

Date **26.06.2013**

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
 Price (24.06.13): € 29.50
 Market Cap: € 53 Mio.
 Enterprise Value: € 52 Mio.
 Ø-volume (100 days): € 47,423
 52W High: € 40.50
 52W Low: € 27.00

Financial Calendar

28.08.2013 Q2 report

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

Q1 is no surprise, sights are set on the second half

In Q1, GK SOFTWARE achieved an increase in sales of 21.8%, mainly as a result of inorganic growth effects. Traditional core business tapered off due to a significantly weaker licensing business. The now negative EBIT (€-0.4 million vs. €1.4 million in the same period of last year) reflects, first and foremost, previous capacity-building activities. We do not expect a recovery of the organic increase in sales - and therefore also a high utilization of established capacity - until the second half of the year: in Q2, sales are expected to remain at a similar level as achieved in Q1. From Q3 onwards, we expect more (international) license sales from the SAP cooperation which would be high-margin sales that would then, in turn, significantly improve profitability from sales. Based on our estimates, GK is in a more favourable position over peer companies with 2013 EV/sales at 1.1, and DCF analysis also signals room at the top. The decisive trigger for the stock continues to be achieving successful results in international sales, and if these results are achieved for the second half, then investor confidence is likely to return.

Investment Highlights

- With further persistent reluctance of capital investment from the retail chains, GK SOFTWARE was only able to increase its quarterly sales figure by its acquisition of the AWEK Group (sales volume Q1: €2.5 million). While maintenance and services showed slight organic growth, the fall in sales of licenses (€0.36 million vs. €1.67 million) was responsible for the 13.1% decline in reported sales figures for GK/Retail, its core business unit.
- Apart from the current accumulation of investment for strategic IT projects, the general (macro) environment is quite favourable. The retail market compared against the previous year has been particularly stable, with 43% of retailers wanting to invest more than was invested in the preceding year according to a 2013 industry sector survey. Despite continued use of outdated solutions (25% of point of sale systems are older than 10 years), it is not yet entirely clear if the additional investment will flow into IT. Retail is at a crossroads: although it is indeed certain that the future belongs to Omni-Channel Retailing approaches, the ambiguity of implementation and lack of best practices projects both serve at present to extend the duration of sales cycles. We see GK as being well-equipped in regards to the Omni-Channel approach which is why the company is likely to benefit disproportionately from the dissipation of the investment backlog.
- The cooperation with SAP has not yet fully met expectations on the one hand and on the other hand has led to at least 10 projects. So far, two GK/SAP projects - Dohle (Q1) and Modis (Q2) - have been reported this year. We expect a medium-term push for cooperation through the reseller agreement for North America that was concluded in May 2013.

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	10.35	1.11	7.67	14.5%	16.1%
2014e	54.1	6.5	3.61	8.17	0.97	6.06	16.0%	17.1%
2015e	59.5	8.1	4.50	6.55	0.88	4.90	18.0%	18.4%

Source: Company Data/ Vara Research GmbH

**Milestones reached in US
business endeavours
and...**

**... a full pipeline of
orders should bring
about a noticeable
recovery in the second
half**

In the US, GK reached several milestones that should soon materialize into sales and projects. The reseller agreement with SAP extended to North America in May 2013 and was accompanied by an implementation partnership with RedIron, the key implementation partner for the existing SAP-POS-Solution (Triversity). RedIron has worked with 90% of all large retail chains who use this solution. This suggests something for the near future for the US business, because it is likely that retailers who have been using the old POS solution from SAP up until now will continue to choose an SAP-based solution as part of a modernizing IT update due to the integration of SAP-ERP systems. In projects such as these, GK would participate through the sale of its own modules.

The outlook for sales is good according to the data from company reports. This applies both for direct sales as well as for partner-based sales. There are several ongoing calls for tender in Germany and abroad where GK is well-positioned with its own range of solutions. Currently, several implementation partners (including HP) are preparing for the introduction of the GK/Retail-Solution outside the DACH region.

