achieve a sales corridor of € 160 million to € 175 million in 2023 - based on the current product world alone (corresponds to average organic growth of 10.8% to 14.2% p.a.). The target **EBIT margin**, which could already be achieved before 2023, is **15%**. The entire forecast is based on the assumption that the pandemic will become manageable in the developed markets during fiscal 2021 as a result of a successful vaccination campaign.

Key figures - GK Software SE

	Sales	EBITDA	EBIT	EPS (adj.)	EV/Sales	P/E
2019 a	115.4	12.3	3.4	-1.60	1.44	-44.0
2020 a	117.6	19.1	10.5	3.04	1.43	22.7
2021 e	129.3	25.8	16.2	4.61	2.52	28.8
2022 e	154.0	33.3	22.8	6.83	2.11	19.5
2023 e	174.5	37.4	26.2	7.99	1.87	16.6

Source: Company Data, EQUITS

New projects 2020

In 2020, GK SOFTWARE recorded **14 new CLOUD4RETAIL projects** (including three existing customers who switched to the platform) - including, among others, the DIY chain hagebau (1,700 stores in 8 countries), an unnamed supermarket operator in France (1,150 stores), which is one of the top 50 retailers worldwide, and several other supermarket operators and food discounters. The subsidiary **prudsys** recorded **four new customers** for the AIR (Artificial Intelligence for Retail) platform, a mail order company, a cosmetics retailer and a textile manufacturer opted for the **personalization** solution, and an online fashion retailer uses the **dynamic pricing** solution. **Two new customers** were acquired for the AWEK solution **euroSUITE** - a DIY/garden center with 70 stores and a shopping center. Deutsche Fiskal recorded **well over 100 new customers**. In addition, most existing projects generated sales with **platform extensions** (linked to maintenance contracts) or **smart extensions** (extensions of temporary importance to the customer). These services are at a constant level and can therefore be easily extrapolated in the revenue projections.

Market position improved

According to the British consultancy **rbr**, GK SOFTWARE has improved its position to 6th place in terms of the number of **worldwide POS installations**. In terms of **new installations** worldwide (period 6/19 to 6/20), GK SOFTWARE ranked 2nd. In **Europe**, GK is the second largest player in the POS market in terms of installed base and is the market leader in **new installations** with a 20% share. The very good positioning in new installations ensures market share gains.

Partnerships

In addition to the established partnership with **SAP** (140 joint customers) and the partnership entered into last year with **Microsoft** (Azure; co-selling agreement), **further partnerships** are to be entered into with **hyperscalers**. While the term hyperscaler is generally used to refer only to the top 3 cloud providers (AWS, Microsoft, Google), the term is broader in the retail sector due to the provider structure there.

Market environment around market trends

After the retail sector in Germany posted record sales in 2020, the German Retail Association (HDE) is forecasting sales declines of 6% in 2021 (assuming a lockdown in May). Forecasts for individual EU countries and the individual retail segments vary widely - for example, the pandemic gave food retailers and drugstores a special boost, while sales in retail assortments affected by the lockdown slumped. There is agreement that technology has gained in importance as a decisive success factor for retail groups. According to the EHI Retail study "**IT Trends in Retail 2021**", 41% of those surveyed see analytics and AI as the most important IT projects in the next two years - GK is already positioned here with AIR (Artificial Intelligence for Retail), and **GK SPOT** ("Big Data") will strengthen the analytics theme. Cloud-based applications are of great or strongly increasing importance for 79% of the retailers surveyed. Concepts such as store-based delivery and click-and-collect are being tested more. Overall, topics in which GK is already excellently positioned are gaining in importance for retail IT departments.

Our estimation assumptions

We expect sales of around € 129 million in 2021 (+10% or € 11.7 million yoy). The increase is explained by the **first-time significant revenue contribution** of the wholly-owned subsidiary "**Deutsche Fiskal**" (in the amount of € 8 million) and organic growth in the core segment "Cloud4Retail" of around 3% (still pandemic-related), which roughly corresponds to the level of the previous year. For 2022 onwards, we expect organic revenue growth in the core segment to exceed 10%, with the cloud transformation initially moderating growth due to the even distribution of revenue over the term of the contract. We see sales of the smaller segment "IT Services" consisting of AWEK and AWEK microdata (euroSUITE) stable. The EBIT margin at Group level should continue to benefit from the efficiency program, but also from the high-margin fiscal cloud revenues. We therefore expect a further noticeable increase in the EBIT margin to 12.5% in 2021, and the target EBIT margin of 15% could almost be reached as early as 2022.

