GK Software

(CDAX, Software/IT)

WARBURG RESEARCH

Buy	
EUR 50.00	
Price	EUR 38.56
Upside	29.7 %

Value Indicators:	EUR
DCF:	48.14
FCF-Value Potential:	28.18

Share data:	
Bloomberg:	GKS GR
Reuters:	GKSG
ISIN:	DE0007571424

Description:

Leading software company for stationary retailers

Market Snapshot:	EUR m
Market cap:	73.3
No. of shares (m):	1.9
EV:	86.3
Freefloat MC:	28.9
Ø Trad. Vol. (30d; EUR):	8.70 th

Shareholders:	
Freefloat	39.5 %
GK Software Holding	49.6 %
SAP	5.3 %
Rainer Gläß	3.3 %
Stephan Kronmüller	2.3 %

Risk Profile (WRe):	2014e
Beta:	1.6
Price / Book:	2.2 x
Equity Ratio:	70 %

Small acquisition, large impact?

On March 19, 2015, GK Software announced the finalisation of an acquisition (Retail business segment) with Data Business Systems. This segment comprises mainly 21 people who are accountable for a highly profitable revenue of USD 6m. These employees possess years of experience in the field of SAP-related retail solutions, particularly in the area of Triversity, an SAP software application no longer actively marketed by SAP. SAP-related retail solutions and Triversity installations present a substantial potential to GK Retail. Supported by GK's SAP collaboration, the US market is thus still of great significance. The project implementation capacities in the US have improved considerably for GK with 29 employees currently in the US (previously eight). It is still difficult to provide a concrete estimation of when the next large projects will take place in America.

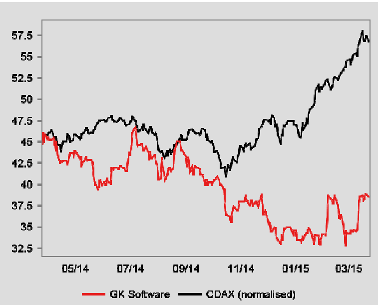
According to GK sources, the acquired division was highly profitable. Despite low revenues, the impact on earnings could be very positive. Among the strategically important assets are software technologies within the area of Payment Processing which include specific payment methods (in particular credit cards) used by US Americans. It can thus be assumed that overall, GK must also pay for the strategic options. The parties involved agreed not to disclose the purchase price but it is possible that in light of the aspects described, it could be reasonably high. The acquired employees are not among the DBS owners, who obtain purchase price payment. This situation simplifies the incentivisation of the most important employees, for whom a complex contract with the aim of maximum successful incentivisation was developed. Alongside the technologies, these service providers, who are interconnected within the branch, represent the most important multipliers for GK's USA business. Against a backdrop of solutions from GK, these employees are likely to profit considerably from being able to market a considerably attractive product (compared with Triversity). Based on further major orders and the acquired entity, GK should be able to become significantly profitable once again in 2015. Overall however, the visibility of large orders remains so low that a reduction of estimates for 2014 and beyond has been made. Conversely, the long-term assumption should profit from the somewhat higher margin estimates. Adjustments to the DCF model parameters have been made (interest rates, beta, net effect slightly negative). **A price target of EUR 50 and a Buy recommendation are reiterated.**

Changes in Estimates:

FY End: 31.12. in EUR m	2014e (old)	+ / -	2015e (old)	+ / -	2016e (old)	+ / -
Sales	44.0	-2.3 %	50.0	12.0 %	53.0	12.0 %
EBITDA	3.1	-30.2 %	9.8	-13.8 %	11.7	-3.3 %
EBIT	0.7	n.m.	7.0	-24.0 %	8.7	-8.4 %
EPS	0.0	n.m.	0.0	-24.0 %	0.0	-8.6 %

Comment on Changes:

- Revenues show a consideration of acquired activities
- Short-term earnings estimates reduced again due to the fact that no more major orders have been placed and as visibility remains extremely low.
- Long term, another return to historical profitability levels is expected



Rel. Performance vs CDAX:	
1 month:	9.0 %
6 months:	-28.6 %
Year to date:	-9.5 %
Trailing 12 months:	-43.6 %