■ 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	0.679	0.779	0.857
Other operating income	1.368	0.729	1.658	1.248	1.432	1.575
Total performance	29.706	33.971	30.704	48.834	56.026	61.629
Cost of material	-1.540	-0.611	-0.673	-1.049	-0.393	-0.432
Gross profit	28.166	33.360	30.031	47.785	55.633	61.196
Personnel expenses	-14.840	-18.601	-19.773	-28.460	-32.726	-34.885
Other operating expenses	-5.344	-6.158	-7.401	-9.859	-11.235	-12.284
EBITDA	7.982	8.601	2.858	9.466	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	6.832	8.649	10.703
Financial result	-0.128	-0.085	0.035	0.024	0.044	0.136
Non operating result before taxes	0.000	0.000	0.000	0.000	0.000	0.000
EBT	6.307	6.569	0.819	6.857	8.693	10.840
Non operating result after taxes	0.000	0.000	0.000	0.000	0.000	0.000
Taxes	-1.836	-2.005	-0.144	-1.757	-2.228	-2.777
Minority interest	0.000	0.000	0.000	0.000	0.000	0.000
Net result	4.471	4.564	0.675	5.100	6.466	8.062
Adjustments	0.000	0.000	0.000	0.000	0.000	0.000
Adjusted net result	4.471	4.564	0.675	5.100	6.466	8.062
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	4.50
Adjusted EPS	2.50	2.55	0.38	2.85	3.61	4.50
DPS	0.50	0.50	0.10	0.70	0.71	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	103.6	103.6	103.6
Cost of material	-5.6	-1.9	-2.4	-2.2	-0.7	-0.7
Gross profit	101.7	105.1	105.6	101.4	102.9	102.9
Personnel expenses	-53.6	-58.6	-69.6	-60.4	-60.5	-58.7
Other operating expenses	-19.3	-19.4	-26.0	-20.9	-20.8	-20.7
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	0.1	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	14.6	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	12.0	13.6
Adjustments	0.0	0.0	0.0	0.0	0.0	0.0
Adjusted net result	16.1	14.4	2.4	10.8	12.0	13.6

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	0.054	6.692	9.232
Net cash used in investing activities	-2.709	-2.693	-3.988	-1.495	-1.715	-1.886
<i>thereof Capex</i>	<i>-2.980</i>	<i>-2.447</i>	<i>-4.048</i>	<i>-1.495</i>	<i>-1.715</i>	<i>-1.886</i>
Net cash provided by financing activities	3.844	-1.636	-2.673	-0.179	-1.251	-1.262
Change in cash and securities	2.805	0.417	-3.594	-1.620	3.727	6.083
Cash and securities at the end of the period	13.442	13.859	10.265	8.645	12.372	18.455

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	19.630	18.323	16.885
Intangible assets	9.116	9.540	10.884	9.591	8.298	7.005
Tangible assets	4.050	4.124	4.884	5.038	5.023	4.878
Financial assets	0.000	0.000	0.002	5.002	5.002	5.002
Current assets	31.110	29.084	26.462	33.159	39.973	48.461
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	8.645	12.372	18.455
Other assets	0.529	0.727	1.826	1.826	1.826	1.826
Total assets	44.805	43.475	44.058	54.615	60.122	67.172
Equity	24.332	28.231	28.187	35.108	40.323	47.123
Reserves	24.332	28.231	28.187	35.108	40.323	47.123
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	54.615	60.122	67.172

■ Balance Sheet as % of total assets

	2010	2011	2012	2013e	2014e	2015e
Long term assets	29.4	31.4	35.8	35.9	30.5	25.1
Intangible assets	20.3	21.9	24.7	17.6	13.8	10.4
Tangible assets	9.0	9.5	11.1	9.2	8.4	7.3
Financial assets	0.0	0.0	0.0	9.2	8.3	7.4
Current assets	69.4	66.9	60.1	60.7	66.5	72.1
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	15.8	20.6	27.5
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	70.2
Reserves	54.3	64.9	64.0	64.3	67.1	70.2
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