Appendix

Income Statement (in EURm)	2018	2019	2020	2021e	2022e	2023e
Sales	106.151	115.448	117.560	129.295	154.046	174.540
Change in finished goods	0.000	0.000	0.000	0.000	0.000	0.000
Other own costs capitalized	0.000	0.000	0.831	0.914	1.089	1.234
Other operating income	3.617	3.837	4.070	4.476	5.333	6.043
Total performance	109.768	119.285	122.461	134.685	160.468	181.817
Cost of material	-7.733	-6.229	-9.436	-10.318	-12.390	-14.478
Gross profit	102.035	113.056	113.025	124.367	148.078	167.338
Personnel expenses	-68.791	-78.134	-75.640	-79.032	-91.130	-102.775
Other operating expenses	-26.411	-22.666	-18.307	-19.526	-23.651	-27.183
EBITDA	6.833	12.256	19.078	25.809	33.297	37.380
Depreciation/amortisation	-5.237	-8.826	-8.543	-9.647	-10.498	-11.199
EBIT	1.596	3.430	10.535	16.161	22.799	26.181
Financial result	-1.425	-2.197	-1.445	-0.968	-0.336	0.081
Non operating result before taxes	0.000	0.000	0.000	0.000	0.000	0.000
EBT	0.171	1.233	9.090	15.193	22.463	26.262
Non operating result after taxes	0.000	0.000	0.000	0.000	0.000	0.000
Taxes	0.752	-4.372	-2.824	-4.720	-6.979	-8.159
Minority interest	0.002	0.002	-0.055	-0.055	-0.055	-0.055
Net result	0.925	-3.137	6.211	10.418	15.430	18.048
Adjustments	0.00	0.00	0.00	0.00	0.00	0.00
Adjusted net result	0.925	-3.137	6.211	10.418	15.430	18.048
Average number of shares	1.93	2.02	2.05	2.26	2.26	2.26
Average number of shares (dil.)	1.95	2.06	2.18	2.36	2.36	2.36
EPS	0.48	-1.60	3.04	4.61	6.83	7.99
Adjusted EPS	0.48	-1.60	3.04	4.61	6.83	7.99
Adjusted EPS (diluted)	0.47	-1.60	3.00	4.42	6.54	7.65
DPS	0.00	0.00	0.00	0.00	0.00	0.00

Source: EQUI.TS; company data

Cash Flow Statement (in EURm)	2018	2019	2020	2021e	2022e	2023e
Net cash provided by operating activities	-5.670	-0.214	17.715	16.902	19.056	23.597
Net cash used in investing activities	-15.732	-3.591	-2.974	-9.335	-4.646	-4.880
Net cash provided by financing activities	-0.294	-0.118	-11.287	6.500	-2.000	-2.000
Change in cash and securities	-21.696	-3.923	3.454	14.068	12.410	16.717
Cash and secur. at the end of the period	11.790	8.086	9.425	23.493	35.903	52.620

