

Date **08/20/2014**

Buy (formerly: Buy)

TP: € 56.75 (formerly: € 53.25)

Changes

	2014E		2015E	
	New	Delta	New	Delta
Sales	49.6	0%	56.4	0%
EBIT	6.2	0%	8.7	0%
EPS	2.43	0%	3.19	0%
EPS*	2.43	0%	3.19	0%
DPS	0.57	0%	0.73	0%

* clean

Homepage: www.gksoftware.de

Sector: IT/Software

ISIN DE0007571424

Bloomberg GKS:GR

Reuters GKSG

Price (08/18/14): € 42.00

Market capitalisation € 79 million

EV € 69 million

Ø-Volume (100 days) € 46,434

52W high € 52.00

52W low € 23.50

Financial calendar

08/27/2014 Q2 2014

08/28/2014 AGM in Schöneck

Shareholder structure

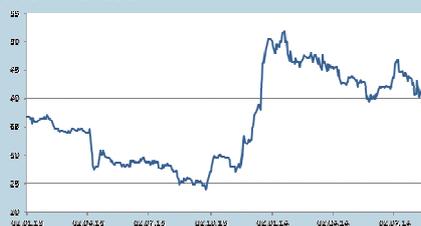
GK Software Holding 49.8%

SAP AG 5.3%

R. Gläß 3.3%

S. Kronmüller 2.3%

Price trends



Source: getinsight Research GmbH

Daniel Grossjohann

grossjohann@getinsight.de

+49 (0)69 2561 285 23

Benjamin Ludacka

ludacka@getinsight.de

+49 (0)69 2561 285 23

GK SOFTWARE AG

Another order from North America raises hope for H2

Due to an initial incorrect allocation of a statement of expenditure GK recently published the revised version of the annual report 2013. The adjustment of 2013 figures (net EPS effect: € 0.09) however ultimately has very less impact on the valuation. The more significant news from investors' perspective is also the recently announced assignment by Loblaw Companies Ltd., the largest retailer in Canada. This underlines our thesis of a disintegrating investment backlog in omni-channel segment. In addition, the proposed acquisition of Micros Systems by Oracle further strengthened investors' interest in omni-channel. The higher peer valuation leads accordingly to an increase in our target price.

■ Investment Highlights

- As announced by GK in early July, Loblaw Companies will be implementing the solution "SAP Store Device Control by GK". The solution will be rolled-out in all the 2300 branches of Loblaw – the US subsidiary GK Software US Inc. will take over the implementation of this project. We view a confirmation of an internationalisation strategy in this project and expect the announcement of further international projects in the second half of the year 2014.
- The first quarter 2014 only brought a slight increase in sales (+2.9%) at an EBIT of € -1.0 million (Q1 2013: € -0.4 million). Due to a well-filled pipeline and further refined GK solution world we do not view any risk to our sales expectations for the full year. Accordingly, we leave our forecast unchanged. Due to positive peer group effects our target price increased slightly.
- **Outlook:** GK SOFTWARE expects an expansion of GK/Retail business in 2014 which should also return to the margin level of the previous year. IT Services should be expanded significantly whereby typical to the business model the margin levels of this segment will remain behind the software business. A significant sales growth is expected in the business segment GK/Retail in 2015 at a profitability rate which is comparable to 2014. The outlook is subject to the condition that there are no exogenous shocks (for example resurgence of Euro crisis, aggravation of Ukraine crisis).

■ Key ratios

	Sales	Net result	adj. EPS	adj. P/E	EV/Sales	EV/EBIT	EBIT Margin	ROE (%)
2012	28.4	1.1	0.59	64.7	2.4	55.0	4.3%	3.7%
2013	42.5	0.6	0.34	93.5	1.1	43.7	2.5%	2.0%
2014e	49.6	4.6	2.43	17.3	1.4	10.3	13.5%	12.4%
2015e	56.4	6.0	3.19	13.2	1.2	7.9	15.5%	13.9%
2016e	62.1	7.3	3.86	10.9	1.1	6.5	17.0%	15.0%

Source: GK Software AG / getinsight Research GmbH

Core segment GK/Retail performed well in Q1

The core segment GK/Retail was responsible for over 70% of group sales in Q1 and exhibited significant growth in licences (+10.1%), maintenance (+20.2%) and services (+8.3%). With € 2.5 million the sales of business segment IT services remained nearly unchanged as compared to the previous year's quarter. The sales of IT services was below the internal expectations, however measures to strengthen the distribution in this sector has already been initiated.