Company events:	
29.04.15	FY 2014
29.04.15	FY 2014
28.05.15	Q1
18.06.15	AGM

FY End: 31.12. in EUR m	CAGR (13-16e)	2010	2011	2012	2013	2014e	2015e	2016e
Sales	11.8 %	27.7	31.8	28.4	42.5	43.0	56.0	59.4
Change Sales yoy		19.0 %	14.7 %	-10.5 %	49.4 %	1.3 %	30.2 %	6.0 %
Gross profit margin		*96.8 %*	*102.8 %*	*99.8 %*	*91.3 %*	*91.0 %*	*93.0 %*	*93.0 %*
EBITDA	46.8 %	8.0	8.6	2.9	3.6	2.2	8.4	11.3
Margin		*28.8 %*	*27.1 %*	*10.1 %*	*8.4 %*	*5.0 %*	*15.0 %*	*19.0 %*
EBIT	84.6 %	6.4	6.7	0.8	1.3	-0.2	5.3	8.0
Margin		*23.2 %*	*21.0 %*	*2.8 %*	*3.0 %*	*-0.5 %*	*9.5 %*	*13.5 %*
Net income	95.3 %	4.5	4.6	0.7	0.8	-0.2	3.8	5.7
EPS	90.9 %	2.68	2.55	0.38	0.43	-0.08	1.99	2.99
EPS adj.	90.9 %	2.68	2.55	0.38	0.43	-0.08	1.99	2.99
DPS	26.0 %	0.50	0.50	0.00	0.25	0.50	0.50	0.50
Dividend Yield		1.0 %	1.1 %	0.0 %	0.8 %	1.3 %	1.3 %	1.3 %
FCFPS		-0.79	1.29	0.57	-0.22	-1.72	0.58	3.15
EV / Sales		2.7 x	2.2 x	2.2 x	1.1 x	1.5 x	1.5 x	1.4 x
EV / EBITDA		9.4 x	8.1 x	22.4 x	12.7 x	30.9 x	10.3 x	7.2 x
EV / EBIT		11.7 x	10.5 x	81.4 x	35.5 x	n.a.	16.2 x	10.1 x
P / E		18.4 x	17.1 x	101.4 x	72.5 x	n.a.	19.4 x	12.9 x
P / E adj.		18.4 x	17.1 x	101.4 x	72.5 x	n.a.	19.4 x	12.9 x
FCF Yield Potential		8.2 %	9.5 %	4.2 %	7.0 %	3.3 %	7.9 %	11.0 %
Net Debt		-7.1	-8.4	-5.1	-10.5	-6.8	13.0	8.0
ROE		22.6 %	17.4 %	2.4 %	2.5 %	-0.5 %	11.0 %	15.0 %
ROCE (NOPAT)		31.9 %	25.0 %	3.0 %	3.6 %	-0.6 %	10.1 %	11.7 %
Guidance:	2014 revenues above 2013							

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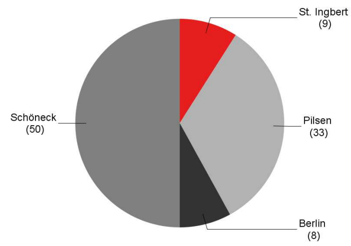
Sales development
in EUR m

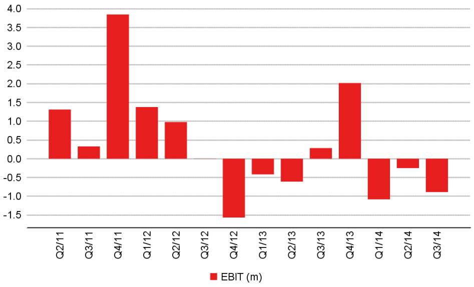
Source: Warburg Research

Employees per location
2014e; in %



Source: Warburg Research

EBIT development
in EUR m



Source: Warburg Research

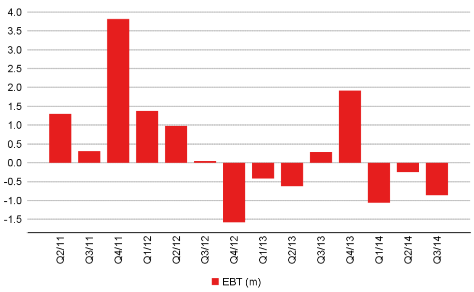
Company Background

- GK Software is the leading software supplier for retailers.
- As well as standard processes, GK Software solutions facilitate special requirements such as bonus programmes, the recording of fiscal details and the seamless integration in back-end solutions.
- The business activities of GK Software divides into two segments - the sale of product licences and the corresponding services.

Competitive Quality

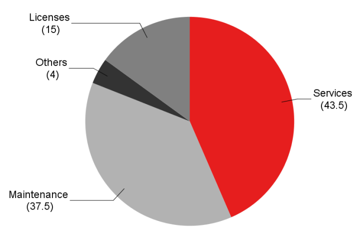
- The structural advantages of GK Software are compelling:
- GK Software's leading solution is completely Java-based, which makes it lean, platform independent and means it can be operated on the exisiting customer infrastructure.
- For many retail projects, GK competitors tend to undercalculate their bids and as a consequence are unable to complete the project on time and within budget.
- GK has outstanding reference clients (Hornbach, Kaufhof, Doublas, Netto, Tchibo, T-Punkt, Thalia, JYSK Nordic…)
- At the same time, GK Software's personnel costs are, depending on the location, often about 20% below those of a similar project team of a large system integrator.