Source: EQUI.TS; company data

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

Balance Sheet (in EURm)	2018	2019	2020	2021e	2022e	2023e
Long term assets	52.799	59.908	56.104	55.791	49.940	43.621
Intangible assets	30.019	27.607	25.412	25.712	22.312	18.912
Tangible assets	16.936	16.988	14.675	14.299	12.795	11.005
Usage rights (IFRS 16)	0.000	8.914	9.246	9.009	8.062	6.934
Financial assets	5.844	6.399	6.771	6.771	6.771	6.771
Current assets	53.304	52.748	53.214	70.989	91.219	114.411
Inventories	0.486	0.416	0.173	0.190	0.227	0.257
Trade Accounts Receivables	26.030	22.240	23.382	25.716	30.639	34.715
Trade Accounts Rec. from ongoing work	10.289	16.020	13.587	14.943	17.804	20.172
Other current assets	4.709	5.986	6.647	6.647	6.647	6.647
Cash and securities	11.790	8.086	9.425	23.493	35.903	52.620
Other assets	5.079	1.533	1.358	1.358	1.358	1.358
Total assets	111.182	114.189	110.676	128.139	142.517	159.390
Equity	40.256	42.329	48.697	77.670	93.155	111.258
Reserves	39.187	41.261	47.971	76.889	92.254	110.237
Minorities	1.069	1.068	0.726	0.781	0.901	1.021
Provisions	2.789	4.183	3.480	3.611	3.748	3.892
Liabilities	64.484	64.805	54.955	43.313	42.070	40.696
Interest bearing liabilities	34.819	33.820	33.202	21.202	19.202	17.202
Leasehold liabilities	0.000	8.868	9.311	9.009	8.062	6.934
Accounts Payables	2.365	2.484	3.591	3.949	4.706	5.332
Initial payments received	1.509	3.547	3.589	4.005	4.405	4.405
Other non-interest bearing liabilities	25.791	16.086	5.262	5.148	5.695	6.823
Other liabilities	3.653	2.872	3.544	3.544	3.544	3.544
Total equity and liabilities	111.182	114.189	110.676	128.139	142.517	159.390

Source: EQU1.TS; company data

Key Ratios	2018	2019	2020	2021e	2022e	2023e
Ratios for corporate valuation						
EV/Sales	2.01	1.44	1.43	2.52	2.11	1.87
EV/EBITDA	31.30	13.59	8.80	12.62	9.78	8.72
EV/EBIT	134.00	48.57	15.94	20.16	14.29	12.44
P/E reported	204.62	-44.02	22.68	28.83	19.47	16.64
P/E clean	204.62	-44.02	22.68	28.83	19.47	16.64
PCPS	33.23	22.00	9.96	14.87	11.52	10.22
Price-to-book ratio	4.83	3.35	2.94	3.91	3.26	2.72
Profitability ratios						
EBITDA margin	6.4%	10.6%	16.2%	20.0%	21.6%	21.4%
EBIT margin	1.5%	3.0%	9.0%	12.5%	14.8%	15.0%
Pre tax margin	0.2%	1.1%	7.7%	11.8%	14.6%	15.0%
Net margin	0.9%	-2.7%	5.3%	8.1%	10.0%	10.3%
Free-cash-flow-margin	n.m.	2.3%	9.7%	8.4%	13.9%	14.0%
ROE	2.3%	-7.6%	13.8%	16.6%	18.1%	17.7%
Productivity ratios						
Sales/employees (in EUR '000)	92.3	92.6	106.5	113.7	131.5	144.7
Personnel expenses/employees (in '000)	59.8	62.7	68.5	69.5	77.8	85.2
Net result/employees (in '000)	0.8	-2.5	5.6	9.2	13.2	15.0
Number of employees	1150	1247	1104	1137	1171	1206
Financial ratios						
Equity ratio	36.2%	37.1%	44.0%	60.6%	65.4%	69.8%
Gearing	176.2%	169.8%	127.3%	65.0%	53.0%	43.3%
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cash-flow ratio						
Cash-flow per share	2.96	3.10	6.90	8.94	11.54	13.01
Free-Cash-flow per share	-5.46	1.30	5.59	4.81	9.48	10.85
Other ratios						
Depreciation/Sales	4.9%	7.6%	7.3%	7.5%	6.8%	6.4%
Capex/Sales	11.3%	3.2%	2.3%	1.6%	1.5%	1.5%
Working Capital/Sales	32.4%	31.3%	28.5%	28.5%	28.5%	0.0%
Tax rate	-439.8%	354.6%	31.1%	31.1%	31.1%	31.1%

Source EQUI.TS

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

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Company	Analyst		Rating	Price Target
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
GK SOFTWARE AG	D.Grossjohann/T.Schießle	27/10/2020	Buy	€ 105.00
GK SOFTWARE AG	D.Grossjohann/T.Schießle	10/11/2020	Buy	€ 116.00
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GK SOFTWARE AG	D.Grossjohann/T.Schießle	01/02/2021	Hold	€ 122.00
GK SOFTWARE AG	D.Grossjohann/T.Schießle	24/03/2021	Buy	€ 134.00
GK SOFTWARE AG	D.Grossjohann/T.Schießle	31/03/2020	Buy	€ 133.50

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

(04/05/2021; 13:30 am CET)

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

(Closing price on 03/05/2021, XETRA)

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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