

Date **09/08/2011**

Buy (old: Buy)

PT: € 52.70 (old: € 50.90)

Changes

	2011E		2012E	
	New	Delta	New	Delta
Sales	32.2	0%	38.7	0%
EBIT	6.4	0%	7.7	1.3%
EPS	2.60	0%	3.13	0%
EPS*	2.60	0%	3.13	0%
DPS	0.56	0%	0.67	3.1%

*clean

Homepage: www.gksoftware.de

Industry: IT/Software

ISIN: DE0007571424

Bloomberg: GKS:GR

Reuters: GKSG

Price (09/07/11): € 36.80

Market Cap: € 66 m

Enterprise Value: € 52 m

Ø-volume (100 days): € 45.928

52W High: € 59.15

52W Low: € 33.60

Free Float: 42.5 %

Financial Calendar

11/24/2011 Q3-Report

04/24/2012 FY-Report 2011

Shareholder structure

GK Software Holding 52.33%

R. Gläß 2.95%

S. Kronmüller 2.23%

Share performance



Source: OrVista

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GK SOFTWARE AG

Capacity expansion prepares SAP growth

During the first half of the year, GK increased revenues by 15.8%. The EBIT remained at the same level as last year. This was due to growth investments, which GK is using to prepare for additional growth resulting from the SAP cooperation. The number of employees grew accordingly by 28% compared to the previous year. The new employees are expected to reach their full productivity in the next few months. In our opinion, GK's employment policies also demonstrate the confidence of the company in the SAP cooperation, which recently announced that it had welcomed Fressnapf on board as a new client. The SAP cooperation is not likely to offer much surprise potential for 2011, but we consider it possible that our expectations for growth (approx. 20% p.a.) could be exceeded in 2012 and 2013. The overall fall in share prices over the past few weeks has also resulted in the return of GK's shares to their level at the beginning of 2010. With a price-earnings ratio of 14.2 and EV/sales of 1.6 with a 20% EBIT margin, the current price level is a good opportunity to average down.

Investment Highlights

- Revenues increased by 15.8% to €14.4 million. The EBIT (€2.48 million) remained almost unchanged in comparison to the previous year, while the margin fell correspondingly to 17.2% (previous year 19.8%). As this is the result of growth investments, we do not consider this to be a cause for concern in any way, the more so considering that the implemented scaling in the SAP cooperation will show margin-increasing effects over the medium term.
- Personnel appointments in the areas of project management, software development and support have helped GK to prepare its own capacities for anticipated additional business from the SAP cooperation. The revised solution suite setup is linked to the SAP cooperation, which recently won the company a new client, specialist trader Fressnapf (1,150 branches). According to the estimations of the EHI Retail Institute, the IT budget in trade will make up around 1.12% of the net revenues, which corresponds approximately to the level of last year. An increase of at least 1.5% is expected for the net turnover (H1 2011: 2.7%). The environment will therefore remain favourable.
- Solid balance. GK has shareholders' equity of 60.6% (30.6.2010: 43.9%). Despite dividend payments and the growth investments, net liquidity increased by almost €10 million to €11.4 million. However, the cash-flow effect also made up a significant proportion due to the reduction of working capital.
- Outlook. The company still predicts revenues of between €30 million and €31.5 million for 2011. The EBIT margin is forecast at between 18 and 20%. Our estimations are slightly over the revenue guidance and at the upper end of the margin range.

Key figures

	Sales	Net result	Adj. EPS	Adj. P/E	EV/ Sales	EV/ EBIT	EBIT-Margin	ROE (%)
2009	23.3	4.5	2.70	8.51	1.48	5.85	25.2%	33.2%
2010	27.7	4.5	2.50	20.02	2.96	12.75	23.2%	22.6%
2011e	32.2	4.6	2.60	14.17	1.60	8.00	20.0%	17.7%
2012e	38.7	5.6	3.13	11.76	1.33	6.65	20.0%	18.4%

Source: Company information / Vara Research GmbH

■ Profit and Loss Statement (absolute)

