

Date 22/05/2017

Recommendation:

Hold (previous: Hold)

PT: € 80.40 (previous: € 68.40)

GK Software

Industry: Software

Segment: Prime Standard

ISIN: DE0007571424

Reuters: GKSG

Price (19/05/2017): € 76.40

Market Cap € 139 Mio.

EV € 144 Mio.

Ø-volume `000€ (100 days) 132.1

52W High € 80.66

52W Low € 41.25

Financial Calendar

Q1 report 30/05/2017

AGM 22/06/2017

Shareholder structure

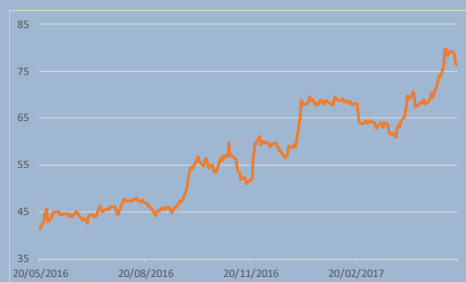
GK Software Hldg. 49.8%

SAP AG 5.3%

R.Gläß 3.3%

S.Kronmüller 2.3%

Share performance



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GK SOFTWARE AG

Medium-term sales target reached sooner?

Thanks to the growth in its sales realised by the company in 2016 (+23.5%), the attainment of its medium-term forecast (the generation of one and a half times the 2015 turnover by 2018) already appears to be within its grasp in the current year. We have increased our sales forecast for 2017 and onwards, because there is every indication that the sales pipeline is well filled. The existing customer business should also provide stimuli for growth and the macro-environment appears robust. Our medium-term expected margins, however, we have left unchanged. If GK succeeds in scaling its own project business via IT service providers/certified implementation partners, the targeted EBIT margins of 15% or more should be easy to achieve in the GK/Retail core business from 2018 onwards. With a 2017 EV/sales of 1.6 and despite the increase in the last few weeks, the share price indicates further potential for upward movement – particularly in peer comparison.

- ✓ GK Software recorded particularly strong growth (+ 30.9%) in the core segment of GK/Retail, which currently accounts for almost 84% of sales. IT services, representing 15% of revenue, declined slightly due to an expected downward movement in hardware-related services. The SQRS solution world is phasing out, as planned, in favour of the GK/Retail solution and is responsible for only 1.1% of the sales achieved.
- ✓ Scaling via implementation partners is increasingly showing its effect, with turnover per employee already having been continuously on the increase since 2012. The employees of twelve new implementation partners were certified at the GK Academy in 2016, and some of them are already active in projects. The increase in consolidated sales (+ 23.5%) was disproportionate to the development of personnel costs (+ 20.2%) and the number of employees at year-end (+ 23.3%). This is a considerable achievement, since new employees are typically not fully productive at first and therefore depress the sales/employee ratio. Material costs fell by as much as 7.1% in 2016.

Outlook for the company: A not inconsiderable expansion of GK/Retail turnover is expected for 2017, which also further improves the earnings situation. The turnover of over €90 million that was originally planned for 2018, could already be achieved in 2017. As of 2018, the company will again achieve EBIT margins above 15% in its core segment. Temporary pressure on margins can result from new markets being opened up and short-term shifting of projects.

Key figures - GK Software AG

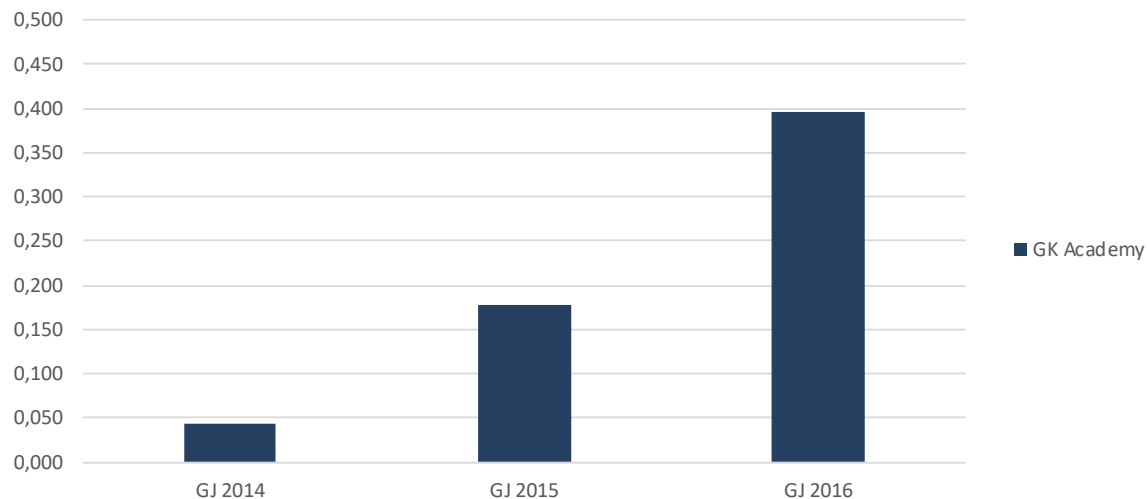
	Sales	EBITDA	EBIT	EPS (adj.)	EV/Sales	P/E
2015 a	62.6	2.2	-1.3	-0.79	1.19	-43.7
2016 a	77.3	7.8	3.9	1.50	1.28	31.3
2017 e	88.5	11.3	7.3	2.52	1.57	30.4
2018 e	97.2	16.3	12.2	4.37	1.43	17.5
2019 e	107.1	18.0	13.7	5.00	1.30	15.3

