

Date **13.05.2013**

Buy (old: Buy)
PT: € 46.75 (alt: € 46.75)

Changes

	2013E		2014E	
	New	Delta	New	Delta
Sales	47.1	0%	54.1	0%
EBIT	6.8	0%	8.6	0%
EPS	2.85	0%	3.61	0%
EPS*	2.85	0%	3.61	0%
DPS	0.70	0%	0.70	0%

*clean

Homepage: www.gksoftware.de
 Industry: IT/Software

ISIN DE0007571424
 Bloomberg GKS:GR
 Reuters GKSG
 Price (13.05.13): € 28.51
 Market Cap: € 51 Mio.
 Enterprise Value: € 51 Mio.
 Ø-volume (100 days): € 54,903
 52W High: € 40.50
 52W Low: € 27.00

Financial Calendar

29.05.2013 Q1-Report
 18.06.2013 Annual Meeting

Shareholder structure

GK Software Holding 52.3%
 Scherzer & Co. AG 5.2%
 R. Gläß 3.5%
 S. Kronmüller 2.2%

Share performance



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GK SOFTWARE AG

Back on track, the locomotive picks up speed in the second half of the year

Strategically, GK made important decisions in 2012 and the first months of this year for the years after 2013: internationalization was pushed ahead, partnerships with HP and RedIron established flexible implementation capacity and the service business was strengthened (AWEK-acquisition). Operationally, however, development was bogging down in 2012: a reluctance of customers and an uncertain economic outlook have led to declines in sales (-10.5%) and net income (-85%). We assume that this dip in growth is temporary. The sales pipeline is more than adequately full and powerful implementation partners stand ready and prepared: in the second half of the year, there should have been an uptake in project close-out announcements that could have been reported. In this context, the current price weakness with a low rating (PER 2013e: 10) may be a chance to build a position.

Investment Highlights

- The final figures for 2012 are no longer a surprise since the benchmark data were already known. The faltering of new business of the final quarter considerably affected the financial year 2012 as a whole. We have already started to make some new progress in this regard. The price reaction to the weak figures in 2012 in our view, however, concealed the success of setting a new strategic direction. In this situation, not only is the creation of flexible capacity in international projects particularly noteworthy but also the expansion of SAP solution portfolios and the strengthening of the service business with the acquisition of AWEK. These are strategically important steps that will pay off in the medium term.
- RedIron, a US-American SAP Premium Partner with a clear focus on SAP retail branch solutions, has become part of an implementation partnership with GK SOFTWARE for North and Central America. RedIron is the most important partner in the development and implementation of existing SAP solutions for retailers (Triversity) and has worked together with 90% of all large (U.S.) retailers that use this solution. The partnership cooperation with RedIron now shows the importance of the SAP-GK cooperation for SAP internationally as well. In addition, it is hoped that RedIron will transfer its existing customers in the medium-term to the new solution for the retail sector.
- GK co-founder and CEO Rainer Gläß has used the short-term price slide under the €28 mark in order to expand the stock of privately held shares.

Key figures

	Sales	Net result	adj. EPS	adj. P/E	EV/Sales	EV/EBIT	EBIT Margin	ROE (%)
2011	31.8	4.6	2.55	16.77	2.14	10.23	21.0%	17.4%
2012	28.4	0.7	0.38	100.8	2.39	86.58	2.8%	2.4%
2013e	47.1	5.1	2.85	10.01	1.08	7.46	14.5%	16.1%
2014e	54.1	6.5	3.61	7.90	0.94	5.89	16.0%	17.1%
2015e	59.5	8.0	4.49	6.34	0.86	4.76	18.0%	18.4%

Source: Company Data/ Vara Research GmbH

**SAP-Cooperation comes
to life and makes
progress..**

**..Flexible (third-level)
capacities poised and
ready**

Even though expectations of the selling power of the SAP-Cooperation in 2012 might not have been fully satisfied, there are achievements to list here nonetheless: (1) In 2012, three projects were acquired through SAP. (2) The spectrum of GK-Solutions distributed by SAP expanded by two (Open Scale and Label&Poster Print). (3) GK retail software is the world's first which is SAP HANA compatible. (4) An important key technical requirement for Omni-Channel Retailing was met by the creation of a cloud capability critical server component. (5) The POS solution of GK has been certified by SAP for Business-by-Design (and can therefore already be used in cloud scenario operations).