(in EURm)	2008	2009	2010	2011e	2012e
Sales	15.029	23.277	27.690	32.191	38.739
Change in finished goods and work in progress	-1.260	-0.873	0.000	0.000	0.000
Other own costs capitalized	0.815	1.067	0.649	1.046	1.259
Other operating income	0.424	0.826	1.368	1.657	1.994
Total performance	15.008	24.296	29.706	34.893	41.992
Cost of material	-0.514	-0.561	-1.540	-1.072	-1.290
Gross profit	14.494	23.735	28.166	33.822	40.702
Personnel expenses	-8.047	-12.117	-14.840	-18.996	-22.860
Other operating expenses	-2.954	-5.448	-5.344	-6.588	-7.928
EBITDA	3.493	6.171	7.982	8.238	9.913
Depreciation/amortisation	-0.719	-1.281	-1.548	-1.800	-2.166
EBIT	2.775	4.890	6.435	6.438	7.748
Financial result	0.090	0.143	-0.128	0.116	0.149
Non operating result before taxes	0.000	0.000	0.000	0.000	0.000
EBT	2.864	5.033	6.307	6.554	7.897
Non operating result after taxes	0.000	0.000	0.000	0.000	0.000
Taxes	-0.830	-1.516	-1.836	-1.904	-2.295
Minority interest	0.000	0.000	0.000	0.000	0.000
Net result	2.034	3.517	4.471	4.650	5.602
Adjustments	0.000	0.984	0.000	0.000	0.000
Adjusted net result	2.034	4.501	4.471	4.650	5.602
Average number of shares	1.67	1.67	1.79	1.79	1.79
EPS	1.22	2.11	2.50	2.60	3.13
Adjusted EPS	1.22	2.70	2.50	2.60	3.13
DPS	0.00	1.00	0.50	0.56	0.67

Source: GK SOFTWARE AG / Vara Research GmbH

■ Profit and Loss Statement (percentual)

in % of Sales	2008	2009	2010	2011e	2012e
Sales	100.0	100.0	100.0	100.0	100.0
Total performance	99.9	104.4	107.3	108.4	108.4
Cost of material	-3.4	-2.4	-5.6	-3.3	-3.3
Gross profit	96.4	102.0	101.7	105.1	105.1
Personnel expenses	-53.5	-52.1	-53.6	-59.0	-59.0
Other operating expenses	-19.7	-23.4	-19.3	-20.5	-20.5
EBITDA	23.2	26.5	28.8	25.6	25.6
Depreciation/amortisation	-4.8	-5.5	-5.6	-5.6	-5.6
EBIT	18.5	21.0	23.2	20.0	20.0
Financial result	0.6	0.6	-0.5	0.4	0.4
Non operating result before taxes	0.0	0.0	0.0	0.0	0.0
EBT	19.1	21.6	22.8	20.4	20.4
Non operating result after taxes	0.0	0.0	0.0	0.0	0.0
Taxes	-5.5	-6.5	-6.6	-5.9	-5.9
Minority interest	0.0	0.0	0.0	0.0	0.0
Net result	13.5	15.1	16.1	14.4	14.5
Adjustments	0.0	4.2	0.0	0.0	0.0
Adjusted net result	13.5	19.3	16.1	14.4	14.5

Source: GK SOFTWARE AG / Vara Research GmbH

■ Cash Flow Statement

(in EURm)	2008	2009	2010	2011e	2012e
Net cash provided by operating activities	1.427	5.662	1.668	10.687	5.870
Net cash used in investing activities	-2.579	-9.363	-2.709	-2.882	-3.068
Net cash provided by financing activities	7.098	5.468	3.844	-0.895	-1.000
Change in cash and securities	5.951	1.782	2.805	6.911	1.802
Cash and securities at the end of the period	8.855	10.637	13.442	20.353	22.155

Source: GK SOFTWARE AG / Vara Research GmbH

■ Balance Sheet (absolute)