EBT development
in EUR m



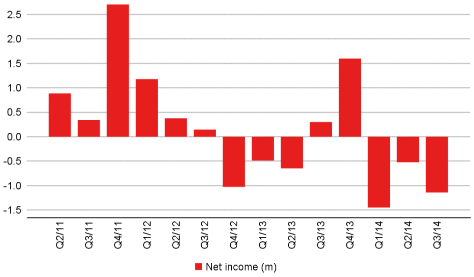
Source: Warburg Research

Sales by segments
2013; in %



Source: Warburg Research

Net income development
in EUR m



Source: Warburg Research

DCF model

Figures in EUR m	Detailed forecast period			Transitional period										Term. Value
	2014e	**2015e**	**2016e**	**2017e**	**2018e**	**2019e**	**2020e**	**2021e**	**2022e**	**2023e**	**2024e**	**2025e**	**2026e**	
Sales	43.0	56.0	59.4	62.3	65.4	68.7	72.2	75.8	79.5	83.5	87.7	89.9	92.1	
Sales change	*1.3 %*	*30.2 %*	*6.0 %*	*5.0 %*	*5.0 %*	*5.0 %*	*5.0 %*	*5.0 %*	*5.0 %*	*5.0 %*	*5.0 %*	*2.5 %*	*2.5 %*	*2.5 %*
EBIT	-0.2	5.3	8.0	11.2	11.8	12.4	13.0	13.6	14.3	15.0	15.8	16.2	16.6	
EBIT-margin	*-0.5 %*	*9.5 %*	*13.5 %*	*18.0 %*	*18.0 %*	*18.0 %*	*18.0 %*	*18.0 %*	*18.0 %*	*18.0 %*	*18.0 %*	*18.0 %*	*18.0 %*	
Tax rate (EBT)	*29.0 %*	*29.0 %*	*29.0 %*	*29.0 %*	*29.0 %*	*29.0 %*	*29.0 %*	*29.0 %*	*29.0 %*	*29.0 %*	*29.0 %*	*29.0 %*	*29.0 %*	
NOPAT	-0.2	3.8	5.7	8.0	8.4	8.8	9.2	9.7	10.2	10.7	11.2	11.5	11.8	
Depreciation	2.4	3.1	3.3	3.1	3.3	3.4	2.9	2.3	2.4	0.8	0.9	0.9	0.9	
in % of Sales	*5.5 %*	*5.5 %*	*5.5 %*	*5.0 %*	*5.0 %*	*5.0 %*	*4.0 %*	*3.0 %*	*3.0 %*	*1.0 %*	*1.0 %*	*1.0 %*	*1.0 %*	
Changes in provisions	0.0	0.0	0.0	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Change in Liquidity from														
- Working Capital	3.9	4.2	1.4	-4.4	-0.4	-0.5	-0.6	0.8	0.8	0.9	0.9	0.5	0.5	
- Capex	1.5	1.6	1.6	1.9	2.0	2.1	2.2	2.3	1.6	0.8	0.9	0.9	0.9	
Capex in % of Sales	*3.6 %*	*2.8 %*	*2.6 %*	*3.0 %*	*3.0 %*	*3.0 %*	*3.0 %*	*3.0 %*	*2.0 %*	*1.0 %*	*1.0 %*	*1.0 %*	*1.0 %*	
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Free Cash Flow (WACC Model)	-3.3	1.1	6.0	13.0	10.1	10.7	10.6	8.9	10.1	9.8	10.3	11.0	11.3	11
PV of FCF	-3.3	1.0	5.0	9.8	6.9	6.7	6.0	4.6	4.7	4.1	3.9	3.8	3.5	45
share of PVs	**2.64 %**			**53.04 %**										**44.32 %**

Model parameter

Derivation of WACC:		Derivation of Beta:	
Debt ratio	0.00 %	Financial Strength	1.50
Cost of debt (after tax)	4.2 %	Liquidity (share)	1.50
Market return	7.00 %	Cyclicality	1.50
Risk free rate	1.50 %	Transparency	2.00
		Others	1.50
WACC	**10.30 %**	**Beta**	**1.60**

Valuation (m)

Present values 2026e	57		
Terminal Value	45		
Financial liabilities	2		
Pension liabilities	1		
Hybrid capital	0		
Minority interest	0		
Market val. of investments	0		
Liquidity	-7	No. of shares (m)	1.9
Equity Value	**91**	**Value per share (EUR)**	**48.14**

Sensitivity Value per Share (EUR)