If the SAP-Cooperation had resulted in acquiring several international collaborative projects in parallel, GK would have at least temporary difficulties concerning their own implementation capacity. This problem has now been fixed - without GK having to build-in large amounts of fixed costs. With the cooperation with HP, GK has trained with world rollouts IT specialists on site, the management of the projects, however, will most likely still lie with GK staff initially. The implementation partnership with RedIron, while indeed confined to North and Central America, has a strong impact, however, because RedIron, being a renowned specialist, has access to almost all SAP-POS existing customers in the U.S. retail market. It is not to be expected that RedIron would have become part of the partnership, if it had not been signaled from the side of SAP that numerous projects should be expected with the new SAP/GK-POS solution. Assuming typical acquisition cycles (12-18 months) and a certain lead time from the side of SAP, the new solution should be adopted by some major U.S. retail chains by the end of 2013 at the latest.

■ Profit and Loss Statement in EURm

	2010	2011	2012	2013e	2014e	2015e
Sales	27.690	31.753	28.426	47.118	54.057	59.463
Change in finished goods and work in progress	0.000	0.000	-0.127	-0.211	-0.242	-0.266
Other own costs capitalized	0.649	1.489	0.748	1.239	1.422	1.564
Other operating income	1.368	0.729	1.658	1.264	1.450	1.595
Total performance	29.706	33.971	30.704	49.410	56.687	62.355
Cost of material	-1.540	-0.611	-0.673	-1.093	-0.443	-0.487
Gross profit	28.166	33.360	30.031	48.318	56.244	61.868
Personnel expenses	-14.840	-18.601	-19.773	-29.173	-33.544	-35.785
Other operating expenses	-5.344	-6.158	-7.401	-9.678	-11.028	-12.056
EBITDA	7.982	8.601	2.858	9.467	11.671	14.027
Depreciation/amortisation	-1.548	-1.947	-2.073	-2.634	-3.022	-3.324
EBIT	6.435	6.654	0.785	6.833	8.649	10.703
Financial result	-0.128	-0.085	0.035	0.020	0.031	0.113
Non operating result before taxes	0.000	0.000	0.000	0.000	0.000	0.000
EBT	6.307	6.569	0.819	6.853	8.680	10.816
Non operating result after taxes	0.000	0.000	0.000	0.000	0.000	0.000
Taxes	-1.836	-2.005	-0.144	-1.756	-2.224	-2.771
Minority interest	0.000	0.000	0.000	0.000	0.000	0.000
Net result	4.471	4.564	0.675	5.097	6.456	8.044
Adjustments	0.000	0.000	0.000	0.000	0.000	0.000
Adjusted net result	4.471	4.564	0.675	5.097	6.456	8.044
Average number of shares	1.79	1.79	1.79	1.79	1.79	1.79
EPS	2.50	2.55	0.38	2.85	3.61	4.49
Adjusted EPS	2.50	2.55	0.38	2.85	3.61	4.49
DPS	0.50	0.50	0.10	0.70	0.70	0.88

