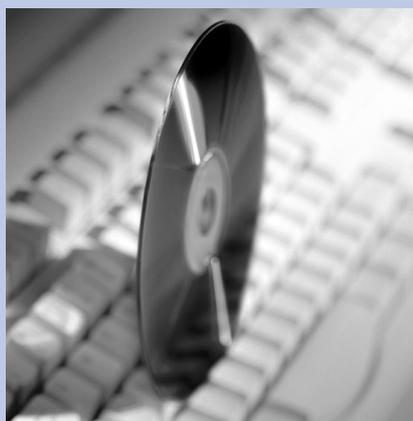


Date **27/03/2009**



## GK SOFTWARE AG

ISIN: **DE0007571424**  
 Price (25/03/09): **€ 12.15**  
 Market capitalization **€ 20m**  
 Free float **24.93 %**

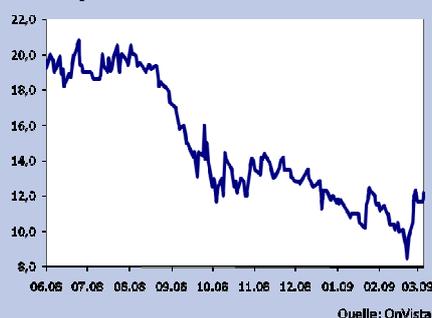
### Financial calendar

16/04/2009 FY 2008  
 14/05/2009 Q1 figures  
 11/06/2009 AGM 2009  
 13/08/2009 Q2 figures  
 12/11/2009 Q3 figures

### Shareholder structure

GK Software Holding **70.57%**  
 R. Gläß **2.25%**  
 S. Kronmüller **2.25%**

### Price performance



### Daniel Grossjohann

+49 (0)69 – 61 99 33 21  
[grossjohann@vararesearch.de](mailto:grossjohann@vararesearch.de)

### Michael Vara

+49 (0)69 – 66 36 80 71  
[vara@vararesearch.de](mailto:vara@vararesearch.de)

## GK SOFTWARE AG

### GK Solution for all Lidl and PLUS Outlets

■ **Recommendation: Buy** ■ **Target price: € 28.45**

We issue a buy recommendation for the GK SOFTWARE. The company once again edged out established competitors to win three important contracts in the retail area, which means GK's expansion plans are still on track. The Lidl project represent an important strategic coup for GK since it will open up new geographic territories, facilitate international expansion and add an important name to GK's list of major references. Since the contract with Lidl has already been taken into account in plans for 2009 and 2010, we have not revised our estimates. With EV/EBIT at 1.7 for 2009, the company's share remain clearly undervalued. We see the fair value at € 28.45 per share.

### Investment highlights

- Lidl, a GK SOFTWARE client that has up to now been using the company's DOS-based cash register software from GK, decided to deploy the Java-based GK/Retail Suite at all of its locations (8,000 outlets in 20 countries). In addition to POS and back-office systems, this suite also includes software for the management of the branch locations. Implementation will for the most part take place in 2009 and 2010. Payment is likely to be dependent upon milestones defined as a function of progress over the duration of the project. We estimate the project volume at approximately € 4 million. We assume that GK is likely to have made price concessions in countries in which the project can serve as a high-profile reference. Overall, however, the Lidl project had no effect on the high EBIT margin (09e: 24.9%) included in our estimate.
- PLUS belongs is part of the network of retail food outlets of Netto, a major GK client. The fact that Netto turned to GK to introduce GK solutions to all PLUS locations is a good indication of a high level of customer satisfaction. Whereas Netto has some 1,500 locations, PLUS operates approximately 2,500. The challenge presented by the current PLUS project will be to integrate legacy cash register hardware, which will be equipped with touchscreens, and the machines from different manufacturers for handling returnable bottles. The use of the open, platform-independent GK solution will permit seamless integration of all existing equipment.
- GK SOFTWARE has up to now not been affected by the financial crisis. The three major contracts that have just been landed underscore the strategic importance of such projects. When the Lidl project is completed, there will be longer be any "white areas" on GK's European map. GK's entry into the Spanish and French markets is also especially important since these countries are home to many potential clients in this segment.

