

Date 12/04/2017

**Recommendation:**

**Hold** (previous: Hold)

**PT: € 68.40** (previous: € 61.10)

**GK Software**

Industry: Software

Segment: Prime Standard

ISIN: DE0007571424

Reuters: GKSG

**Price (11/04/2017): € 70.58**

Market Cap € 133 Mio.

EV € 144 Mio.

Ø-volume `000€ (100 days) 102.9

52W High € 73.00

52W Low € 38.08

**Financial Calendar**

FY report 27/04/2017

Q1 report 30/05/2017

**Shareholder structure**

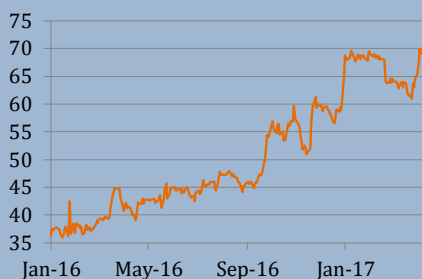
GK Software Hldg. 49.8%

SAP AG 5.3%

R.Gläß 3.3%

S.Kronmüller 2.3%

**Share performance**



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**GK SOFTWARE AG**

**New revenue record – margin significantly improved**

With its provisional 2016 figures, GK Software has clearly exceeded our revenue and EBIT estimates. This was due to substantial growth in all revenue streams (licensing, service and maintenance). In this regard, special mention should be made of the licensing business. The OmniPOS solution, which was only officially launched at the beginning of 2016, has developed very well – it acquired no fewer than eight new customers in 2016. This was another instance where the company's close partnership with SAP proved its value. Other SAP customers opted for the Central Pricing Engine cloud solution, developed by GK and distributed by SAP (but independently of OmniPOS). Our price target has increased, driven by – among other things – a higher peer rating. With a 2017 EV/sales-multiple of just under 1.7, GK continues to be more attractively priced than the peer average – despite above-average growth and anticipated margin expansion. Due to the sharp price increase, our recommendation is “hold”, despite the raised price target.

- ✓ GK Software reported a revenue increase of 23.5% to €77.3 million in 2016. Driven by both the strong licensing business and improved profitability in the service business, the EBITDA and EBIT margin could be increased to 10.1% and 5.1% respectively (previous year: 3.5% and -2.0%, respectively).
- ✓ The new cloud solution – OmniPOS – was launched successfully in 2016. Its customers, acquired jointly with SAP, originated from Europe, the USA and Central America. With regard to creating references, it appears to us that GK is well positioned in the strategically important US market – not only with new American customers, but also with European customers who are expanding to North America. The (cross-sectoral) Central Pricing Engine developed by GK, which is also marketed by SAP, also provides GK with access to potential new international customers for the OmniPOS solution
- ✓ The SAP Hybris 2017 Global ISV Partner of the Year award that GK received in March 2017 for outstanding contributions to the digital transformation of (joint) customers, further documents the seamless interaction of the two cloud solution worlds at a technical level.
- ✓ Based on the provisional figures for 2016, we have left the estimates for 2017 and beyond virtually unchanged. The better than expected 2016 figures and increased peer multiples have led to an increase in our price target

**Outlook for the company:** GK Software reached the upper limit of its own expectations in 2016, confirming the medium-term forecast: by 2018, the annual turnover will have grown to more than €90 million; the target EBIT margin for 2018 and beyond in the core segment is 15%. The company will present its final figures for 2016 on 27 April 2017.

**Key figures - GK Software AG**

	Sales	EBITDA	EBIT	EPS (adj.)	EV/Sales	P/E
2014 a	44.6	0.0	-3.0	-0.99	1.61	-42.4
2015 a	62.6	2.2	-1.3	-0.79	1.19	-43.7
2016 e*	77.3	7.8	3.9	1.34	1.86	52.8
2017 e	85.2	10.9	7.0	2.48	1.69	28.4
2018 e	96.2	16.1	12.0	4.39	1.50	16.1

