

January to March 2019

Interim Statement

Simply Retail.

Summary of Consolidated Results

		31.3.2019	31.3.2018	Change (2018/2019)
Sales	EUR K	24,555	23,669	3.7 %
Operating performance	EUR K	24,555	23,669	3.7 %
Total operating revenue	EUR K	25,133	24,508	2.6 %
EBIT	EUR K	(2,813)	221	<(250) %
EBIT margin (on sales)	%	(11.5)	0.9	—
EBIT margin (on total operating revenue)	%	(11.2)	0.9	—
EBITDA	EUR K	(639)	1,344	(147.5) %
EBT	EUR K	(3,201)	(79)	
Net loss for the period	EUR K	(3,609)	(527)	<(250) %
Earnings per share (weighted)	EUR	(1.87)	(0.28)	—
Earnings per share (diluted)	EUR	(1.87)	(0.27)	—
Equity ratio	%	31.1	34.7	—
Net debt	EUR K	8,709	(14,722)	—
Employees		1,223	1,026	19.2 %

First quarter of 2019: Turnover increases, EBIT still below expectations

Dear shareholders,

GK Software was able to continue its growth course during the first quarter of 2019, even if the increase in turnover of just 3.7 percent compared to the same period in the previous year must be described as modest by our standards. The comparison with the previous year is largely dominated by the sales success stores in the same quarter in the previous year and developments in the IT Services segment, which are already known: While it was still possible to generate EUR 4.87 million for licences during the 1st quarter in 2018, turnover here in 2019 only reached a figure of EUR 2.38 million. However, we should point out that the first quarter in 2018 was an unusually strong first quarter. Developments in the IT Services segment have negatively affected the level of dynamism in turnover because our business with a major hardware maintenance customer was significantly cut in April 2018 and therefore fell by almost EUR 1 million compared to the figure in the previous year. The Group's [turnover](#) therefore grew by 3.7 percent compared to the same reporting period in the previous year and amounted to EUR 24.56 million (2018: EUR 23.67 million). The [EBITDA](#) figure was therefore EUR (0.64) million (Q1 2018: EUR 1.34 million) in line with expectations and was also lower than the previous year's figure, but was also affected by increased amortisation (EUR 2.17 million compared to EUR 1.12 million in 2018). The [operating results](#) (EBIT) reached a figure of EUR (2.81) million (Q1 2018: EUR 0.22 million).

As already announced in the last financial statement, the Management Board and Supervisory Board have launched a programme to secure earnings, which is designed to significantly increase the Company's earnings power by tapping into potential throughout the organisation. The Management Board is expecting the first results from this programme during the third quarter of this financial year.

We were able to gain two more customers in the [USA](#) during the first quarter of 2019 and therefore continue our successful activities in this market. We will therefore equip another 1,500 US stores with OmniPOS. Another existing customer in the USA has also decided to make use of our petrol station solution and it will go live during the third quarter of 2019. We were also able to gain a Colombian retailer, which has opted for a subscription agreement, and this will increase the share of our [cloud turnover](#).

We were also able to successfully hand over the first solution based on artificial intelligence to SAP in April 2019. SAP will now sell the solution for automated pricing, which is based on our new AIR platform (Artificial Intelligence for Retail), using the [SAP Dynamic Pricing by GK](#) name. We have also launched a new subsidiary in conjunction with [fiscalisation](#) in Germany, which has to be completed by 1 January 2020. It will make available a cloud solution for implementing the legal requirements to the retail sector and other providers of checkout systems too, in conjunction with Bundesdruckerei (the Federal Printing Office).

In terms of our project business, the first quarter of 2019 was marked by several complete country [rollouts](#) and [productive launches](#) of our new OmniPOS cloud solution. Our solution went into productive use for the first time in Japan, Hong Kong, Singapore and Australia, for example. The [ongo-](#)

ing development of our range of solutions primarily concentrated on the topics of petrol, hospitality and cloud services during this period.

We are expecting further success stories, both through our direct sales and also through our partner sales, during the 2019 financial year and beyond. Our sales pipeline continues to be very well filled and we believe that we are in an excellent position in several ongoing tender procedures.

Market environment

The prospects for the retail sector continue to be excellent in 2019 too. This is reflected, among other things, in the forecast provided by the German Retail Federation (HDE), which is once again expecting nominal growth of 2.0 percent with sales rising to a figure of EUR 535.5 billion during the current year. The HDE believes that the basis for ongoing growth lies in the continuing positive economic conditions and the dynamic growth of the online retail business. The HDE forecast for 2019 is also supported by the prospects across Europe. The positive developments in the retail trade seems to be continuing in most markets where GK Software is active. A current study by GfK Geomarketing, for example, is also expecting growth of 2.0 percent in the 27 EU countries (without the UK) - and the rate could be even higher in some countries in Eastern Europe (study entitled "Einzelhandel in Europa 2019").