		Terminal Growth						
Beta	WACC	1.75 %	2.00 %	2.25 %	**2.50 %**	2.75 %	3.00 %	3.25 %
1.78	11.3 %	40.17	40.64	41.13	41.66	42.21	42.80	43.42
1.69	10.8 %	42.95	43.50	44.08	44.70	45.36	46.06	46.81
1.65	10.6 %	44.46	45.06	45.69	46.37	47.09	47.85	48.67
1.60	10.3 %	46.05	46.71	47.40	**48.14**	48.93	49.77	50.67
1.55	10.1 %	47.75	48.46	49.22	50.03	50.89	51.82	52.81
1.51	9.8 %	49.54	50.32	51.15	52.04	52.99	54.01	55.11
1.42	9.3 %	53.50	54.44	55.44	56.52	57.68	58.93	60.28

		Delta EBIT-margin						
Beta	WACC	-1.5 pp	-1.0 pp	-0.5 pp	**+0.0 pp**	+0.5 pp	+1.0 pp	+1.5 pp
1.78	11.3 %	37.15	38.66	40.16	41.66	43.16	44.66	46.16
1.69	10.8 %	39.93	41.52	43.11	44.70	46.29	47.88	49.47
1.65	10.6 %	41.45	43.09	44.73	46.37	48.01	49.64	51.28
1.60	10.3 %	43.07	44.76	46.45	**48.14**	49.83	51.52	53.21
1.55	10.1 %	44.79	46.54	48.28	50.03	51.77	53.52	55.26
1.51	9.8 %	46.63	48.43	50.24	52.04	53.85	55.65	57.45
1.42	9.3 %	50.71	52.65	54.58	56.52	58.45	60.39	62.32

Softwareunternehmen wie GK erwirtschaften neben guten Tagessätzen in der Regel hohe Lizenzeinnahmen

Dies führt in der Regel zu hohen zweistelligen Margen

Verzögerungen bei Projektabschlüssen und hohe strukturelle Aufwendungen belasteten das Unternehmen jedoch

Valuation

	2010	2011	2012	2013	2014e	2015e	2016e
Price / Book	3.4 x	2.8 x	2.4 x	1.7 x	2.2 x	2.1 x	1.8 x
Book value per share ex intangibles	9.12	10.44	9.67	13.13	12.78	4.73	8.28
EV / Sales	2.7 x	2.2 x	2.2 x	1.1 x	1.5 x	1.5 x	1.4 x
EV / EBITDA	9.4 x	8.1 x	22.4 x	12.7 x	30.9 x	10.3 x	7.2 x
EV / EBIT	11.7 x	10.5 x	81.4 x	35.5 x	n.a.	16.2 x	10.1 x
EV / EBIT adj.*	11.7 x	10.5 x	81.4 x	35.5 x	n.a.	16.2 x	10.1 x
P / FCF	n.a.	34.0 x	68.2 x	n.a.	n.a.	67.0 x	12.2 x
P / E	18.4 x	17.1 x	101.4 x	72.5 x	n.a.	19.4 x	12.9 x
P / E adj.*	18.4 x	17.1 x	101.4 x	72.5 x	n.a.	19.4 x	12.9 x
Dividend Yield	1.0 %	1.1 %	0.0 %	0.8 %	1.3 %	1.3 %	1.3 %
Free Cash Flow Yield Potential	8.2 %	9.5 %	4.2 %	7.0 %	3.3 %	7.9 %	11.0 %