(in EURm)	2008	2009	2010	2011e	2012e
Long term assets	4.226	12.743	13.166	14.248	15.150
Intangible assets	1.633	9.333	9.116	8.697	8.092
Tangible assets	2.593	3.410	4.050	5.551	7.058
Financial assets	0.000	0.000	0.000	0.000	0.000
Current assets	15.382	19.242	31.110	33.651	37.435
Inventories	0.738	0.000	0.000	0.000	0.000
Accounts Receivables	3.023	5.846	14.110	9.740	11.722
Other current assets	2.765	2.759	3.558	3.558	3.558
Cash and securities	8.855	10.637	13.442	20.353	22.155
Other assets	0.018	0.390	0.529	0.529	0.529
Total assets	19.626	32.375	44.805	48.428	53.113
Equity	11.782	15.300	24.332	28.086	32.688
Reserves	11.782	15.300	24.332	28.086	32.688
Minorities	0.000	0.000	0.000	0.000	0.000
Provisions	0.847	0.847	0.921	0.937	0.954
Liabilities	5.803	14.953	17.060	16.913	16.980
Interest bearing liabilities	1.256	6.724	5.983	5.983	5.983
Accounts Payables	0.526	0.774	0.476	0.329	0.396
Other non-interest bearing liabilities	4.021	7.455	10.601	10.601	10.601
Other liabilities	1.193	1.276	2.491	2.491	2.491
Total equity and liabilities	19.626	32.375	44.805	48.428	53.113

Source: GK SOFTWARE AG / Vara Research GmbH

■ Balance Sheet (percentual)

in % of Total assets	2008	2009	2010	2011e	2012e
Long term assets	21.5	39.4	29.4	29.4	28.5
Intangible assets	8.3	28.8	20.3	18.0	15.2
Tangible assets	13.2	10.5	9.0	11.5	13.3
Financial assets	-	0.0	0.0	0.0	0.0
Current assets	78.4	59.4	69.4	69.5	70.5
Inventories	3.8	-	-	-	-
Accounts Receivables	15.4	18.1	31.5	20.1	22.1
Other current assets	14.1	8.5	7.9	7.3	6.7
Cash and securities	45.1	32.9	30.0	42.0	41.7
Other assets	0.1	1.2	1.2	1.1	1.0
Total assets	100.0	100.0	100.0	100.0	100.0
Equity	60.0	47.3	54.3	58.0	61.5
Reserves	60.0	47.3	54.3	58.0	61.5
Minorities	-	-	-	-	-
Provisions	4.3	2.6	2.1	1.9	1.8
Liabilities	29.6	46.2	38.1	34.9	32.0
Interest bearing liabilities	6.4	20.8	13.4	12.4	11.3
Accounts Payables	2.7	2.4	1.1	0.7	0.7
Other non-interest bearing liabilities	20.5	23.0	23.7	21.9	20.0
Other liabilities	6.1	3.9	5.6	5.1	4.7
Total equity and liabilities	100.0	100.0	100.0	100.0	100.0