Employees

After GK Software had employed 1,205 members of staff at the end of the year, it currently has 1,223 employees (the figure on 31 March 2019; the previous year's figure was 1,026); this therefore represents an increase of 206 over the number employed at the end of the same reporting period in the previous year.

Segment results

During the first quarter, the GK/Retail core business segment once again registered growth (+8.7%) despite the licence turnover, which remained lower than in the previous year, while the IT Services business unit fell short of the figures for the previous year, as expected. If we examine the make-up of the turnover according to different types of work, it is clear that this growth in the GK/Retail business segment primarily took place in software development (+36.7 percent). Maintenance work may have increased for GK/Retail (+11.6 percent), but fell significantly at IT Services due to the loss of a significant hardware maintenance customer during the first half of 2018.

Turnover in the IT Services segment therefore declined by 48.3 percent to a figure of EUR 1.92 million in comparison with the same period in the previous year. The software development business was the only segment that improved its performance over the previous year. The decision to stop selling the SQRS solutions in future has not changed.

As regards to the relation between types of turnover to each other, the licence revenues at 9.7 percent were significantly lower than in the previous year, while the software development turnover (60.6 percent) stood out particularly prominently. Maintenance turnover remained stable at just under 30 percent of total turnover, as in the previous year.

The exchange of services between the segments is governed by servicing contracts, which are geared towards the normal revenues of the segments in their outside markets. Supply contracts are used as a basis to calculate the administrative services according to the estimated time required to provide these, based on experience.

Assets and financial situation

The Group's [assets and financial situation only changed slightly](#) in comparison with the last published declaration in the financial statement for the year 2018. The Group's cash and cash equivalents fell by EUR 1.16 million, for example, while the current and non-current bank liabilities together fell by EUR 2.06 million. There was no change in the Company's [opportunities and risks](#).

Financial forecast and outlook

The [mid-term forecast](#), as published in the financial statement for the year 2018 and which we are repeating here in abbreviated form, is being continued without any changes, provided that the general economic and political conditions remain as they are.

That means: [the Management Board at GK Software is continuing to stand by its medium-term forecast published in the 2017 annual accounts for the 2020 financial year; according to this, turnover should achieve fifty percent growth by 2020 \(compared to 2017\) and the earnings rate in the core segment should reach 15 percent again \(EBIT margin on operating performance\)](#).

If we follow the estimates outlined at the beginning about the development of the economy in general and the retail sector, it is probable that GK/Retail's turnover will continue to grow considerably again in 2019. On our way to the profitability goal that we are seeking for the year 2020, we are assuming that we will be able to take an intermediate step and significantly exceed the figures for the past year. However, even short-term delays in major customer projects can have a considerable impact on the Company's earnings situation.

We are therefore maintaining our proviso that the expenditure for tapping into new markets, which continues to be a high priority, the postponement of customer projects with fairly large volumes or a deterioration in the overall economic situation could impair the achievement of this goal.

Schöneck, 29 May 2019

The Management Board



Rainer Gläss
Chief Executive Officer



André Hergert
Chief Financial Officer and Head of Human Resources

Consolidated Balance Sheet on 31 March 2019

Assets

T.01	EUR K	31.3.2019	31.12.2018
	Property, plant and equipment ¹	32,926	22,746
	Intangible assets	29,665	30,019
	Financial assets	34	34
	Active deferred taxes	6,106	4,034
	Total non-current assets	68,731	56,833
	Goods	386	387
	Auxiliary materials and supplies	128	99
	Initial payments made	12	35
	Trade accounts receivable	22,998	26,030
	Trade accounts receivable from ongoing work	12,044	10,289
	Income tax claims	892	1,045
	Other accounts receivable and assets	4,664	4,674
	Cash and cash equivalents	10,629	11,790
	Total current assets	51,753	54,349
	Balance sheet total	120,484	111,182