*Adjustments made for: -

Consolidated profit & loss

In EUR m	2010	2011	2012	2013	2014e	2015e	2016e
Sales	**27.7**	**31.8**	**28.4**	**42.5**	**43.0**	**56.0**	**59.4**
Change Sales yoy	19.0 %	14.7 %	-10.5 %	49.4 %	1.3 %	30.2 %	6.0 %
Increase / decrease in inventory	0.0	0.0	-0.1	0.0	0.0	0.0	0.0
Own work capitalised	0.6	1.5	0.7	0.4	0.4	0.6	0.6
Total Sales	**28.3**	**33.2**	**29.0**	**42.8**	**43.4**	**56.6**	**60.0**
Material Expenses	1.5	0.6	0.7	4.1	4.3	4.5	4.7
Gross profit	**26.8**	**32.6**	**28.4**	**38.8**	**39.1**	**52.1**	**55.2**
Gross profit margin	*96.8 %*	*102.8 %*	*99.8 %*	*91.3 %*	*91.0 %*	*93.0 %*	*93.0 %*
Personnel expenses	14.8	18.6	19.8	25.6	26.7	33.0	32.6
Other operating income	1.4	0.7	1.7	2.5	2.2	2.8	3.0
Other operating expenses	5.3	6.2	7.4	12.0	12.5	13.4	14.2
Unfrequent items	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA	**8.0**	**8.6**	**2.9**	**3.6**	**2.2**	**8.4**	**11.3**
Margin	*28.8 %*	*27.1 %*	*10.1 %*	*8.4 %*	*5.0 %*	*15.0 %*	*19.0 %*
Depreciation of fixed assets	0.4	0.6	0.6	0.6	0.6	0.8	0.9
EBITA	**7.5**	**8.0**	**2.2**	**3.0**	**1.5**	**7.6**	**10.4**
Amortisation of intangible assets	1.1	1.3	1.4	1.7	1.7	2.2	2.4
Goodwill amortization	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	**6.4**	**6.7**	**0.8**	**1.3**	**-0.2**	**5.3**	**8.0**
Margin	*23.2 %*	*21.0 %*	*2.8 %*	*3.0 %*	*-0.5 %*	*9.5 %*	*13.5 %*
EBIT adj.	**6.4**	**6.7**	**0.8**	**1.3**	**-0.2**	**5.3**	**8.0**
Interest income	0.2	0.2	0.2	0.1	0.0	0.0	0.0
Interest expenses	0.3	0.3	0.2	0.2	0.0	0.0	0.0
Other financial income (loss)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBT	**6.3**	**6.6**	**0.8**	**1.2**	**-0.2**	**5.3**	**8.0**
Margin	*22.8 %*	*20.7 %*	*2.9 %*	*2.7 %*	*-0.5 %*	*9.5 %*	*13.5 %*
Total taxes	1.8	2.0	0.1	0.4	-0.1	1.5	2.3
Net income from continuing operations	**4.5**	**4.6**	**0.7**	**0.8**	**-0.2**	**3.8**	**5.7**
Income from discontinued operations (net of tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income before minorities	**4.5**	**4.6**	**0.7**	**0.8**	**-0.2**	**3.8**	**5.7**
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income	**4.5**	**4.6**	**0.7**	**0.8**	**-0.2**	**3.8**	**5.7**
Margin	*16.1 %*	*14.4 %*	*2.4 %*	*1.8 %*	*-0.4 %*	*6.7 %*	*9.6 %*
Number of shares, average	1.7	1.8	1.8	1.8	1.9	1.9	1.9
EPS	**2.68**	**2.55**	**0.38**	**0.43**	**-0.08**	**1.99**	**2.99**
EPS adj.	2.68	2.55	0.38	0.43	-0.08	1.99	2.99

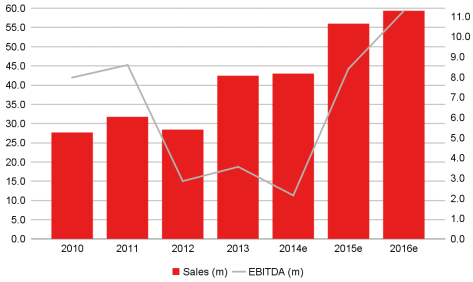
*Adjustments made for:

Guidance: 2014 revenues above 2013

Financial Ratios

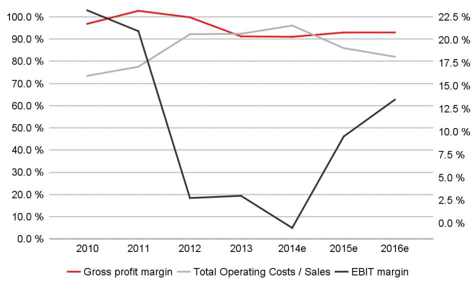
	2010	2011	2012	2013	2014e	2015e	2016e
Total Operating Costs / Sales	73.5 %	77.6 %	92.1 %	92.5 %	96.0 %	86.0 %	82.0 %
Operating Leverage	1.7 x	0.2 x	8.4 x	1.3 x	n.a.	n.a.	8.4 x
EBITDA / Interest expenses	26.1 x	31.2 x	14.9 x	16.0 x	n.a.	n.a.	n.a.
Tax rate (EBT)	29.1 %	30.5 %	17.6 %	34.2 %	29.0 %	29.0 %	29.0 %
Dividend Payout Ratio	18.7 %	19.6 %	0.0 %	58.6 %	n.m.	25.2 %	16.7 %
Sales per Employee	85,460	79,781	70,022	102,534	101,809	129,988	135,086

