

Date 31/08/2021

**Recommendation:**

**Buy** (previous: Buy)  
**PT: € 194.00** (prev.: € 164.50)

**GK Software SE**

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

**Price (30/08/2021): € 159.00**  
Market Cap € 357m  
EV € 384m  
Ø-volume `000€ 404  
52W High € 160.50  
52W Low € 62.20

**Financial Calendar**

Equity Forum 22/11/2021  
Q3 2021 25/11/2021  
FY 2021 28/04/2022

**Shareholder structure**

R.Gläß 24.2%  
S.Kronmüller 21.1%  
Freefloat 54.8%

**Share performance**



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**GK SOFTWARE SE**

**Strong new business accompanies growing business with existing customers - EBIT margin increases significantly**

In the first half of 2021, GK Software recorded a significant increase in revenue (€ 64.4 million; +14.6%) and a multi-fold increase in EBIT (€ 11.8 million; H1 2020: € 2.0 million). Adjusted for the positive one-off effect from **the sale of AWEK microdata** (in the amount of € 2.75 million), the EBIT margin reached 14% (H1 2020: 3.5%). Both new and existing customer business contributed to the revenue increase, which was higher than expected. The revenue contributions of Deutsche Fiskal (since 1.4.21) sustainably strengthen the revenue and earnings base. We are raising our estimates for 2021 but remain rather cautious due to the continuing pandemic-related uncertainty. Compared to peers, the GK share is still favorably priced with a 2021 EV/sales multiple of now 2.88 (peer median: 5.8).

- ✓ **Six new CLOUD4RETAIL customers** were acquired in the first half of the year. These included a major order from southern Africa, a project for an Eastern European petroleum company which offers further potential, a large German mobile network operator (>600 stores), and two Mexican retail chains (food, DIY). Two of the new customers will use CLOUD4RETAIL as a SaaS offering. In our eyes, the new projects show that GK can serve a broad spectrum of retail with its solution and that access to international projects remains strong.
- ✓ **Deutsche Fiskal** made a first-time revenue contribution (of around € 2.3 million) in Q2. Development here was reportedly according to plan. Currently, 160,000 POS systems are supported by the Fiscal Cloud, which records up to 80 million transactions daily. As parts of the retail sector were still subject to opening restrictions at the legal start of fiscalization (1.4.2021) and there are still exemptions for individual retailers, the number of supported systems and thus the quarterly recurring revenue should continue to increase. We believe that the high scalability of the Fiscal Cloud will make a not insignificant contribution to the sustainable improvement of the Group EBIT margin.
- ✓ The sale of the wholly-owned subsidiary **AWEK microdata** (euroSUITE midmarket solution; 41 employees) to the Italian Zucchetti Group delivered a positive earnings contribution of € 2.75 million (which is reported under "Other operational income").

**Medium-term outlook.** The medium-term forecast continues to plan for the achievement of a sales corridor of € 160 million to € 175 million in 2023 - based on the current product world (this 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 disposal of AWEK microdata did not change the medium-term planning.

**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	133.5	31.5	21.7	6.29	2.88	25.3
2022 e	154.0	33.0	22.5	6.71	2.49	23.7
2023 e	174.5	37.4	26.2	7.97	2.20	20.0

Source: Company Data, EQUITS

## Derivation of expectations for 2021

Our raised sales expectation for 2021 (in the amount of € 133.5 million) implies sales of around € 69.1 million in the second half of the year (H1: € 64.4 million). This expectation reflects the typical **seasonality** (in the past five years, between 51.2% and 56.5% of sales were generated in the second half of the year). It also takes into account the revenue contribution of **Deutsche Fiskal** (from 4/2021) and the discontinuation of **AWEK microdata** revenues (since mid-May 2021), as well as the continuing **pandemic-related uncertainty** (with possible impact on project business). In Q2, the revenue contribution of Deutsche Fiskal was € 2.29 million. However, the quarterly revenue contribution will still **increase**. As due to the long continuation of store closures in non-food retail, product launches at customers were spread over the second quarter. In addition, there are retailers with exemptions that allow them to start fiscal later.