■ Profit and Loss Statement as % of sales

	2010	2011	2012	2013e	2014e	2015e
Sales	100.0	100.0	100.0	100.0	100.0	100.0
Total performance	107.3	107.0	108.0	104.9	104.9	104.9
Cost of material	-5.6	-1.9	-2.4	-2.3	-0.8	-0.8
Gross profit	101.7	105.1	105.6	102.5	104.0	104.0
Personnel expenses	-53.6	-58.6	-69.6	-61.9	-62.1	-60.2
Other operating expenses	-19.3	-19.4	-26.0	-20.5	-20.4	-20.3
EBITDA	28.8	27.1	10.1	20.1	21.6	23.6
Depreciation/amortisation	-5.6	-6.1	-7.3	-5.6	-5.6	-5.6
EBIT	23.2	21.0	2.8	14.5	16.0	18.0
Financial result	-0.5	-0.3	0.1	0.0	0.1	0.2
Non operating result before taxes	0.0	0.0	0.0	0.0	0.0	0.0
EBT	22.8	20.7	2.9	14.5	16.1	18.2
Non operating result after taxes	0.0	0.0	0.0	0.0	0.0	0.0
Taxes	-6.6	-6.3	-0.5	-3.7	-4.1	-4.7
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0
Net result	16.1	14.4	2.4	10.8	11.9	13.5
Adjustments	0.0	0.0	0.0	0.0	0.0	0.0
Adjusted net result	16.1	14.4	2.4	10.8	11.9	13.5

Source: GK SOFTWARE AG / Vara Research GmbH

■ Cash Flow Statement in EURm

	2010	2011	2012	2013e	2014e	2015e
Net cash provided by operating activities	1.668	4.747	3.064	0.051	6.682	9.214
Net cash used in investing activities	-2.709	-2.693	-3.988	-1.945	-2.231	-2.455
<i>thereof Capex</i>	<i>-2.980</i>	<i>-2.447</i>	<i>-4.048</i>	<i>-1.945</i>	<i>-2.231</i>	<i>-2.455</i>
Net cash provided by financing activities	3.844	-1.636	-2.673	-0.179	-1.250	-1.260
Change in cash and securities	2.805	0.417	-3.594	-2.073	3.201	5.499
Cash and securities at the end of the period	13.442	13.859	10.265	8.192	11.393	16.891

Source: GK SOFTWARE AG / Vara Research GmbH

■ Balance Sheet in EURm

	2010	2011	2012	2013e	2014e	2015e
Long term assets	13.166	13.664	15.770	20.080	19.290	18.420
Intangible assets	9.116	9.540	10.884	9.591	8.298	7.005
Tangible assets	4.050	4.124	4.884	5.488	5.990	6.413
Financial assets	0.000	0.000	0.002	5.002	5.002	5.002
Current assets	31.110	29.084	26.462	32.705	38.994	46.898
Inventories	0.000	0.000	1.019	1.688	1.937	2.131
Accounts Receivables	14.110	11.945	11.629	19.275	22.114	24.325
Other current assets	3.558	3.279	3.550	3.550	3.550	3.550
Cash and securities	13.442	13.859	10.265	8.192	11.393	16.891
Other assets	0.529	0.727	1.826	1.826	1.826	1.826
Total assets	44.805	43.475	44.058	54.612	60.110	67.144
Equity	24.332	28.231	28.187	35.105	40.311	47.095
Reserves	24.332	28.231	28.187	35.105	40.311	47.095
Minorities	0.000	0.000	0.000	0.000	0.000	0.000
Provisions	0.921	1.109	4.271	4.353	4.439	4.529
Liabilities	17.060	11.462	10.114	13.668	13.874	14.034
Interest bearing liabilities	5.983	5.243	3.475	6.475	6.475	6.475
Accounts Payables	0.476	0.329	0.843	1.397	1.603	1.763
Other non-interest bearing liabilities	10.601	5.891	5.795	5.795	5.795	5.795
Other liabilities	2.491	2.672	1.487	1.487	1.487	1.487
Total equity and liabilities	44.805	43.475	44.058	54.612	60.110	67.144