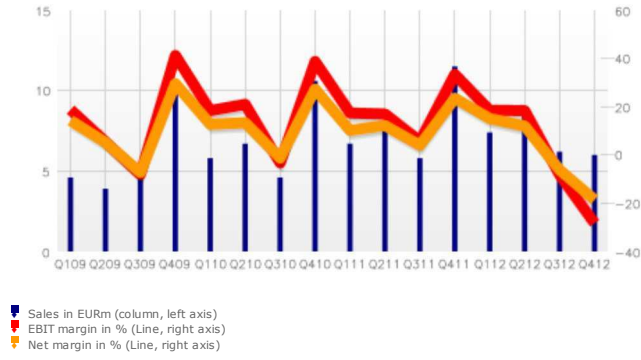
Source: GK SOFTWARE AG / Vara Research GmbH

	2010	2011	2012	2013e	2014e	2015e
■ Valuation ratios						
Share price (in EUR)	50.00	42.75	42.75	29.50	29.50	29.50
Market Cap	89.5	76.5	76.5	52.8	52.8	52.8
Enterprise Value (in EURm)	82.4	68.1	61.0	52.4	52.4	52.4
EV/Sales	2.98	2.14	2.14	1.11	0.97	0.88
EV/EBITDA	10.3	7.9	7.9	5.5	4.5	3.7
EV/EBIT	12.8	10.2	10.2	7.7	6.1	4.9
P/E reported	20.0	16.8	16.8	10.4	8.2	6.6
P/E clean	20.0	16.8	16.8	10.4	8.2	6.6
PCPS	15.1	11.4	11.4	6.8	5.5	4.6
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%	14.6%	16.1%	18.2%
Net margin	16.1%	14.4%	2.4%	10.8%	12.0%	13.6%
ROE	22.6%	17.4%	2.4%	16.1%	17.1%	18.4%
ROCE	38.5%	31.2%	3.8%	20.5%	21.4%	25.6%
■ 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	9.7	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%	70.2%
Equity ratio	-29.3%	-29.8%	-0.3%	-1.1%	-10.0%	-21.2%
Gearing	1.0%	1.2%	1.2%	2.4%	2.4%	3.0%
■ Dividend yield						
Cash-flow ratio	3.30	3.74	2.43	4.37	5.35	6.41
Cash-flow per share	1.64	2.37	1.28	3.53	4.39	5.36
■ Other ratios						
Depreciation/Sales	5.6%	6.1%	7.3%	5.6%	5.6%	5.6%
Capex/Sales	10.8%	7.7%	7.2%	3.2%	3.2%	3.2%
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%

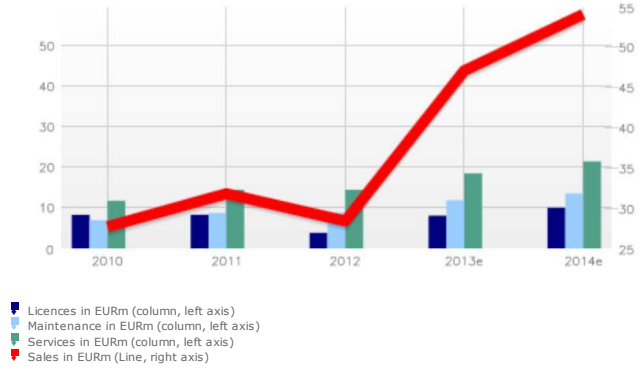
Source: GK SOFTWARE AG / Vara Research GmbH