## Sales Mix - Strong Growth in Platform Licenses/Subscription and Consulting

While in the **CLOUD4RETAIL** segment (which is responsible for more than 95% of Group sales) the "**Maintenance**" unit (sales: € 10.7 million; +7.6%) delivered its usual solid growth, it is worth taking a differentiated look at the "**Licenses and Software**" unit (sales: € 30.2 million; -16.1%). The reported decline is mainly due to the successful completion of two platform extensions for major customers (revenue "Extensions": € 18.3 million; -44.8%) - while sub-segments "**Platform Licenses**" and "**Platform Licenses from Subscription Agreements**" (revenue: € 12 million; +309%) show how strongly new customer business developed. The revenues of the two new CLOUD4RETAIL customers who opted for SaaS are not yet included in Q2 (Total Contract Value (TCV): € 1 million for a five-year term). The "**Retail Consulting**" segment (sales: € 22.2 million; +229%) performed **very strongly** - the company also benefited from the completion of the extensions projects and the **consultant capacities freed up** as a result. In addition, the subsegment "**(Cloud) Operational Support**" (€ 5.6 million; +124%) benefited from the SaaS trend. The share of **recurring revenues** climbed to 24.7% (H1 2020: 18.8%), driven by the SaaS business.

## Partnerships with industry giants ...

An **alliance with IBM** was added to the established partnerships with IT heavyweights SAP and Microsoft in June 2021. Among other things, this serves to open up the new opportunities offered by hybrid cloud technology (IBM/Red Hat) to the retail sector. To this end, a joint go-to-market strategy has been developed through which IBM's Global Services can offer integrated solutions to retailers. **CLOUD4RETAIL** can be hosted directly on the **IBM Cloud**, which is often referred to as the **most secure and open public cloud** and has a high market share in the retail sector. Innovations and digitalization are to be jointly driven forward at the customer. The partnerships with the industry giants in particular make a decisive contribution to **global reach and visibility**.

## ... and specialized providers

Partnerships with smaller IT companies often focus on expanding the company's own solution with special functions that deliver additional customer benefits. This is also the case with the **innovation partnership** with the **Abacus Solutions International Group** (Lottery

Everywhere). Specifically, the aim is to seamlessly integrate the lottery experience at the point-of-sale so that retailers do not need to purchase additional hardware (lottery terminal). This makes the Abacus Lottery app one of the first newly created third-party apps to use the AppEnablement plug-in for CLOUD4RETAIL OmniPOS. Externally created apps create a win-win situation, the app developer benefits - in addition to the technical advantages - from the distribution of the CLOUD4RETAIL solution, GK's customers from the expansion of functionalities.

### **CLOUD4RETAIL platform strengthened by innovative apps**

GK itself is also investing heavily in innovative apps and new solutions - in H1 2021, for example, around 15% of group revenues went into **R&D**. In addition to the "Mobile Consumer Cloud", which is based on the **CLOUD4RETAIL platform** and enables retailers to offer their customers mobile application scenarios such as self-scanning, GK is also pushing ahead with power apps on the same technological basis. These are pure cloud solutions that can be used independently. Among the most successful power apps to date are the fiscalization solution for the German market and the AIR (Artificial Intelligence for Retail) platform solutions (for dynamic pricing and fraud detection, among others). The **eMailBon power app** was developed in H2 2020 by GK subsidiary retail7 and enables retailers to easily issue completely digital receipts - reducing the burden on the environment and saving costs. eMailBon is already in use at a leading retailer in Germany. A current focus of development activity is **GK SPOT** (Single Point of Truth), the solution is intended to link Big Data opportunities with the requirements and realities of retail and offer a new quality in real-time data analysis and use. AI can then be used to react immediately to customer behavior (individually).

### **GK Hospitality and GK Drive**

In early August 2021, GK Software announced that **GK Hospitality** - a solution that maps the **requirements of the hospitality industry** within the CLOUD4RETAIL solution - is already being used by its first customers, including Manufactum. The Manufactum Group is active in mail order and stationary retail, and CLOUD4RETAIL is already being used in both divisions. With the use of GK Hospitality in the catering area (at Manufactum Brot&Butter), Manufactum can now offer its customers a consistent end-to-end shopping and catering experience. GK also followed a similar concept in the development of **GK Drive**. GK Drive not only enables large retail chains to map different requirements (retail business and service station operation) in a uniform solution but is also suitable for service station chains.