■ Balance Sheet as % of total assets

	2010	2011	2012	2013e	2014e	2015e
Long term assets	29.4	31.4	35.8	36.8	32.1	27.4
Intangible assets	20.3	21.9	24.7	17.6	13.8	10.4
Tangible assets	9.0	9.5	11.1	10.0	10.0	9.6
Financial assets	0.0	0.0	0.0	9.2	8.3	7.4
Current assets	69.4	66.9	60.1	59.9	64.9	69.8
Inventories	0.0	0.0	2.3	3.1	3.2	3.2
Accounts Receivables	31.5	27.5	26.4	35.3	36.8	36.2
Other current assets	7.9	7.5	8.1	6.5	5.9	5.3
Cash and securities	30.0	31.9	23.3	15.0	19.0	25.2
Other assets	1.2	1.7	4.1	3.3	3.0	2.7
Total assets	100.0	100.0	100.0	100.0	100.0	100.0
Equity	54.3	64.9	64.0	64.3	67.1	70.1
Reserves	54.3	64.9	64.0	64.3	67.1	70.1
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	2.1	2.6	9.7	8.0	7.4	6.7
Liabilities	38.1	26.4	23.0	25.0	23.1	20.9
Interest bearing liabilities	13.4	12.1	7.9	11.9	10.8	9.6
Accounts Payables	1.1	0.8	1.9	2.6	2.7	2.6
Other non-interest bearing liabilities	23.7	13.6	13.2	10.6	9.6	8.6
Other liabilities	5.6	6.1	3.4	2.7	2.5	2.2
Total equity and liabilities	100.0	100.0	100.0	100.0	100.0	100.0

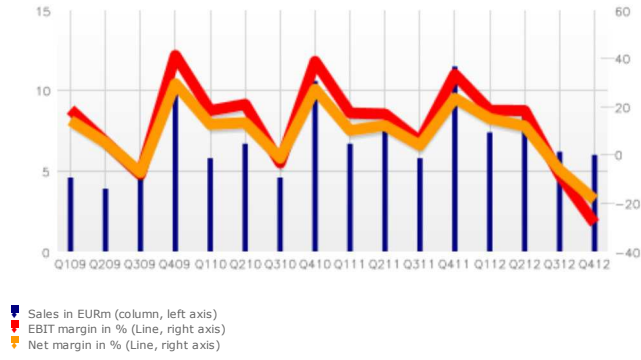
Source: GK SOFTWARE AG / Vara Research GmbH

	2010	2011	2012	2013e	2014e	2015e
■ Valuation ratios						
Share price (in EUR)	50.00	42.75	42.75	28.51	28.51	28.51
Market Cap	89.5	76.5	76.5	51.0	51.0	51.0
Enterprise Value (in EURm)	82.4	68.1	61.0	51.1	51.1	51.1
EV/Sales	2.98	2.14	2.14	1.08	0.95	0.86
EV/EBITDA	10.3	7.9	7.9	5.4	4.4	3.6
EV/EBIT	12.8	10.2	10.2	7.5	5.9	4.8
P/E reported	20.0	16.8	16.8	10.0	7.9	6.3
P/E clean	20.0	16.8	16.8	10.0	7.9	6.3
PCPS	15.1	11.4	11.4	6.5	5.3	4.5
Price-to-book ratio	3.7	2.7	2.7	1.5	1.3	1.1
■ Profitability ratios						
EBITDA margin	28.8%	27.1%	10.1%	20.1%	21.6%	23.6%
EBIT margin	23.2%	21.0%	2.8%	14.5%	16.0%	18.0%
Pre tax margin	22.8%	20.7%	2.9%	14.5%	16.1%	18.2%
Net margin	16.1%	14.4%	2.4%	10.8%	11.9%	13.5%
ROE	22.6%	17.4%	2.4%	16.1%	17.1%	18.4%
ROCE	38.5%	31.2%	3.8%	20.4%	21.1%	24.8%
■ Productivity ratios						
Sales/employees (in EUR '000)	75.7	78.4	51.6	77.4	80.8	81.2
Gross profit/employees (in '000)	12.2	11.3	1.2	8.4	9.6	11.0
Net result/employees (in '000)	366	405	551	609	669	733
■ Number of employees						
Financial ratios	54.3%	64.9%	64.0%	64.3%	67.1%	70.1%
Equity ratio	-29.3%	-29.8%	-0.3%	0.2%	-7.5%	-17.9%
Gearing	1.0%	1.2%	1.2%	2.5%	2.5%	3.1%
■ Dividend yield						
Cash-flow ratio	3.30	3.74	2.43	4.36	5.34	6.40
Cash-flow per share	1.64	2.37	1.28	3.28	4.10	5.03
■ Other ratios						
Depreciation/Sales	5.6%	6.1%	7.3%	5.6%	5.6%	5.6%
Capex/Sales	10.8%	7.7%	7.2%	4.1%	4.1%	4.1%
Working Capital/Sales	49.2%	36.6%	41.5%	41.5%	41.5%	41.5%
Tax rate	29.1%	30.5%	17.6%	25.6%	25.6%	25.6%