Oracle is planning an inorganic entry in the omni channel market

The takeover negotiations between Oracle and Micros Systems, which are intended to conclude in the second half of the year according to a statement of Micros, were announced in mid-June. Micros is a peer company of GK Software which operates in the field of (system) catering and retail. The declared intent of Micros is to strengthen its application, technology and cloud portfolio with the transaction. In our view, Oracles efforts is also a further proof of omni channels potential. In addition, it could be an indication of an emerging warehouse (SAP, Oracle) which wants to address this market with optimised package solutions. This should further strengthen the connection between SAP, GK Software and hybris – even though the respective solution worlds would in principle continue to remain available for third party providers.

Shareholder friendly amendment of article of association

It is apparent from the invitation to the Annual General Meeting which will take place in Schöneck on 28.08.2014 that GK is intending to distribute dividends in an amount of € 0.25 per share. In addition, the company takes the ownership of the claims of a minority shareholder and proposes an amendment to the article of association to the annual general meeting which prevents a simple delisting pursuant to the so-called Frosta decision and refers to the Macrotron case-law. We evaluate the planned amendment to the article of association of GK as a shareholder friendly provision which from an investor's point of view would also be very much appreciated by other listed companies.

Profit and Loss Account

in €m.	2011	2012	2013	2014e	2015e	2016e
Sales revenues	31.753	28.426	42.458	49.556	56.412	62.053
Change in finished goods and work in progress	0.000	-0.127	0.000	0.000	0.000	0.000
Other own cost capitalized	1.489	0.748	0.376	0.438	0.499	0.549
Other operating income	0.729	1.658	2.451	2.861	3.257	3.583
Total performance	33.971	30.704	45.285	52.856	60.168	66.185
Cost of material	-0.611	-0.673	-4.082	-2.103	-2.394	-2.633
Gross profit	33.360	30.031	41.202	50.753	57.774	63.552
Personnel expenses	-18.601	-19.441	-25.605	-27.060	-29.751	-31.870
Other operating expenses/income	-6.158	-7.290	-12.258	-14.232	-16.126	-17.663
EBITDA	8.601	3.301	3.340	9.461	11.897	14.018
Depreciation/amortisation	-1.947	-2.068	-2.295	-2.770	-3.154	-3.469
EBIT	6.654	1.233	1.045	6.690	8.744	10.549
Financial result	-0.085	0.043	-0.113	-0.020	0.031	0.077
Non-operating result before taxes	0.000	0.000	0.000	0.000	0.000	0.000
Pre tax result	6.569	1.277	0.932	6.670	8.775	10.626
Non operating result after taxes	0.000	0.000	0.000	0.000	0.000	0.000
Taxes	-2.005	-0.226	-0.331	-2.082	-2.739	-3.317
Minority interest	0.000	0.000	0.000	0.000	0.000	0.000
Net result	4.564	1.051	0.601	4.588	6.036	7.309
Adjustments	0.000	0.000	0.000	0.000	0.000	0.000
Adjusted net result	4.564	1.051	0.601	4.588	6.036	7.309
Average number of shares	1.790	1.790	1.791	1.891	1.891	1.891
EPS	2.55	0.59	0.34	2.43	3.19	3.86
Adjusted EPS	2.55	0.59	0.34	2.43	3.19	3.86
DPS	0.50	0.10	0.25	0.57	0.73	0.84

Source: GK SOFTWARE AG / getinsight Research GmbH

in % of Sales	2011	2012	2013	2014e	2015e	2016e
Sales revenues	100.0	100.0	100.0	100.0	100.0	100.0
Total performance	107.0	108.0	106.7	106.7	106.7	106.7
Cost of material	-1.9	-2.4	-9.6	-4.2	-4.2	-4.2
Gross profit	105.1	105.6	97.0	102.4	102.4	102.4
Personnel expenses	-58.6	-68.4	-60.3	-54.6	-52.7	-51.4
Other operating expenses/income	-19.4	-25.6	-28.9	-28.7	-28.6	-28.5
EBITDA	27.1	11.6	7.9	19.1	21.1	22.6
Depreciation/amortisation	-6.1	-7.3	-5.4	-5.6	-5.6	-5.6
EBIT	21.0	4.3	2.5	13.5	15.5	17.0
Financial result	-0.3	0.2	-0.3	-0.0	0.1	0.1
Non operating result before taxes	-	-	-	-	-	-
Pre tax result	20.7	4.5	2.2	13.5	15.6	17.1
Non operating result after taxes	-	-	-	-	-	-
Taxes	-6.3	-0.8	-0.8	-4.2	-4.9	-5.3
Minority interest	-	-	-	-	-	-
Net result	14.4	3.7	1.4	9.3	10.7	11.8
Adjustments	-	-	-	-	-	-
Adjusted net result	14.4	3.7	1.4	9.3	10.7	11.8