Liabilities

T.02	EUR K	31.3.2019	31.12.2018
	Subscribed capital	1,929	1,926
	Capital reserves	21,636	21,429
	Retained earnings	31	31
	Other reserves (OCI from introducing IAS 19 2011, IAS 21)	(228)	(881)
	Profit brought forward	16,682	15,758
	Shortfall for period minorities interests	(3,640)	924
	Equity attributable to GK Software SE stockholders	36,410	39,187
	Equity attributable to noncontrolling interest	1,068	1,069
	Total equity	37,478	40,256
	Provisions for pensions	1,558	1,558
	Non-current bank liabilities	8,403	9,141
	Convertible bond	13,418	13,418
	Deferred government grants	849	861
	Deferred tax liabilities	5,999	3,370
	Total non-current liabilities	30,227	28,348
	Current provisions	1,226	1,231
	Current bank liabilities	10,935	12,260
	Liabilities from trade payables	179	2,365
	Initial payments received	1,565	1,509
	Income tax liabilities	351	283
	Other current liabilities ¹	38,523	24,930
	Total current liabilities	52,779	42,578
	Balance sheet total	120,484	111,182

1 – According to the simplified transitional method used by IFRS 16, no adjustment of previous periods has been made to the new accounting and assessment methods. You can find details on this thing in the section entitled Changes in accounting and assessment methods.

Group Overall Results Statement from 1 January to 31 March 2019

Consolidated results accounts

T.03	EUR K	3M 2019	3M 2018	FY 2018
Ongoing business operations				
	Turnover revenues	24,555	23,670	106,151
	Other operating revenues	578	838	3,617
	Turnover and other revenues	25,133	24,508	109,768
	Materials expenditure	(1,286)	(1,719)	(7,733)
	Personnel expenditure	(19,478)	(16,113)	(68,791)
	Depreciation and amortisation ¹	(2,174)	(1,123)	(5,237)
	Other operating expenditure	(5,008)	(5,332)	(26,411)
	Total operating expenses	(27,946)	(24,287)	(108,172)
	Operating results	(2,813)	221	1,596
	Financial income	11	46	138
	Financial expenditure ¹	(399)	(346)	(1,563)
	Financial results	(388)	(300)	(1,425)
	Income tax results	(3,201)	(79)	171
	Income taxes	(408)	(447)	752
	Consolidated surplus/ shortfall for the period	(3,609)	(526)	923
	of which attributable to noncontrolling interest	(1)	(9)	(2)
	of which attributable to GK Software SE stockholders	(3,608)	(517)	925
Other results after income taxes				
Items, which will be reclassified in the consolidated profit and loss statement in future under certain conditions				
	Differences in exchange rates from recalculating foreign business operations	654	(1,201)	(124)
Items, which will not be reclassified in the consolidated profit and loss statement in future				
	Actuarial gains/ losses from defined benefit pension plans	0	0	(53)
	Overall results	(2,955)	(1,727)	746
	of which attributable to noncontrolling interest	(1)	(9)	(2)
	of which attributable to GK Software SE stockholders	(2,954)	(1,718)	748
	Earnings per share (EUR/ share) from the consolidated surplus/ shortfall - undiluted	(1.87)	(0.28)	0.48
	Earnings per share (EUR/ share) from the consolidated surplus/ shortfall - diluted	(1.87)	(0.28)	0.48

1 – According to the simplified transitional method used by IFRS 16, no adjustment of previous periods has been made to the new accounting and assessment methods. You can find details on this thing in the section entitled Changes in accounting and assessment methods.

Consolidated Cash Flow Statement from 1 January to 31 March 2019

Cash flows from operating business

T.04	EUR K	3M 2019	3M 2018
Cash flows from operating business			
	Surplus/ shortfall for period	(3,609)	(527)
	Share option scheme (non-cash expenditure)	112	85
	Income taxes affecting results	408	448
	Interest expenditure affecting results	399	434
	Interest income/ expenses affecting results	(11)	(46)
	Profit/ loss from the sale or disposal of property, plant and equipment	(2)	(4)
	Reversals of deferred public sector subsidies	(12)	(12)
	Write-downs recognised for receivables	255	—
	Write-ups recognised for receivables	(11)	—
	Depreciation and amortisation	2,175	1,156
	Actuarial gains/ losses	—	—
	Net foreign currency losses /gains	447	(786)
	Net profits from financial tools assessed at their fair value	129	—
	Other non-cash revenues and expenditure	(2)	(2)
	Cash flow from operating business	278	746
Changes in net current assets			
	Changes in trade accounts receivable and other receivables	915	3,457
	Changes in inventories	(4)	(24)
	Changes in trade accounts payable and other liabilities	(70)	2,010
	Changes in initial payments received	55	(135)
	Changes in provisions	(4)	(228)
	Interest paid	(128)	(108)
	Income taxes paid	1,465	(428)
	Net inflow of funds from operating activities	2,507	5,290
	Amount carried forward	2,507	5,290