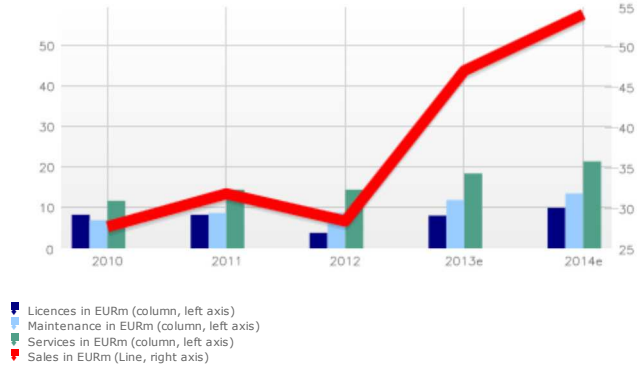
Source: GK SOFTWARE AG / Vara Research GmbH

Key Charts

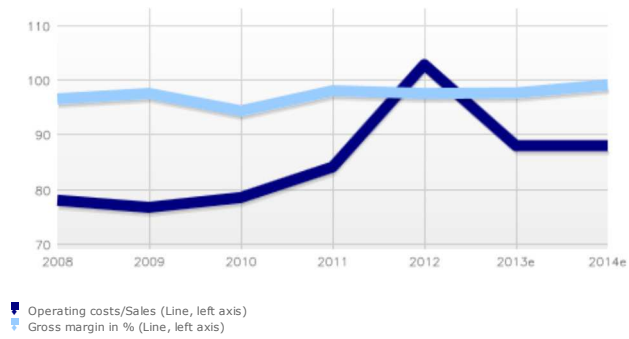
Sales and margin development



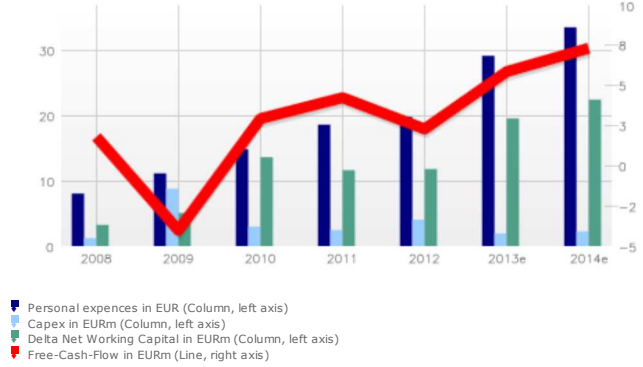
Sales mix



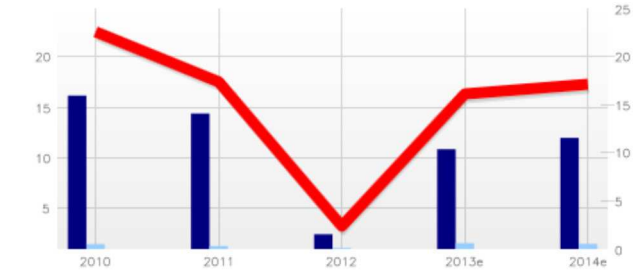
Cost efficiency



Operating Cash Flow

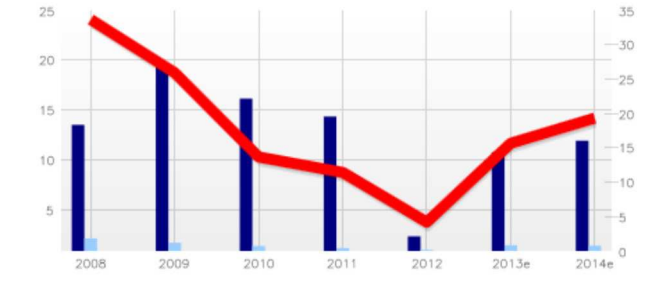


ROE



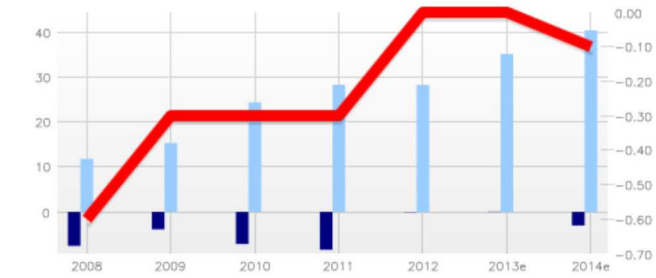
Net margin in % (Column, left axis)
Equity turnover (Column, left axis)
ROE in % (Line, right axis)