Source: GK SOFTWARE AG / Vara Research GmbH

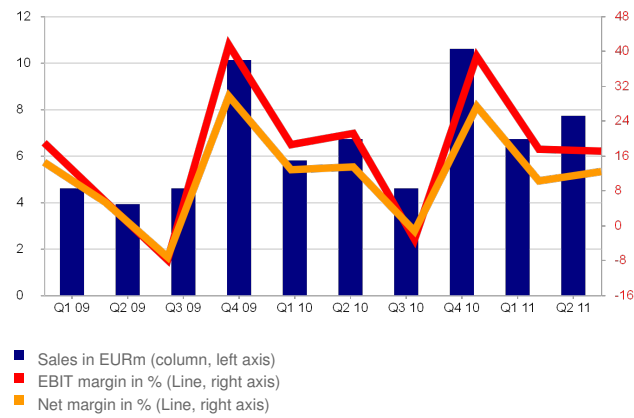
■ Key figures

	2008	2009	2010	2011e	2012e
Valuation ratios					
Share price (in EUR)	17.00	23.00	50.00	36.80	36.80
Market Cap	28.3	38.3	89.5	65.9	65.9
Enterprise Value (in EURm)	20.7	34.4	82.0	54.8	54.8
EV/Sales	1.38	1.48	2.96	1.70	1.41
EV/EBITDA	5.9	4.8	10.3	6.6	5.5
EV/EBIT	7.5	5.9	12.8	8.5	7.1
P/E reported	13.9	10.9	20.0	14.2	11.8
P/E clean	13.9	8.5	20.0	14.2	11.8
PCPS	9.4	8.0	15.1	10.2	8.5
Price-to-book ratio	2.4	2.5	3.7	2.3	2.0
Profitability ratios					
EBITDA margin	23.2%	30.7%	28.8%	25.6%	25.6%
EBIT margin	18.5%	25.2%	23.2%	20.0%	20.0%
Pre tax margin	19.1%	25.8%	22.8%	20.4%	20.4%
Net margin	13.5%	19.3%	16.1%	14.4%	14.5%
ROE	29.3%	33.2%	22.6%	17.7%	18.4%
ROCE	60.7%	57.0%	38.5%	34.6%	42.1%
Productivity ratios					
Sales/employees (in EUR '000)	79.7	80.0	75.7	75.5	77.8
Gross profit/employees (in '000)	10.8	15.5	12.2	10.9	11.3
Net result/employees (in '000)	189	291	366	426	498
Number of employees					
Financial ratios	60.0%	47.3%	54.3%	58.0%	61.5%
Equity ratio	-64.1%	-25.3%	-29.3%	-49.9%	-48.3%
Gearing	0.0%	4.3%	1.0%	1.5%	1.8%
Dividend yield					
Cash-flow ratio	1.82	2.88	3.30	3.61	4.35
Cash-flow per share	1.09	0.00	1.64	2.00	2.64
Other ratios					
Depreciation/Sales	4.8%	5.5%	5.6%	5.6%	5.6%
Capex/Sales	8.1%	37.8%	10.8%	9.0%	7.9%
Working Capital/Sales	21.5%	21.8%	49.2%	29.2%	29.2%
Tax rate	29.0%	30.1%	29.1%	29.1%	29.1%

Source: GK SOFTWARE AG / Vara Research GmbH

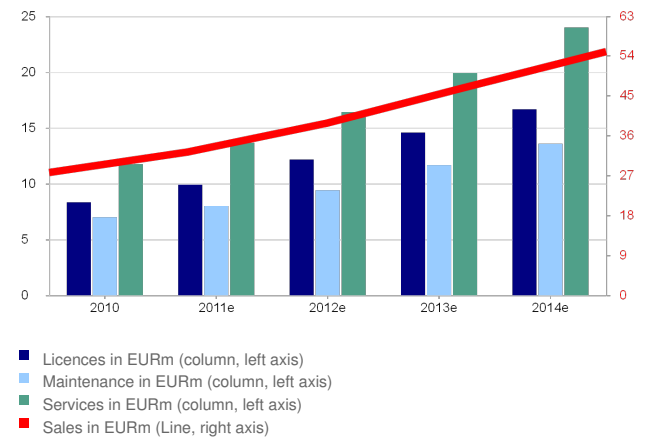
Key Charts

Sales and margin development



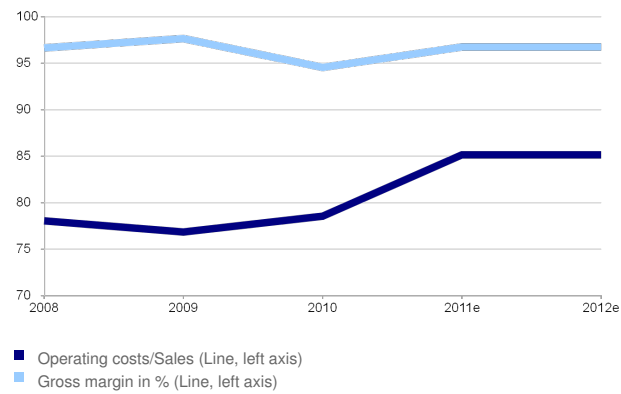
- Fluctuating quarterly results due to project business
- High-margin end-of-year business