Key Charts

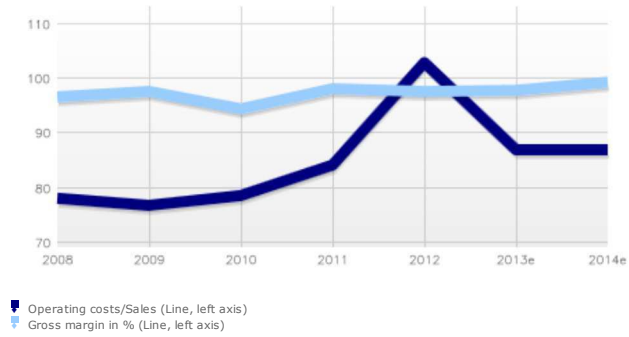
Sales and margin development



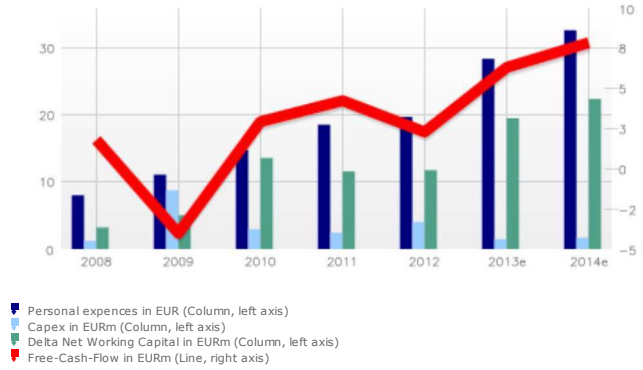
Sales mix



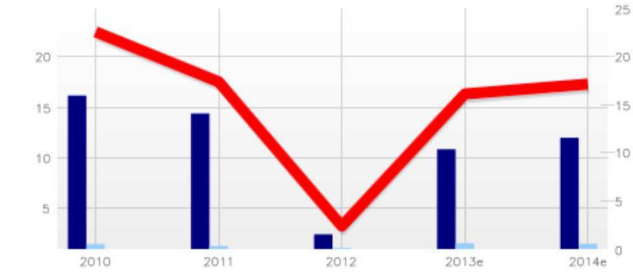
Cost efficiency



Operating Cash Flow

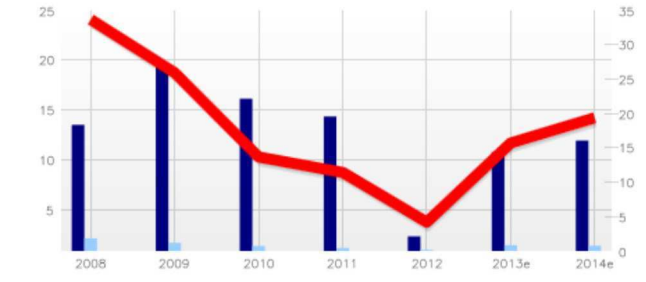


ROE



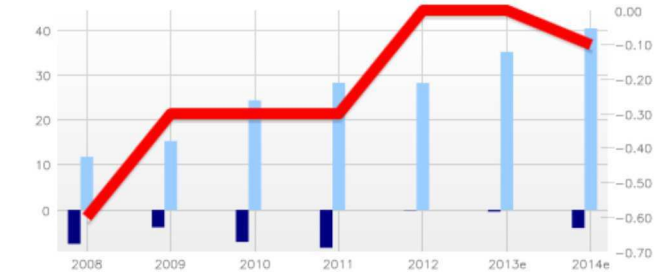
Net margin in % (Column, left axis)
 Equity turnover (Column, left axis)
 ROE in % (Line, right axis)

Value added



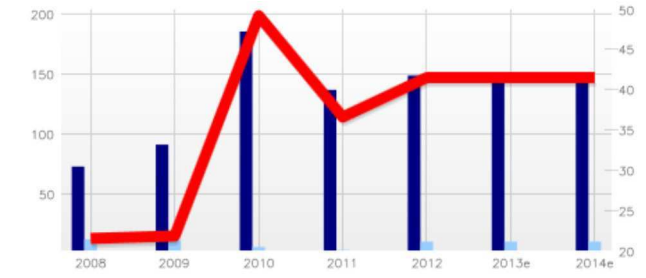
Net margin in % (Column, left axis)
 Equity turnover (Column, left axis)
 EBITDA/Enterprise Value (Line, right axis)

Balance sheet quality



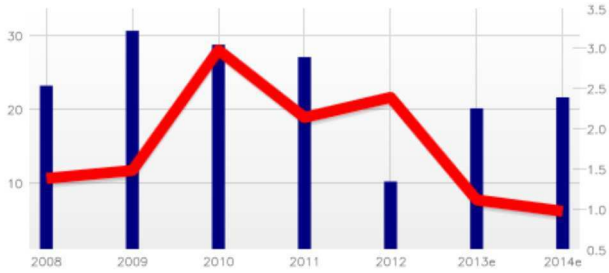
Net debt in EURm (Column, left axis)
 Equity in EURm (Column, left axis)
 Net Gearing (Line, right axis)