Value added



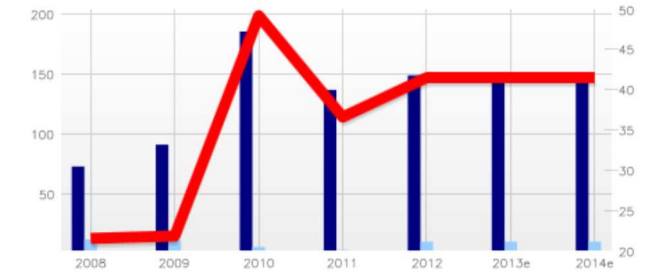
Net margin in % (Column, left axis)
Equity turnover (Column, left axis)
EBITDA/Enterprise Value (Line, right axis)

Balance sheet quality



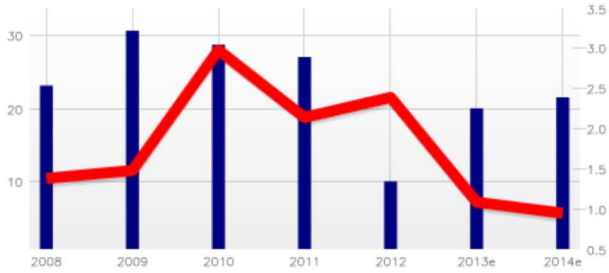
Net debt in EURm (Column, left axis)
Equity in EURm (Column, left axis)
Net Gearing (Line, right axis)

Working Capital efficiency



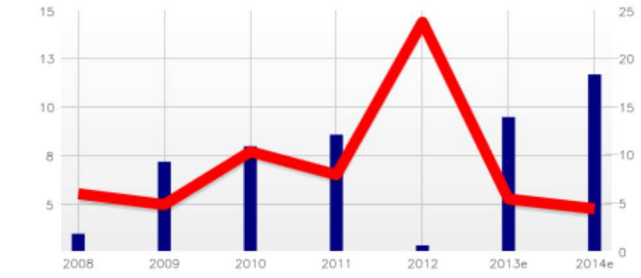
DSO (Column, left axis)
DPO (Column, left axis)
Net Working Capital/Sales (Line, right axis)