Sales mix



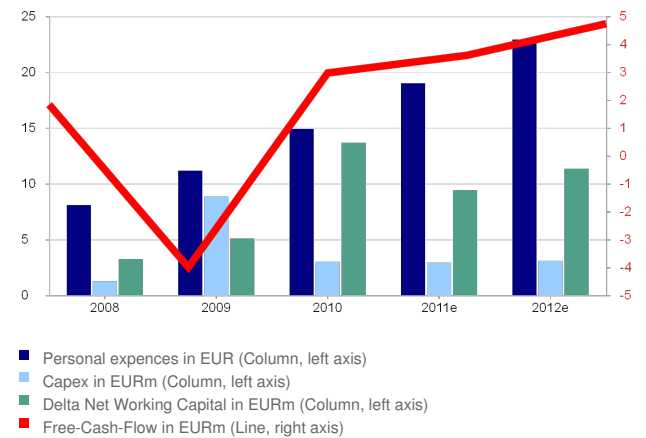
- Revenue growth (CAGR 2010-2014): 187%
- Maintenance revenues create a stable revenue base and are increasing consistently
- Proportional growth of revenue types

Cost efficiency



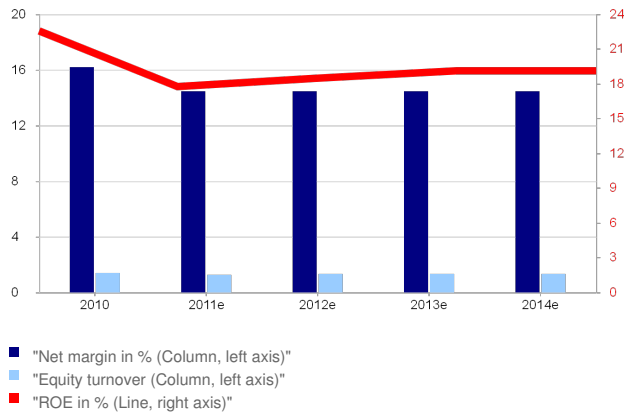
- Rise in operative costs resulting from increase in personnel
- Debit peak in 2011 achieved
- Gross earnings margin 2010 cumbered by external employees

Operating Cash Flow



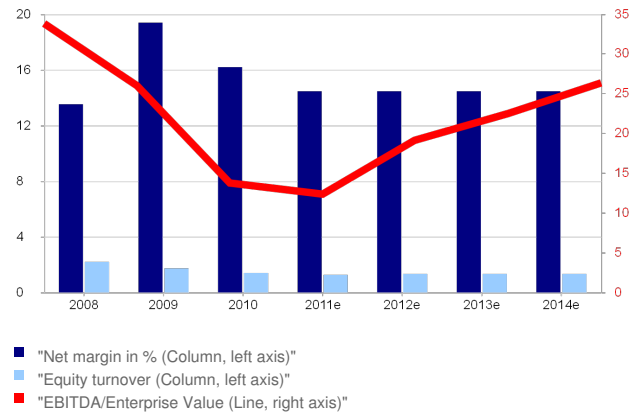
- 2009 defined by high Capex (Euro 88 million) (buildings)
- No further major investments in upcoming years
- Constantly increasing cash flow anticipated

ROE



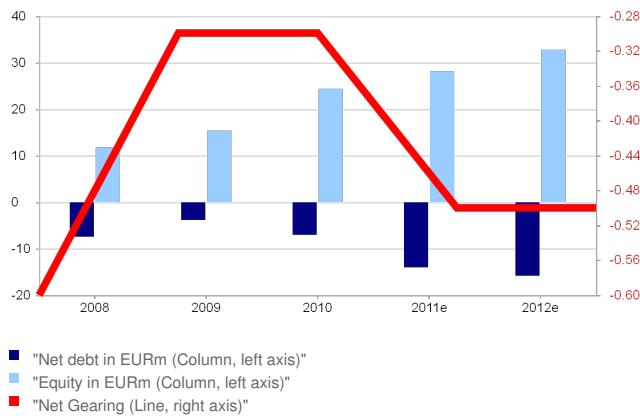
- Sustainable ROE over 17%
- Stable net margins
- Dividend payouts result in constant shareholder equity turnover ratio