Source: GK SOFTWARE AG / getinsight Research GmbH

Balance of Accounts

in €m.	2011	2012	2013	2014e	2015e	2016e
Long term assets	13.664	15.810	14.718	13.351	11.796	10.385
Intangible assets	9.540	10.924	9.922	8.629	7.336	6.043
Tangible assets	4.124	4.884	4.794	4.721	4.458	4.340
Financial assets	0.000	0.002	0.002	0.002	0.002	0.002
Current assets	29.084	26.580	32.351	41.739	48.527	56.096
Inventories	0.000	1.019	1.043	1.217	1.386	1.524
Trade receivables	11.945	11.629	13.754	16.053	18.274	20.102
Receivables	3.279	3.550	3.812	3.812	3.812	3.812
Cash and securities	13.859	10.382	13.742	20.656	25.055	30.658
Other assets	0.727	1.978	0.753	0.753	0.753	0.753
Total assets	43.475	44.367	47.821	55.843	61.076	67.234
Equity	28.231	28.332	33.156	40.896	45.854	51.775
Reserves	28.231	28.332	33.156	40.896	45.854	51.775
Minorities	0.000	0.000	0.000	0.000	0.000	0.000
Provisions	1.109	4.271	2.540	2.584	2.630	2.678
Liabilities	11.462	10.114	10.196	10.434	10.663	10.852
Interest bearing liabilities	5.243	3.475	2.290	2.290	2.290	2.290
Trade payables	0.329	0.843	1.421	1.659	1.888	2.077
Non interest bearing liabilities	5.891	5.795	6.485	6.485	6.485	6.485
Other liabilities	2.672	1.651	1.928	1.928	1.928	1.928
Total equity and liabilities	43.475	44.367	47.821	55.843	61.076	67.234

Source: GK SOFTWARE AG / getinsight Research GmbH

in %	2011	2012	2013	2014e	2015e	2016e
Long term assets	31.4	35.6	30.8	23.9	19.3	15.4
Intangible assets	21.9	24.6	20.7	15.5	12.0	9.0
Tangible assets	9.5	11.0	10.0	8.5	7.3	6.5
Financial assets	0.0	0.0	0.0	0.0	0.0	0.0
Current assets	66.9	59.9	67.6	74.7	79.5	83.4
Inventories	-	2.3	2.2	2.2	2.3	2.3
Trade receivables	27.5	26.2	28.8	28.7	29.9	29.9
Receivables	7.5	8.0	8.0	6.8	6.2	5.7
Cash and securities	31.9	23.4	28.7	37.0	41.0	45.6
Other assets	1.7	4.5	1.6	1.3	1.2	1.1
Total assets	100.0	100.0	100.0	100.0	100.0	100.0
Equity	64.9	63.9	69.3	73.2	75.1	77.0
Reserves	64.9	63.9	69.3	73.2	75.1	77.0
Minorities	-	-	-	-	-	-
Provisions	2.6	9.6	5.3	4.6	4.3	4.0
Liabilities	26.4	22.8	21.3	18.7	17.5	16.1
Interest bearing liabilities	12.1	7.8	4.8	4.1	3.7	3.4
Trade payables	0.8	1.9	3.0	3.0	3.1	3.1
Non-interest bearing liabilities	13.6	13.1	13.6	11.6	10.6	9.6
Other liabilities	6.1	3.7	4.0	3.5	3.2	2.9
Total equity and liabilities	100.0	100.0	100.0	100.0	100.0	100.0

Source: GK SOFTWARE AG / getinsight Research GmbH

■ Cash Flow Statement

in €m.	2011	2012	2013	2014e	2015e	2016e
Net cash provided by operating activities	4.7	3.2	1.8	5.2	7.1	9.0
Net cash used in investing activities	-2.7	-4.0	-1.0	-1.4	-1.6	-2.1
<i>Capex</i>	-2.4	-2.1	-1.2	-1.4	-1.6	-2.1
Net cash provided by financing activities	-1.6	-2.7	2.5	3.2	-1.1	-1.4
Change in cash and securities	0.4	-3.5	3.4	6.9	4.4	5.6
Cash and securities at the end of the period	13.9	10.4	13.7	20.7	25.1	30.7