Cash flows from investment and financing activities, loans and cash and cash equivalents

T.05	EUR K	3M 2019	3M 2018
Amount carried forward			
Net inflow of funds from operating activities		2,507	5,290
Cash flow from investment activities			
Payments for property, plant and equipment and non-current assets		(1,016)	(2,340)
Proceeds from disposals of fixed assets		2	3
Incoming payments as part of the company acquisition		—	—
Disbursement as part of a company acquisition		—	—
Interest payments received		11	43
Proceeds from the repayment of loans		—	—
Net cash outflow for investment activities		(1,003)	(2,294)
Cash flow from financing activities			
Taking out equity		97	420
Taking out loans		7	269
Repayment of loans		(738)	(711)
Issue of convertible bond		(699)	—
Net inflow (previous year: net outflow) in cash from financing activities		(1,333)	(22)
Net outflow of cash and cash equivalents		171	2,974
Cash and cash equivalents at the beginning of the financial year			
		6,151	27,958
Cash and cash equivalents at the end of the financial year			
		6,385	30,892
Impact of changes in exchange rates on cash and cash equivalents		63	(40)
Limited available funds		—	—

Summary of cash and cash equivalents

T.06	EUR K	3M 2019	3M 2018
Liquid assets		10,629	34,597
Utilisation of current account credit/ credit card/ exchange rate		(4,244)	(3,705)
Cash and cash equivalents at the end of the financial year		6,385	30,892

1 – According to the simplified transitional method used by IFRS 16, no adjustment of previous periods has been made to the new accounting and assessment methods. You can find details on this thing in the section entitled Changes in accounting and assessment methods.

Changes in accounting and assessment methods

GK Software changed its accounting and assessment methods on 1 January 2019 as part of using IFRS 16 (Leases) for the first time. No adjustment has been made to previous periods in line with the transitional method in IFRS 16, which we have selected. As a result, there are changes to profits, assets, liabilities and the cash flow in 2019 when making comparisons with the previous year.

The change in the accounting and assessment methods created the following transitional effects on 1 January 2019:

- As a result of capitalising usage rights, fixed assets increased by EUR 10,778 K.
- Other current liabilities rose on account of entering leasing liabilities by EUR 10,778 K.

In our Group's overall results accounts, we entered EUR 730 K in expenditure for the amortisation of usage rights and EUR 35 K for interest expenditure on leasing liabilities for the first quarter of 2019.

This also had an effect on the Group's cash flow statement. The cash flow from operating activities increased by EUR 734 K and the cash flow from funding activities fell by EUR 734 K.

You can obtain additional information on the changes in the accounting and assessment methods resulting from the use of IFRS 16 from Section 1.2 Principles of presentation in the 2018 financial statement.

Financial Calendar

20 June 2019

Annual shareholders' meeting 2019 in Schöneck/V.

29 August 2019

Interim report as of 30 June 2019

25 – 27 November 2019

Analyst conference in Frankfurt/M.

26 November 2019

Interim statement as of 30 September 2019

29 April 2020

Annual report as of 31 December 2019

28 May 2020

Interim statement as of 31 March 2020

18 June 2020

Annual shareholders' meeting 2020 in Schöneck/V.

27 August 2020

Interim report as of 30 June 2020

November 2020

Analyst conference in Frankfurt/M.

26 November 2020

Interim statement as of 30 September 2020

Imprint/Notes

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Notes

Note to the statement

This interim statement is the English translation of the original German version. In case of deviations between these two the German version prevails. This interim statement can be downloaded in both languages at <https://investor.gk-software.com>.

Note regarding the rounding of figures

Due to the commercial rounding of figures and percentages small deviations may occur.

Disclaimer

This interim statement includes statements concerning the future, which are subject to risks and uncertainties. They are estimations of the Board of Management of GK Software SE and reflect their current views with regard to future events. Such expressions concerning forecasts can be recognised with terms such as "expect", "estimate", "intend", "can", "will" and similar terms relating to the Company. Factors, which can have an effect or influence are, for example (without all being included): the development of the retail and IT market, competitive influences including price changes, regulatory measures and risks with the integration of newly acquired companies and participations. Should these or other risks and uncertainty factors take effect or should the assumptions underlying the forecasts prove to be incorrect, the results of GK Software SE could vary from those, which are expressed or implied in these forecasts. The Company assumes no obligation to update such expressions or forecasts.