Working Capital efficiency



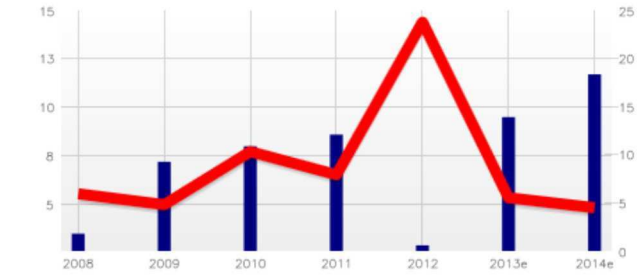
DSO (Column, left axis)
 DPO (Column, left axis)
 Net Working Capital/Sales (Line, right axis)

EV/Sales



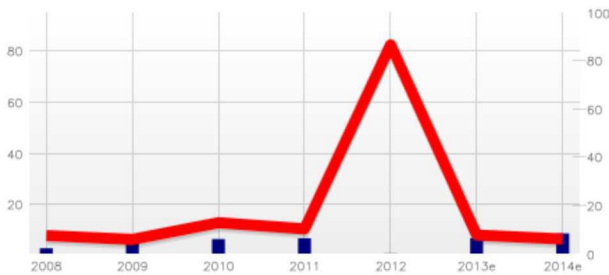
■ EBITDA margin in % (column, left axis)
 ■ EV/Sales (Line, right axis)

EV/EBITDA



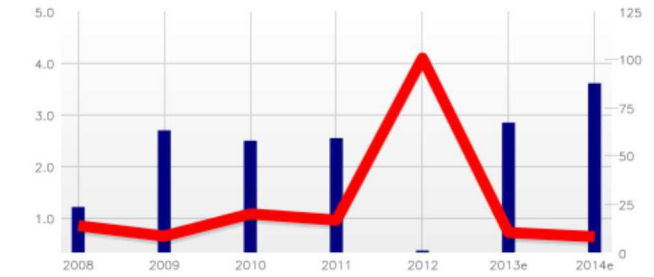
■ EBITDA in EURm (column, left axis)
 ■ EV/EBITDA (Line, right axis)

EV/EBIT



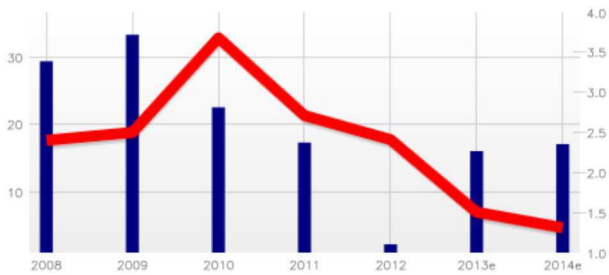
■ EBIT in EURm (column, left axis)
 ■ EV/EBIT (Line, right axis)

PE clean



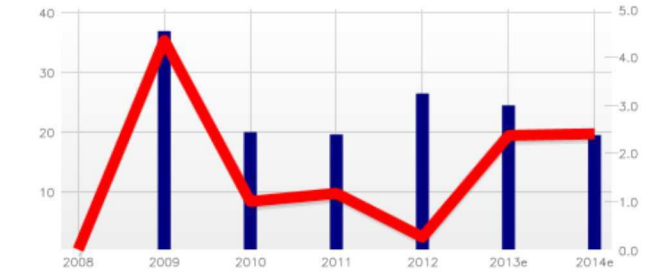
■ EPS clean in EUR (column, left axis)
 ■ PE clean (Line, right axis)

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	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
GK SOFTWARE AG	05/13/2013	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:
(06/26/2013)**
4. **Date and time of the prices of financial instruments disclosed therein:
(Price on 06/24/2013)**

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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