Sales, EBITDA
in EUR m



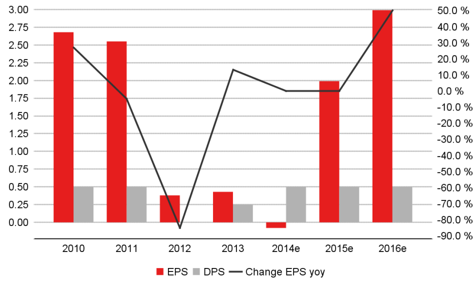
Source: Warburg Research

Operating Performance
in %



Source: Warburg Research

Performance per Share



Source: Warburg Research

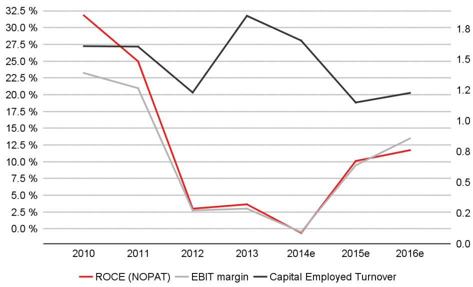
Consolidated balance sheet

In EUR m	2010	2011	2012	2013	2014e	2015e	2016e
Assets							
Goodwill and other intangible assets	9.1	9.5	10.9	9.9	8.5	26.7	24.6
thereof other intangible assets	2.7	3.1	4.5	3.5	2.1	0.3	-1.8
thereof Goodwill	6.4	6.4	6.4	6.4	6.4	26.4	26.4
Property, plant and equipment	4.0	4.1	4.9	4.8	5.4	5.7	6.0
Financial assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other long-term assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fixed assets	**13.2**	**13.7**	**15.8**	**14.7**	**13.9**	**32.4**	**30.7**
Inventories	0.0	0.0	1.0	1.0	4.8	6.2	6.6
Accounts receivable	14.1	11.9	11.6	13.1	13.3	16.4	17.4
Liquid assets	13.4	13.9	10.3	13.7	10.0	0.2	5.2
Other short-term assets	4.1	4.0	5.4	5.2	5.2	5.2	5.2
Current assets	**31.6**	**29.8**	**28.3**	**33.0**	**33.3**	**27.9**	**34.4**
Total Assets	**44.8**	**43.5**	**44.1**	**47.7**	**47.2**	**60.3**	**65.0**
Liabilities and shareholders' equity							
Subscribed capital	1.8	1.8	1.8	1.9	1.9	1.9	1.9
Capital reserve	13.9	14.2	14.4	18.2	18.2	18.2	18.2
Retained earnings	0.0	0.0	0.0	0.0	-0.6	2.3	7.0
Other equity components	8.6	12.2	12.0	13.4	13.4	13.4	13.4
Shareholder's equity	24.3	28.2	28.2	33.4	32.8	35.7	40.4
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total equity	**24.3**	**28.2**	**28.2**	**33.4**	**32.8**	**35.7**	**40.4**
Provisions	1.4	1.8	4.6	3.5	3.5	3.5	3.5
thereof provisions for pensions and similar obligations	0.3	0.2	1.7	0.9	0.9	0.9	0.9
Financial liabilites (total)	6.0	5.2	3.5	2.3	2.3	12.3	12.3
thereof short-term financial liabilities	0.7	0.8	2.2	1.3	1.3	1.3	1.3
Accounts payable	0.5	0.3	0.8	1.0	1.0	1.3	1.3
Other liabilities	12.6	7.9	6.9	7.6	7.6	7.6	7.6
Liabilities	**20.5**	**15.2**	**15.9**	**14.3**	**14.4**	**24.7**	**24.7**
Total liabilities and shareholders' equity	**44.8**	**43.5**	**44.1**	**47.7**	**47.2**	**60.3**	**65.0**

Financial Ratios

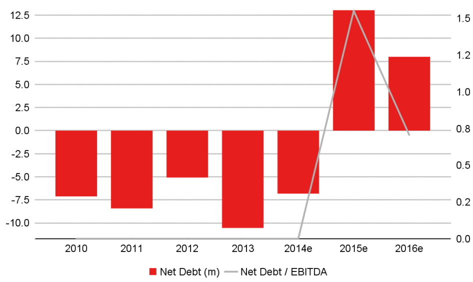
	2010	2011	2012	2013	2014e	2015e	2016e
Efficiency of Capital Employment							
Operating Assets Turnover	2.5 x	2.1 x	1.8 x	2.5 x	2.0 x	2.1 x	2.1 x
Capital Employed Turnover	1.6 x	1.6 x	1.2 x	1.9 x	1.7 x	1.2 x	1.2 x
ROA	34.0 %	33.4 %	4.3 %	5.2 %	-1.1 %	11.7 %	18.5 %
Return on Capital							
ROCE (NOPAT)	31.9 %	25.0 %	3.0 %	3.6 %	-0.6 %	10.1 %	11.7 %
ROE	22.6 %	17.4 %	2.4 %	2.5 %	-0.5 %	11.0 %	15.0 %
Adj. ROE	22.6 %	17.4 %	2.4 %	2.5 %	-0.5 %	11.0 %	15.0 %
Balance sheet quality							
Net Debt	-7.1	-8.4	-5.1	-10.5	-6.8	13.0	8.0
Net Financial Debt	-7.5	-8.6	-6.8	-11.5	-7.7	12.1	7.1
Net Gearing	-29.3 %	-29.8 %	-18.0 %	-31.5 %	-20.8 %	36.6 %	19.8 %
Net Fin. Debt / EBITDA	n.a.	n.a.	n.a.	n.a.	n.a.	144.3 %	62.8 %
Book Value / Share	14.6	15.8	15.7	18.7	17.3	18.8	21.3
Book value per share ex intangibles	9.1	10.4	9.7	13.1	12.8	4.7	8.3