Source: GK SOFTWARE AG / getinsight Research GmbH

Key Figures

	2011	2012	2013	2014e	2015e	2016e
Valuation ratios						
Market capitalization (in € m)	76.52	68.02	56.20	79.38	79.38	79.38
Enterprise Value (in € m)	68.10	67.82	45.66	68.84	68.84	68.84
EV/Sales	2.14	2.39	1.08	1.39	1.22	1.11
EV/EBITDA	7.92	20.55	13.67	7.28	5.79	4.91
EV/EBIT	10.23	54.99	43.68	10.29	7.87	6.53
P/E reported	16.77	64.73	93.50	17.32	13.16	10.87
P/E clean	16.77	64.73	93.50	17.32	13.16	10.87
PCPS	11.42	14.40	48.20	10.73	8.60	7.34
Price to book	2.71	2.40	1.70	1.94	1.73	1.53
Profitability ratios						
EBITDA margin	27.1%	11.6%	7.9%	19.1%	21.1%	22.6%
EBIT margin	21.0%	4.3%	2.5%	13.5%	15.5%	17.0%
Pre-tax margin	20.7%	4.5%	2.2%	13.5%	15.6%	17.1%
Net margin	14.4%	3.7%	1.4%	9.3%	10.7%	11.8%
Free cash flow margin	13.4%	9.4%	n.m.	12.1%	13.5%	14.1%
ROE	17.4%	3.7%	2.0%	12.4%	13.9%	15.0%
Productivity ratios						
Sales/employees (in € `000)	78.4	59.6	74.5	79.0	83.3	87.3
Net result/employees (in € `000)	11.3	2.2	1.1	7.3	8.9	10.3
Number of employees	405	477	570	627	677	711
Financial ratios						
Equity ratio	64.9%	63.9%	69.3%	73.2%	75.1%	77.0%
Gearing	-29.8%	-0.7%	-31.8%	-42.6%	-47.5%	-52.8%
Dividend yield	1.2%	0.3%	0.8%	1.4%	1.7%	2.0%
Cash flow ratios						
Cash flow per share	3.74	2.64	0.65	3.91	4.88	5.72
Free cash flow per share	2.37	1.49	-0.02	3.17	4.04	4.64
Other ratios						
Depreciation/sales	6.1%	7.3%	5.4%	5.6%	5.6%	5.6%
Capex/sales	7.7%	7.2%	2.8%	2.8%	2.8%	3.3%
Working capital/sales	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
Tax rate	30.5%	17.7%	35.5%	31.2%	31.2%	31.2%

Source: GK SOFTWARE AG / getinsight Research GmbH

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: getinsight Research GmbH

Authors of this financial analysis: Daniel Großjohann, Analyst, and Benjamin Ludacka, Analyst.

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

Reference pursuant to section 4 subsection 4 point 4 FinAnV:

Previous financial analyses:

Company	Date	Rating	Target price
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
GK SOFTWARE AG	06/26/2013	Buy	€ 46.75
GK SOFTWARE AG	09/24/2013	Buy	€ 42.20
GK SOFTWARE AG	12/04/2013	Buy	€ 42.20
GK SOFTWARE AG	04/25/2014	Buy	€ 52.68
GK SOFTWARE AG	05/21/2014	Buy	€ 53.25

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 publication; no substantial changes were made afterwards.

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

getinsight 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/original publication of the financial analysis:
(08/20/2014)**

**4. Date and time of the prices of financial instruments disclosed therein:
(Price on 08/18/2014)**

5. Updates:

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

III. Disclosure on possible conflicts-of-interest by the use of the following numeration as reference:

1. the author has a shareholding in an amount of more than 5% of the share capital,
2. the author has participated in the management of a consortium which has publicly issued financial instruments of the issuer within the last twelve months,
3. the author has carried out sales/purchase transactions on the analysed contents,
4. there exists personnel ties between the author and the issuer,
5. the author belongs to a controlling body of the issuer or by any other means exercises a corresponding control function,
6. the author has an agreement with the issuer on the preparation of analysis (assignment),
7. the author receives payments from the issuer,
8. the author concluded an agreement on services in connection with investment banking transactions in the last 12 months, and he has received consideration or promise of consideration from such agreement

In the present financial analysis the conflict-of-interest mentioned under 6. applies.

B. General disclosures/liability arrangement:

1. This document was prepared by getinsight Research GmbH exclusively for information purposes.
2. This document is exclusively for publication on the homepage of the relevant company and intended for use by national institutional investors. Copying, forwarding and distribution is only allowed with written permission of getinsight Research GmbH.
3. This document is neither a recommendation nor an offer nor application of an offer for the purchase, sale or subscription of any security or investment. It is by no means meant to provide investment advice.
4. This document, prepared by getinsight Research GmbH, is based on information from sources (publicly available information and tax rates at the time of publication, which can, however, change), which, according to getinsight Research GmbH, are dependable, yet not actually available for independent verification. Despite diligent verification, getinsight Research GmbH cannot provide a guarantee, assurance or warranty for completeness and correctness; responsibility and liability is therefore excluded insofar as there is no intent or gross negligence on the part of getinsight Research GmbH. All statements and opinions are exclusively those of getinsight Research GmbH and can be changed without prior notice. Any error-caused misstatements of the document can be corrected by getinsight Research GmbH, without getinsight Research GmbH being held responsible for damages as a result of these misstatements.