## Appendix

<b>Income Statement (in EURm)</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021e</b>	<b>2022e</b>	<b>2023e</b>
<b>Sales</b>	<b>106.151</b>	<b>115.448</b>	<b>117.560</b>	<b>133.545</b>	<b>154.046</b>	<b>174.540</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	0.831	0.944	1.089	1.234
Other operating income	3.617	3.837	4.070	7.323	5.448	6.172
<b>Total performance</b>	<b>109.768</b>	<b>119.285</b>	<b>122.461</b>	<b>141.813</b>	<b>160.582</b>	<b>181.946</b>
Cost of material	-7.733	-6.229	-9.436	-11.459	-14.167	-16.492
<b>Gross profit</b>	<b>102.035</b>	<b>113.056</b>	<b>113.025</b>	<b>130.354</b>	<b>146.415</b>	<b>165.454</b>
Personnel expenses	-68.791	-78.134	-75.640	-78.767	-89.828	-100.950
Other operating expenses	-26.411	-22.666	-18.307	-20.128	-23.605	-27.131
<b>EBITDA</b>	<b>6.833</b>	<b>12.256</b>	<b>19.078</b>	<b>31.458</b>	<b>32.982</b>	<b>37.373</b>
Depreciation/amortisation	-5.237	-8.826	-8.543	-9.757	-10.492	-11.192
<b>EBIT</b>	<b>1.596</b>	<b>3.430</b>	<b>10.535</b>	<b>21.701</b>	<b>22.491</b>	<b>26.181</b>
Financial result	-1.425	-2.197	-1.445	-1.008	-0.416	0.000
Non operating result before taxes	0.000	0.000	0.000	0.000	0.000	0.000
EBT	0.171	1.233	9.090	20.694	22.075	26.182
Non operating result after taxes	0.000	0.000	0.000	0.000	0.000	0.000
Taxes	0.752	-4.372	-2.824	-6.429	-6.858	-8.134
Minority interest	0.002	0.002	-0.055	-0.055	-0.055	-0.055
<b>Net result</b>	<b>0.925</b>	<b>-3.137</b>	<b>6.211</b>	<b>14.210</b>	<b>15.162</b>	<b>17.993</b>
Adjustments	0.00	0.00	0.00	0.00	0.00	0.00
<b>Adjusted net result</b>	<b>0.925</b>	<b>-3.137</b>	<b>6.211</b>	<b>14.210</b>	<b>15.162</b>	<b>17.993</b>
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	6.29	6.71	7.97
Adjusted EPS	0.48	-1.60	3.04	6.29	6.71	7.97
Adjusted EPS (diluted)	0.47	-1.60	3.00	6.02	6.43	7.63
DPS	0.00	0.00	0.00	0.00	0.00	0.00

Source: EQUI.TS; company data

<b>Cash Flow Statement (in EURm)</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021e</b>	<b>2022e</b>	<b>2023e</b>
Net cash provided by operating activities	-5.670	-0.214	17.715	19.591	19.995	23.535
Net cash used in investing activities	-15.732	-3.591	-2.974	-4.402	-4.646	-4.880
Net cash provided by financing activities	-0.294	-0.118	-11.287	13.500	-2.000	-2.000
Change in cash and securities	-21.696	-3.923	3.454	28.689	13.349	16.654
Cash and secur. at the end of the period	11.790	8.086	9.425	38.114	51.463	68.118