### Key ratios

	Sales	Net inc. adj.	EPS adj.	P/E	EV/Sales	EV/EBITDA	EBIT Margin	ROE (%)
2006	7.1	0.9	0.74	n.m.	n.m.	n.m.	22.6	94.9
2007	10.7	1.6	1.25	n.m.	n.m.	n.m.	21.7	88.7
2008e	14.6	2.7	1.64	7.41	0.5	2.1	24.8	38.2
2009e	18.4	3.5	2.07	5.86	0.4	1.7	24.9	24.8
2010e	24.0	4.5	2.69	4.52	0.3	1.3	25.0	25.0

Source: Company information / Vara Research GmbH

The larger projects awarded GK in competitive tenders by major German retailers (including Douglas, Hornbach, Galeria Kaufhof, ESCADA, Netto, Lidl, PLUS) are indicative of the strong performance of the GK solution and the reputation the company has earned in its market. We assume that the major players GK won out against include big-name competitors such as Wincor Nixdorf, Torex and SAP. Gebr. Heinemann KG, a leading international operator of airport shops, recently decided to roll out GK/Retail for approximately 130 of its shops in Germany and Denmark.

At EuroCIS, a trade fair held in February 2009, GK presented the new major version of its GK/Retail Suite, which features many new functionalities (including digital signature, mobile couponing). This technology, which complies with the standards for Service Oriented Architecture (SOA), offers infinite scalability.

## Profit and Loss Account

(in €m)	2005	2006	2007	2008e	2009e	2010e
Sales revenues	4.172	7.079	10.745	14.607	18.417	24.019
Change in finished goods and work in progress	0.514	0.976	-0.002	-0.993	-1.251	-1.632
Other own cost capitalized	0.317	0.318	0.558	1.282	1.616	2.108
Other operating income	0.061	0.205	0.379	0.057	0.072	0.094
Total performance	5.064	8.578	11.680	14.953	18.854	24.588
Cost of material	-0.204	-0.227	-0.486	-0.495	-2.267	-3.577
Gross profit	4.860	8.351	11.194	14.458	16.587	21.011
Personnel expenses	-3.090	-4.900	-6.152	-8.060	-9.023	-11.292
Other operating expenses/income	-1.065	-1.509	-2.183	-2.179	-2.307	-2.934
EBITDA	0.705	1.942	2.859	4.219	5.257	6.785
Depreciation/amortisation	-0.182	-0.342	-0.527	-0.598	-0.668	-0.770
EBIT	0.523	1.600	2.332	3.622	4.589	6.015
Financial result	-0.038	0.020	-0.115	0.281	0.344	0.373
Non operating result before taxes	0.000	0.000	0.000	0.000	0.000	0.000
Pre tax result	0.485	1.620	2.217	3.903	4.933	6.387
Non operating result after taxes	0.000	0.000	0.000	0.000	0.000	0.000
Taxes	-0.194	-0.693	-0.656	-1.171	-1.480	-1.916
Minority interest	0.000	0.000	0.000	0.000	0.000	0.000
Net result	0.291	0.927	1.561	2.732	3.453	4.471
Adjustments	0.000	0.000	0.000	0.000	0.000	0.000
Adjusted net result	0.291	0.927	1.561	2.732	3.453	4.471
Average number of shares	1.25	1.25	1.25	1.67	1.67	1.67
EPS	0.23	0.74	1.25	1.64	2.07	2.69
Adjusted EPS	0.23	0.74	1.25	1.64	2.07	2.69
DPS	0.00	0.00	0.64	0.00	0.00	0.00

Source: GK SOFTWARE AG / Vara Research GmbH

## Balance of Accounts

(in €m)	2005	2006	2007	2008e	2009e	2010e
Long term assets	0.717	1.025	3.748	3.589	3.474	3.424
Intangible assets	0.497	0.719	1.128	1.428	1.978	2.878
Tangible assets	0.220	0.306	2.620	2.161	1.496	0.546
Financial assets	0.000	0.000	0.000	0.000	0.000	0.000
Current assets	4.852	6.711	8.064	20.878	26.936	35.115
Inventories	1.025	2.001	1.999	2.717	3.426	4.468
Receivables	1.485	2.253	3.161	4.297	5.418	7.066
Cash and securities	2.342	2.457	2.904	13.863	18.091	23.580
Other assets	0.014	0.006	0.018	0.018	0.018	0.018
Total assets	5.583	7.742	11.830	24.484	30.427	38.557
Equity	0.513	1.440	2.081	12.213	15.666	20.137
Reserves	0.513	1.440	2.081	12.213	15.666	20.137
Minorities	0.000	0.000	0.000	0.000	0.000	0.000
Provisions	0.257	0.707	0.577	0.580	0.582	0.585
Liabilities	4.653	5.378	8.388	10.908	13.395	17.050
Interest bearing liabilities	0.000	0.002	1.376	1.376	1.376	1.376
Non interest bearing liabilities	4.653	5.376	7.012	9.532	12.019	15.674
Other liabilities	0.160	0.217	0.784	0.784	0.784	0.784
Total equity and liabilities	5.583	7.742	11.830	24.484	30.427	38.557