EV/Sales



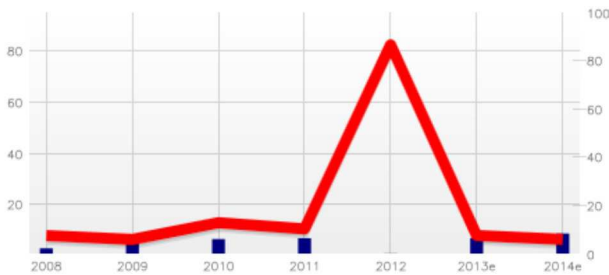
■ EBITDA margin in % (column, left axis)
 ■ EV/Sales (Line, right axis)

EV/EBITDA



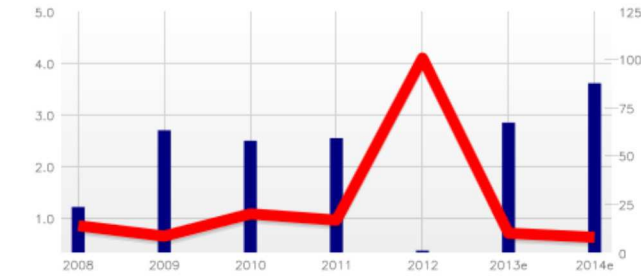
■ EBITDA in EURm (column, left axis)
 ■ EV/EBITDA (Line, right axis)

EV/EBIT



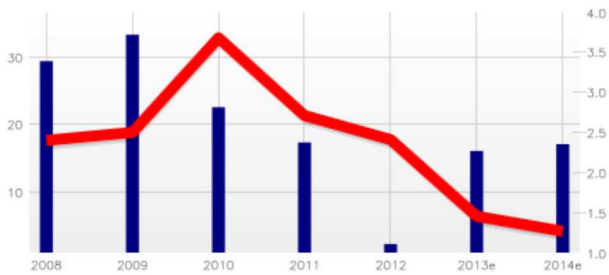
■ EBIT in EURm (column, left axis)
 ■ EV/EBIT (Line, right axis)

PE clean



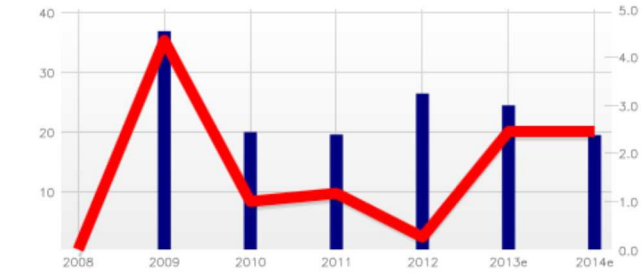
■ EPS clean in EUR (column, left axis)
 ■ PE clean (Line, right axis)

P/BV



■ ROE in % (column, left axis)
 ■ P/NAV (Line, right axis)

Dividend yield in %



■ Payout ratio in % (column, left axis)
 ■ Dividend yield in % (Line, right axis)

A. Disclosures in accordance with § 34 b WpHG (German Securities Trading Act), Finanzanalyseverordnung (FinAnV) (Ordinance on the Analysis of Financial Instruments):

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	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
GK SOFTWARE AG	09/08/2011	Buy	€ 52.70
GK SOFTWARE AG	11/14/2011	Buy	€ 53.45
GK SOFTWARE AG	12/14/2011	Buy	€ 53.45
GK SOFTWARE AG	03/06/2012	Buy	€ 53.45
GK SOFTWARE AG	05/07/2012	Buy	€ 58.50
GK SOFTWARE AG	06/27/2012	Buy	€ 58.50
GK SOFTWARE AG	01/07/2013	Buy	€ 56.50
GK SOFTWARE AG	04/15/2013	Buy	€ 46.75

II. Additional disclosures:

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.

BUY: the expected price trend of the share amounts to at least +15%. NEUTRAL: The expected price trend lies between -15% and +15%. SELL: The expected price trend amounts to more than -15%.

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:
(05/13/2013)**
4. **Date and time of the prices of financial instruments disclosed therein:
(Price on 05/13/2013)**

5. Updates:

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