ROCE Development



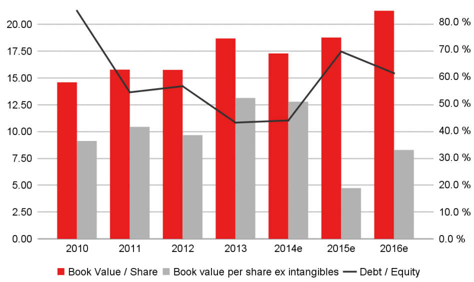
Source: Warburg Research

Net debt
in EUR m



Source: Warburg Research

Book Value per Share
in EUR



Source: Warburg Research

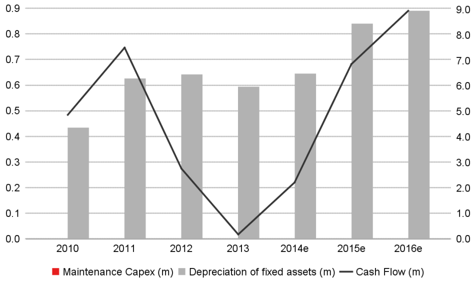
Consolidated cash flow statement

In EUR m	2010	2011	2012	2013	2014e	2015e	2016e
Net income	4.5	4.6	0.7	0.8	-0.2	3.8	5.7
Depreciation of fixed assets	0.4	0.6	0.6	0.6	0.6	0.8	0.9
Amortisation of goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation of intangible assets	1.1	1.3	1.4	1.7	1.7	2.2	2.4
Increase/decrease in long-term provisions	-0.1	0.2	1.6	-1.7	0.0	0.0	0.0
Other non-cash income and expenses	-1.0	0.8	-1.6	-1.1	0.0	0.0	0.0
Cash Flow	**4.9**	**7.5**	**2.8**	**0.2**	**2.2**	**6.9**	**9.0**
Increase / decrease in inventory	0.0	0.0	0.1	0.1	-3.8	-1.4	-0.4
Increase / decrease in accounts receivable	-8.5	2.0	2.4	2.4	-0.2	-3.1	-1.0
Increase / decrease in accounts payable	5.3	-4.8	-2.2	-1.0	0.0	0.3	0.0
Increase / decrease in other working capital positions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Increase / decrease in working capital (total)	-3.2	-2.8	0.3	1.5	-3.9	-4.2	-1.4
Net cash provided by operating activities	**1.7**	**4.7**	**3.1**	**1.7**	**-1.7**	**2.7**	**7.6**
Investments in intangible assets	-1.9	-1.7	-0.9	-0.9	-0.3	-0.4	-0.4
Investments in property, plant and equipment	-1.1	-0.7	-1.1	-1.2	-1.2	-1.2	-1.2
Payments for acquisitions	0.0	0.0	0.0	0.0	0.0	-20.0	0.0
Financial investments	-0.1	-0.3	-0.4	0.0	0.0	0.0	0.0
Income from asset disposals	0.4	0.0	-1.6	1.2	0.0	0.0	0.0
Net cash provided by investing activities	**-2.7**	**-2.7**	**-4.0**	**-0.9**	**-1.5**	**-21.6**	**-1.6**
Change in financial liabilities	-0.7	-0.7	-1.8	-1.2	0.0	10.0	0.0
Dividends paid	-1.7	-0.9	-0.9	0.0	-0.4	-1.0	-1.0
Purchase of own shares	6.3	0.0	0.0	0.0	0.0	0.0	0.0
Capital measures	0.0	0.0	0.0	3.8	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net cash provided by financing activities	**3.8**	**-1.6**	**-2.7**	**2.6**	**-0.4**	**9.1**	**-1.0**
Change in liquid funds	2.8	0.4	-3.6	3.4	-3.7	-9.9	5.0
Effects of exchange-rate changes on cash	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash and cash equivalent at end of period	**13.4**	**13.9**	**10.3**	**13.7**	**10.0**	**0.2**	**5.2**