Source: EQUI.TS; company data

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

<b>Balance Sheet (in EURm)</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021e</b>	<b>2022e</b>	<b>2023e</b>
Long term assets	52.799	59.908	56.104	50.748	44.903	38.591
Intangible assets	30.019	27.607	25.412	23.212	19.812	16.412
Tangible assets	16.936	16.988	14.675	12.739	11.239	9.453
Usage rights (IFRS 16)	0.000	8.914	9.246	8.026	7.081	5.956
Financial assets	5.844	6.399	6.771	6.771	6.771	6.771
<b>Current assets</b>	<b>53.304</b>	<b>52.748</b>	<b>53.214</b>	<b>86.954</b>	<b>106.780</b>	<b>129.909</b>
Inventories	0.486	0.416	0.173	0.197	0.227	0.257
Trade Accounts Receivables	26.030	22.240	23.382	26.561	30.639	34.715
Trade Accounts Rec. from ongoing work	10.289	16.020	13.587	15.434	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	38.114	51.463	68.118
Other assets	5.079	1.533	1.358	1.358	1.358	1.358
<b>Total assets</b>	<b>111.182</b>	<b>114.189</b>	<b>110.676</b>	<b>139.060</b>	<b>153.040</b>	<b>169.858</b>
<b>Equity</b>	<b>40.256</b>	<b>42.329</b>	<b>48.697</b>	<b>81.462</b>	<b>96.679</b>	<b>114.726</b>
Reserves	39.187	41.261	47.971	80.681	95.778	113.705
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
<b>Liabilities</b>	<b>64.484</b>	<b>64.805</b>	<b>54.955</b>	<b>50.443</b>	<b>49.070</b>	<b>47.696</b>
Interest bearing liabilities	34.819	33.820	33.202	28.202	26.202	24.202
Leasehold liabilities	0.000	8.868	9.311	8.026	7.081	5.956
Accounts Payables	2.365	2.484	3.591	4.079	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	6.131	6.676	7.801
Other liabilities	3.653	2.872	3.544	3.544	3.544	3.544
<b>Total equity and liabilities</b>	<b>111.182</b>	<b>114.189</b>	<b>110.676</b>	<b>139.060</b>	<b>153.040</b>	<b>169.858</b>

Source: EQU1.TS; company data

Key Ratios	2018	2019	2020	2021e	2022e	2023e
<b>Ratios for corporate valuation</b>						
EV/Sales	2.01	1.44	1.43	2.88	2.49	2.20
EV/EBITDA	31.30	13.59	8.80	12.21	11.65	10.28
EV/EBIT	134.00	48.57	15.94	17.70	17.08	14.67
P/E reported	204.62	-44.02	22.68	25.27	23.69	19.96
P/E clean	204.62	-44.02	22.68	25.27	23.69	19.96
PCPS	33.23	22.00	9.96	14.90	13.92	12.24
Price-to-book ratio	4.83	3.35	2.94	4.45	3.75	3.16
<b>Profitability ratios</b>						
EBITDA margin	6.4%	10.6%	16.2%	23.6%	21.4%	21.4%
EBIT margin	1.5%	3.0%	9.0%	16.3%	14.6%	15.0%
Pre tax margin	0.2%	1.1%	7.7%	15.5%	14.3%	15.0%
Net margin	0.9%	-2.7%	5.3%	10.6%	9.8%	10.3%
Free-cash-flow-margin	n.m.	2.3%	9.7%	11.0%	13.7%	14.0%
ROE	2.3%	-7.6%	13.8%	21.9%	17.1%	17.1%
<b>Productivity ratios</b>						
Sales/employees (in EUR '000)	92.3	92.6	106.5	117.5	131.5	144.7
Personnel expenses/employees (in '000)	59.8	62.7	68.5	69.3	76.7	83.7
Net result/employees (in '000)	0.8	-2.5	5.6	12.5	12.9	14.9
Number of employees	1150	1247	1104	1137	1171	1206
<b>Financial ratios</b>						
Equity ratio	36.2%	37.1%	44.0%	58.6%	63.2%	67.5%
Gearing	176.2%	169.8%	127.3%	70.7%	58.3%	48.1%
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Cash-flow ratio</b>						
Cash-flow per share	2.96	3.10	6.90	10.67	11.42	12.99
Free-Cash-flow per share	-5.46	1.30	5.59	6.51	9.36	10.82
<b>Other ratios</b>						
Depreciation/Sales	4.9%	7.6%	7.3%	7.3%	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%	28.5%
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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<b>Company</b>	<b>Analyst</b>		<b>Rating</b>	<b>Price Target</b>
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
GK SOFTWARE AG	D.Grossjohann/T.Schießle	01/12/2020	Buy	€ 117.00
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	31/03/2021	Buy	€ 133.50
GK SOFTWARE AG	D.Grossjohann/T.Schießle	04/05/2021	Buy	€ 162.00
GK SOFTWARE AG	D.Grossjohann/T.Schießle	31/05/2021	Buy	€ 164.50

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

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

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

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

**(31/08/2021; 09:00 am CET)**

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

**(Closing price on 30/08/2021, 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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