Source: Company Data, EQUI.TS GmbH; \*=provisional figures

## Appendix

<b>Income Statement</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016e*</b>	<b>2017e</b>	<b>2018e</b>
<b>Sales</b>	<b>42.458</b>	<b>44.634</b>	<b>62.602</b>	<b>77.330</b>	<b>85.160</b>	<b>96.247</b>
Change in finished goods	0.000	0.000	0.000	0.000	0.000	0.000
Other own costs capitalized	0.376	0.512	0.525	0.648	0.714	0.807
Other operating income	2.451	2.188	1.726	2.132	2.348	2.654
<b>Total performance</b>	<b>45.285</b>	<b>47.333</b>	<b>64.853</b>	<b>80.110</b>	<b>88.222</b>	<b>99.708</b>
Cost of material	-4.082	-5.151	-8.266	-8.556	-9.254	-9.530
<b>Gross profit</b>	<b>41.202</b>	<b>42.182</b>	<b>56.587</b>	<b>71.554</b>	<b>78.968</b>	<b>90.178</b>
Personnel expenses	-25.605	-28.749	-39.668	-48.505	-50.856	-55.294
Other operating expenses	-12.258	-13.397	-14.742	-15.250	-17.197	-18.753
<b>EBITDA</b>	<b>3.340</b>	<b>0.037</b>	<b>2.177</b>	<b>7.800</b>	<b>10.915</b>	<b>16.131</b>
Depreciation/amortisation	-2.295	-3.052	-3.453	-3.856	-3.931	-4.100
<b>EBIT</b>	<b>1.045</b>	<b>-3.015</b>	<b>-1.276</b>	<b>3.944</b>	<b>6.983</b>	<b>12.031</b>
Financial result	-0.113	0.028	-0.107	-0.358	-0.320	-0.249
Non operating result before taxes	0.000	0.000	0.000	0.000	0.000	0.000
EBT	0.932	-2.987	-1.383	3.586	6.664	11.782
Non operating result after taxes	0.000	0.000	0.000	0.000	0.000	0.000
Taxes	-0.331	1.117	-0.117	-1.059	-1.968	-3.479
Minority interest	0.000	0.000	0.000	0.000	0.000	0.000
<b>Net result</b>	<b>0.601</b>	<b>-1.870</b>	<b>-1.500</b>	<b>2.528</b>	<b>4.696</b>	<b>8.303</b>
Adjustments	0.00	0.00	0.00	0.00	0.00	0.00
<b>Adjusted net result</b>	<b>0.601</b>	<b>-1.870</b>	<b>-1.500</b>	<b>2.528</b>	<b>4.696</b>	<b>8.303</b>
Average number of shares	1.79	1.89	1.89	1.89	1.89	1.89
EPS	0.34	-0.99	-0.79	1.34	2.48	4.39
Adjusted EPS	0.34	-0.99	-0.79	1.34	2.48	4.39
DPS	0.25	0.00	0.00	0.00	0.55	0.97

Source: EQUI.TS; company data  
 \*=provisional figures for Sales, EBITDA and EBIT

<b>Cash Flow Statement</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016e</b>	<b>2017e</b>	<b>2018e</b>
Net cash provided by operating activities	1.829	-0.394	2.196	2.063	6.367	9.175
Net cash used in investing activities	-0.951	-1.569	-18.583	-3.694	-2.968	-3.354
Net cash provided by financing activities	2.483	-1.606	12.574	-2.000	-2.000	-3.033
Change in cash and securities	3.361	-3.569	-3.813	-3.631	1.399	2.788
Cash and secur. at the end of the period	13.742	10.173	7.377	3.746	5.145	7.933

Source: EQUI.TS; company data

<b>Balance Sheet</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016e</b>	<b>2017e</b>	<b>2018e</b>
Long term assets	14.718	13.445	30.944	30.782	29.818	29.072
Intangible assets	9.922	8.474	25.190	23.897	21.604	18.911
Tangible assets	4.794	4.970	5.753	6.883	8.213	10.159
Financial assets	0.002	0.002	0.002	0.002	0.002	0.002
Current assets	32.351	28.270	33.074	34.326	38.321	44.785
Inventories	1.043	1.159	1.655	2.044	2.251	2.544
Accounts Receivables	13.754	12.375	19.100	23.593	25.982	29.364
Other current assets	3.812	4.563	4.943	4.943	4.943	4.943
Cash and securities	13.742	10.173	7.377	3.746	5.145	7.933
Other assets	0.753	2.957	3.742	3.742	3.742	3.742
<b>Total assets</b>	<b>47.821</b>	<b>44.673</b>	<b>67.760</b>	<b>68.850</b>	<b>71.881</b>	<b>77.598</b>
Equity	33.156	30.555	28.967	31.494	36.190	43.460
Reserves	33.156	30.555	28.967	31.494	36.190	43.460
Minorities	0.000	0.000	0.000	0.000	0.000	0.000
Provisions	2.540	3.321	4.081	4.151	4.224	4.301
Liabilities	10.196	8.600	32.085	30.577	28.838	27.209
Interest bearing liabilities	2.290	1.132	14.723	12.723	10.723	8.723
Accounts Payables	1.421	1.634	2.091	2.583	2.845	3.215
Other non-interest bearing liabilities	6.485	5.835	15.271	15.271	15.271	15.271
Other liabilities	1.928	2.196	2.628	2.628	2.628	2.628
<b>Total equity and liabilities</b>	<b>47.821</b>	<b>44.673</b>	<b>67.760</b>	<b>68.850</b>	<b>71.881</b>	<b>77.598</b>