Value added



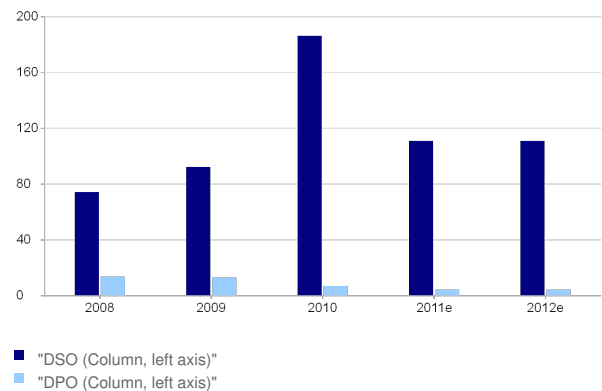
- Due to capital increase, the EBITDA/EV fell between 2008 and 2011
- EBITDA/EV also over the WACC in 2011 (97%)
- After investments have been made, the anticipated value creation will be significantly higher than WACC

Balance sheet quality



- Strong balance sheet
- Enables increasing dividends or acquisitions

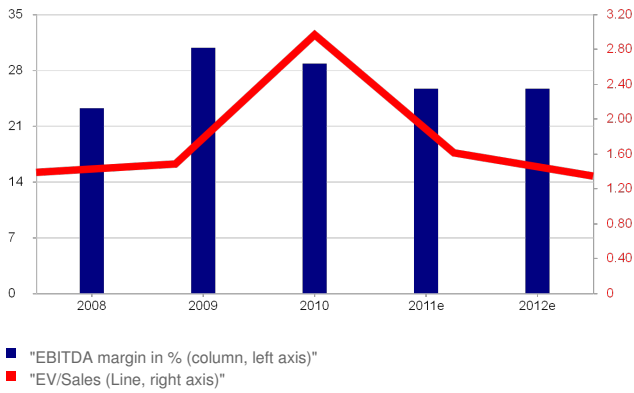
Working Capital efficiency



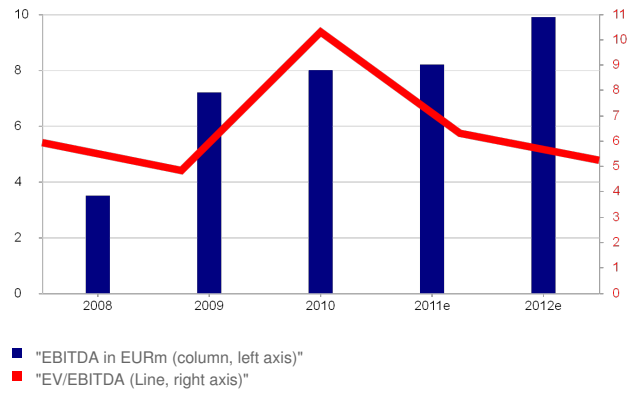
- Peak in 2010 explained by major project which was not fully invoiced
- Historic DSO value of 80 days, slight increase in the future as peaks cannot be ruled out