Financial Ratios

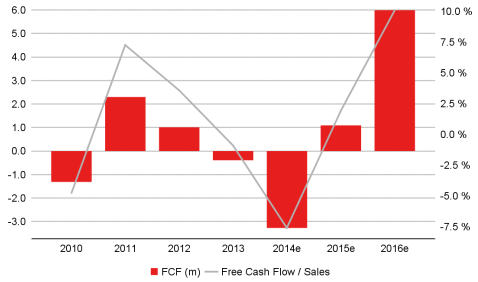
	2010	2011	2012	2013	2014e	2015e	2016e
Cash Flow							
FCF	-1.3	2.3	1.0	-0.4	-3.3	1.1	6.0
Free Cash Flow / Sales	-4.7 %	7.2 %	3.6 %	-0.9 %	-7.6 %	2.0 %	10.1 %
Free Cash Flow Potential	6.1	6.6	2.7	3.2	2.2	6.9	9.0
Free Cash Flow / Sales	-4.7 %	7.2 %	3.6 %	-0.9 %	-7.6 %	2.0 %	10.1 %
Free Cash Flow / Net Profit	-29.4 %	50.4 %	149.7 %	-51.0 %	2126.1 %	29.0 %	105.3 %
Interest Received / Avg. Cash	1.5 %	1.4 %	1.9 %	0.9 %	0.0 %	0.0 %	0.0 %
Interest Paid / Avg. Debt	4.8 %	4.9 %	4.4 %	7.7 %	0.0 %	0.0 %	0.0 %
Management of Funds							
Investment ratio	10.8 %	7.7 %	7.2 %	5.0 %	3.6 %	2.8 %	2.6 %
Maint. Capex / Sales	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Capex / Dep	192.6 %	125.7 %	99.2 %	92.0 %	65.4 %	50.7 %	47.9 %
Avg. Working Capital / Sales	18.0 %	28.2 %	37.8 %	27.2 %	33.3 %	32.9 %	35.7 %
Trade Debtors / Trade Creditors	2964.1 %	3630.7 %	1379.5 %	1356.9 %	1330.0 %	1261.5 %	1338.5 %
Inventory Turnover	n.a.	n.a.	0.7 x	3.9 x	0.9 x	0.7 x	0.7 x
Receivables collection period (days)	186	137	149	113	113	107	107
Payables payment period (days)	113	197	457	86	85	106	100
Cash conversion cycle (Days)	n.a.	n.a.	-252	-37	380	482	494

CAPEX and Cash Flow
in EUR m



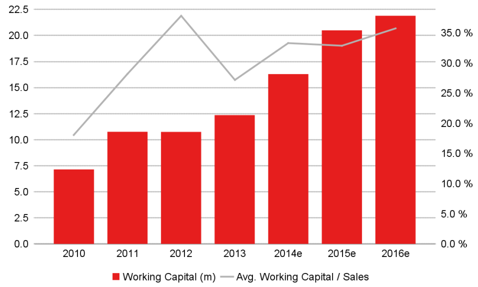
Source: Warburg Research

Free Cash Flow Generation



Source: Warburg Research

Working Capital



Source: Warburg Research

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This report has been made accessible to the company analysed.

Company	Disclosure	Link to the historical price targets and rating changes (last 12 months)
GK Software	5	http://www.mmwarburg.com/disclaimer/disclaimer_en/DE0007571424.htm

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Investment recommendation: expected direction of the share price development of the financial instrument up to the given price target in the opinion of the analyst who covers this financial instrument.

-B-	**Buy:**	The price of the analysed financial instrument is expected to rise over the next 12 months.
-H-	**Hold:**	The price of the analysed financial instrument is expected to remain mostly flat over the next 12 months.
-S-	**Sell:**	The price of the analysed financial instrument is expected to fall over the next 12 months.
"-"	**Rating suspended:**	The available information currently does not permit an evaluation of the company.

WARBURG RESEARCH GMBH – RESEARCH UNIVERSE BY RATING

Rating	Number of stocks	% of Universe
Buy	102	54
Hold	72	38
Sell	10	5
Rating suspended	4	2
Total	**188**	**100**

WARBURG RESEARCH GMBH – ANALYSED RESEARCH UNIVERSE BY RATING …

… Looking only at companies for which a disclosure according to § 34b of the Germany Securities Trading Act and the FinAnV has to be made.

Rating	Number of stocks	% of Universe
Buy	82	57
Hold	52	36
Sell	6	4
Rating suspended	4	3
Total	**144**	**100**

PRICE AND RATING HISTORY GK SOFTWARE AS OF 24.03.2015

The chart has markings if Warburg Research GmbH changed its rating in the last 12 months. Every marking represents the date and closing price on the day of the rating change.

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