Source: EQUITS; company data

Key Ratios	2013	2014	2015	2016e*	2017e	2018e
<b>Ratios for corporate valuation</b>						
EV/Sales	1.08	1.61	1.19	1.86	1.69	1.50
EV/EBITDA	13.67	1969.16	34.17	18.45	13.18	8.92
EV/EBIT	43.68	-23.84	-58.32	36.49	20.61	11.96
P/E reported	93.50	-42.38	-43.72	52.78	28.41	16.07
P/E clean	93.50	-42.38	-43.72	52.78	28.41	16.07
PCPS	48.20	41.00	24.45	20.67	15.33	10.69
Price-to-book ratio	1.70	2.59	2.26	4.24	3.69	3.07
<b>Profitability ratios</b>						
EBITDA margin	7.9%	0.1%	3.5%	10.1%	12.8%	16.8%
EBIT margin	2.5%	-6.8%	-2.0%	5.1%	8.2%	12.5%
Pre tax margin	2.2%	-6.7%	-2.2%	4.6%	7.8%	12.2%
Net margin	1.4%	-4.2%	-2.4%	3.3%	5.5%	8.6%
Free-cash-flow-margin	n.m.	0.3%	n.m.	3.6%	6.7%	9.5%
ROE	2.0%	-5.9%	-5.0%	8.4%	13.9%	20.8%
<b>Productivity ratios</b>						
Sales/employees (in EUR '000)	76.9	78.0	84.7	92.6	94.4	101.6
Personnel expenses/employees (in '000)	46.4	50.3	53.7	58.1	56.4	58.4
Net result/employees (in '000)	1.1	-3.3	-2.0	3.0	5.2	8.8
Number of employees	552	572	739	835	902	947
<b>Financial ratios</b>						
Equity ratio	69.3%	68.4%	42.7%	45.7%	50.3%	56.0%
Gearing	44.2%	46.2%	133.9%	118.6%	98.6%	78.5%
Dividend yield	0.8%	0.0%	0.0%	0.0%	0.8%	1.4%
<b>Cash-flow ratio</b>						
Cash-flow per share	0.65	1.02	1.42	3.41	4.60	6.60
Free-Cash-flow per share	-0.02	0.08	-8.45	1.46	3.03	4.83
<b>Other ratios</b>						
Depreciation/Sales	5.4%	6.8%	5.5%	5.0%	4.6%	4.3%
Capex/Sales	2.8%	4.0%	29.8%	4.8%	3.5%	3.5%
Working Capital/Sales	31.5%	26.7%	29.8%	29.8%	29.8%	29.8%
Tax rate	35.5%	37.4%	-8.5%	29.5%	29.5%	29.5%
Source EQUITS						
* = based on provisional figures for Sales, EBITDA and EBIT						

# DISCLAIMER

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

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**Authors of this financial analysis: Daniel Großjohann, Analyst, and Thomas Schießle, Analyst.**

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### Reference pursuant to section 4 subsection 4 point 4 FinAnV:

Company	Analyst		Rating	Price Target
GK SOFTWARE AG	D.Grossjohann/T.Schießle	09/09/2015	Buy	€ 45.00
GK SOFTWARE AG	D.Grossjohann/T.Schießle	04/12/2015	Buy	€ 46.80
GK SOFTWARE AG	D.Grossjohann/T.Schießle	07/03/2016	Buy	€ 45.20
GK SOFTWARE AG	D.Grossjohann/T.Schießle	17/05/2016	Buy	€ 54.35
GK SOFTWARE AG	D.Grossjohann/T.Schießle	21/06/2016	Buy	€ 54.35
GK SOFTWARE AG	D.Grossjohann/T.Schießle	12/09/2016	Buy	€ 59.60
GK SOFTWARE AG	D.Grossjohann/T.Schießle	05/12/2016	Hold	€ 61.10
GK SOFTWARE AG	D.Grossjohann/T.Schießle	12/04/2017	Hold	€ 68.40

II. Additional information:

#### 1. Information sources:

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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.

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

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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:**

**(12/04/2017)**

**4. Date and time of the prices of financial instruments disclosed therein:**

**(Closing price on 11/04/2017)**

**5. Updates:**

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

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4. there exists personnel ties between the author and the issuer,
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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

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