Source: GK SOFTWARE AG / Vara Research GmbH

## Cash Flow Statement

(in €m)	2005	2006	2007	2008e	2009e	2010e
Net cash provided by operating activities	1.656	0.763	1.920	3.998	4.780	6.210
Net cash used in investing activities	-0.555	-0.653	-2.046	-0.438	-0.553	-0.721
Net cash provided by financing activities	0.000	0.002	0.573	7.400	0.000	0.000
Change in cash and securities	1.101	0.112	0.447	10.959	4.228	5.489
Cash and securities at the end of the period	2.342	2.457	2.904	13.863	18.091	23.580

Source: GK SOFTWARE AG / Vara Research GmbH

## Key Figures

	2005	2006	2007	2008e	2009e	2010e
<b>Profitability ratios</b>						
EBITDA margin	16.9%	27.4%	26.6%	28.9%	28.5%	28.2%
EBIT margin	12.5%	22.6%	21.7%	24.8%	24.9%	25.0%
Pre tax margin	11.6%	22.9%	20.6%	26.7%	26.8%	26.6%
Net margin	7.0%	13.1%	14.5%	18.7%	18.8%	18.6%
Free cash flow margin	n.m.	8.7%	n.m.	22.6%	23.2%	23.4%
ROE	113.5%	94.9%	88.7%	38.2%	24.8%	25.0%
<b>Produktivity ratios</b>						
Sales/employees (in € `000)	77.3	85.3	76.8	83.5	87.8	103.9
Net result/employees (in € `000)	5.4	11.2	11.2	15.6	16.5	19.3
Number of employees	54	83	140	175	210	231
<b>Financial ratios</b>						
Equity ratio	9.2%	18.6%	17.6%	49.9%	51.5%	52.2%
Gearing	-445.4%	-166.0%	-70.9%	-101.8%	-106.3%	-110.0%
Dividend yield	n.a.	n.a.	n.a.	0.0%	0.0%	0.0%
<b>Cash flow ratios</b>						
Cash flow per share	0.29	1.02	1.57	2.00	2.48	3.15
Free cash flow per share	-0.15	0.49	-0.52	1.98	2.57	3.38
<b>Other ratios</b>						
Depreciation/sales	4.4%	4.8%	4.9%	4.1%	3.6%	3.2%
Capex/sales	13.3%	9.2%	24.3%	3.0%	3.0%	3.0%
Working capital/sales	-58.4%	-13.8%	5.9%	10.0%	15.0%	15.0%
Tax rate	40.0%	42.8%	29.6%	30.0%	30.0%	30.0%
<b>Valuation ratios</b>						
EV/Sales	n.m.	n.m.	n.m.	0.53	0.42	0.32
EV/EBITDA	n.m.	n.m.	n.m.	1.83	1.47	1.14
EV/EBIT	n.m.	n.m.	n.m.	2.14	1.69	1.29
P/E reported	n.m.	n.m.	n.m.	7.41	5.86	4.52
P/E clean	n.m.	n.m.	n.m.	7.41	5.86	4.52
PCPS	n.m.	n.m.	n.m.	6.07	4.91	3.86

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	13/05/2008	n.a.	n.a.
GK SOFTWARE AG	03/09/2008	Buy	45.50
GK SOFTWARE AG	21/10/2008	Buy	28.45
GK SOFTWARE AG	19/12/2008	Buy	28.45

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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 going to press; no changes were made afterwards, however.

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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 publication of the financial analysis:  
(27/03/2009)**

4. Date and time of the prices of financial instruments disclosed therein:  
(Price on 25/03/2009)

5. Updates:

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

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