Valuation charts

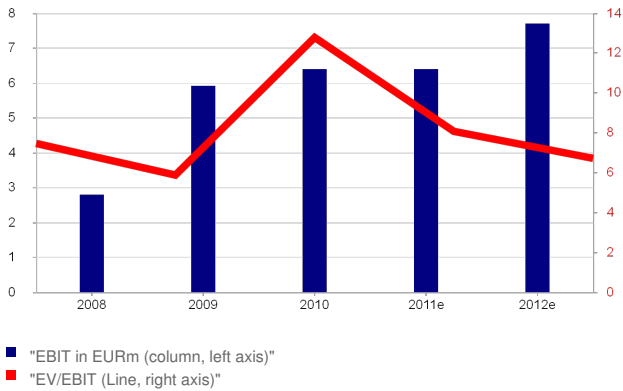
EV/Sales



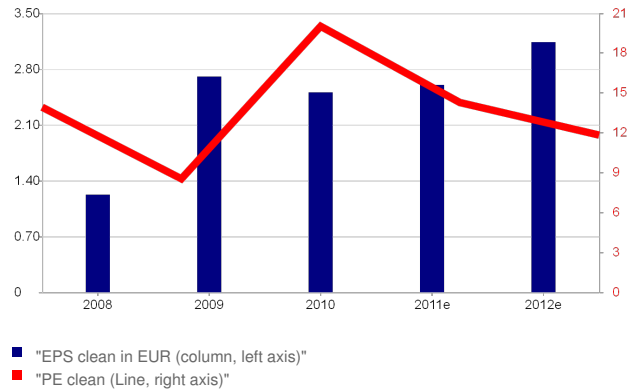
EV/EBITDA



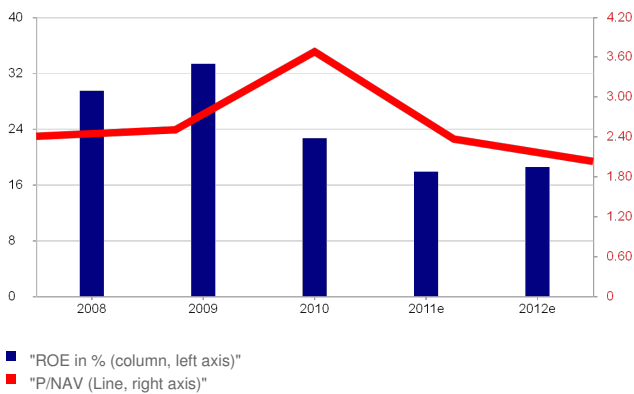
EV/EBIT



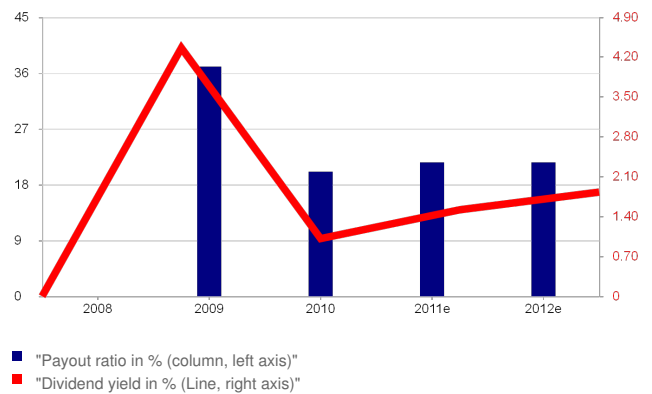
PE clean



P/BV



Dividend yield in %



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I. Disclosures on authorship, responsible company, regulatory authority:

Company responsible for the publication: Vara Research GmbH

Authors of this financial analysis: Daniel Großjohann, Analyst and Michael Vara, Analyst and Managing Director of Vara Research GmbH

Vara Research GmbH is subject to regulation through the Federal Financial Supervisory Authority (BaFin).

Previous financial analyses:

Company	Date	Rating	Target price
GK SOFTWARE AG	03/27/2009	Buy	€ 28.45
GK SOFTWARE AG	05/14/2009	Buy	€ 21.60
GK SOFTWARE AG	06/16/2009	Buy	€ 21.60
GK SOFTWARE AG	09/14/2009	Buy	€ 23.00
GK SOFTWARE AG	10/27/2009	Buy	€ 37.75
GK SOFTWARE AG	12/14/2009	Hold	€ 38.60
GK SOFTWARE AG	02/02/2010	Hold	€ 40.10
GK SOFTWARE AG	04/22/2010	Hold	€ 50.85
GK SOFTWARE AG	06/21/2010	Hold	€ 50.85
GK SOFTWARE AG	09/08/2010	Hold	€ 56.95
GK SOFTWARE AG	12/02/2010	Hold	€ 56.00
GK SOFTWARE AG	01/19/2011	Hold	€ 55.70
GK SOFTWARE AG	05/16/2011	Buy	€ 56.45
GK SOFTWARE AG	06/20/2011	Buy	€ 56.45
GK SOFTWARE AG	08/16/2011	Buy	€ 50.90

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1. Information sources:

Material sources of information for preparing this document are publications in domestic and foreign media such as information services (including but not limited to Reuters, VWD, Bloomberg, DPA –AFX), business press (including but not limited to Börsenzeitung, Handelsblatt, Frankfurter Allgemeine Zeitung, Financial Times), professional publications, published statistics, rating agencies as well as publications of the analysed issuers.

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.

2. Summary of the valuation principles and methods used in preparation of the analysis:

Vara Research 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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**3. Date of initial publication of the financial analysis:
(09/08/2011)**

**4. Date and time of the prices of financial instruments disclosed therein:
(Price on 09/07/2011)**

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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