Source: Company Data, EQUITS

GK Academy as scaling key

GK Academy offers GK implementation partners (paid) certification of their employees, so that they can assume project management of selected GK projects. GK Academy's sales performance is therefore also an indicator of the success of the scaling efforts. In 2016 alone, the employees of 12 (new) implementation partners were trained.

Table 01: Sales performance of GK Academy (in € m)



Source: Company Data

Certified implementation partners make better scaling of its own capacities and faster acceleration of internationalisation possible for GK Software – conversely, the growing interest in certification is also an indication of the potential that partners see in the OmniPOS cloud solution. For strategic reasons, GK will continue to give priority to (international) growth; (temporary) strain on margins will thus be possible as a result of the expansion of the geographic scope. There is also further sales potential in Germany itself, for example with small- and medium-sized retail chains, which have not yet come under focus. This is an area where GK can achieve success in particular with the distribution of standardised solutions. Another source of growth is follow-up business with existing customers, which could also be expanded in 2016.

Conversion into a European Stock Corporation (SE) on the cards

The Management Board and the Supervisory Board have decided to submit a proposal to convert the AG (Aktiengesellschaft) into an SE (Societas Europaea) at the next Annual General Meeting, which is expected to be held on 22 June 2017. The conversion should have no effect on customers and employees. The company and administrative headquarters, among other things, will remain unchanged, as will the dual-entity organisational structure comprising the Executive Board and the Supervisory Board. The company will include more detailed information on this topic in the invitation to the Annual General Meeting. We believe that the new legal form is, above all, an expression of our growing internationalisation.

Appendix

Income Statement	2014	2015	2016	2017e	2018e	2019e
Sales	44.634	62.602	77.333	88.525	97.245	107.125
Change in finished goods	0.000	0.000	0.000	0.000	0.000	0.000
Other own costs capitalized	0.512	0.525	0.382	0.437	0.480	0.529
Other operating income	2.188	1.726	1.769	2.025	2.224	2.450
Total performance	47.333	64.853	79.483	90.987	99.949	110.104
Cost of material	-5.151	-8.266	-7.681	-8.624	-8.673	-9.194
Gross profit	42.182	56.587	71.802	82.362	91.276	100.910
Personnel expenses	-28.749	-39.668	-47.669	-52.119	-55.070	-61.168
Other operating expenses	-13.397	-14.742	-16.330	-18.991	-19.929	-21.771
EBITDA	0.037	2.177	7.803	11.251	16.277	17.970
Depreciation/amortisation	-3.052	-3.453	-3.861	-3.992	-4.121	-4.258
EBIT	-3.015	-1.276	3.942	7.259	12.156	13.712
Financial result	0.028	-0.107	-0.491	-0.467	-0.356	-0.207
Non operating result before taxes	0.000	0.000	0.000	0.000	0.000	0.000
EBT	-2.987	-1.383	3.452	6.793	11.801	13.505
Non operating result after taxes	0.000	0.000	0.000	0.000	0.000	0.000
Taxes	1.117	-0.117	-0.626	-2.038	-3.540	-4.052
Minority interest	0.000	0.000	0.000	0.000	0.000	0.000
Net result	-1.870	-1.500	2.826	4.755	8.260	9.453
Adjustments	0.00	0.00	0.00	0.00	0.00	0.00
Adjusted net result	-1.870	-1.500	2.826	4.755	8.260	9.453
Average number of shares	1.89	1.89	1.89	1.89	1.89	1.89
EPS	-0.99	-0.79	1.50	2.52	4.37	5.00
Adjusted EPS	-0.99	-0.79	1.50	2.52	4.37	5.00
DPS	0.00	0.00	0.00	0.55	0.94	1.12

Source: EQUI.TS; company data

Cash Flow Statement	2014	2015	2016	2017e	2018e	2019e
Net cash provided by operating activities	-0.394	2.196	3.699	5.864	10.158	11.185
Net cash used in investing activities	-1.569	-18.583	-5.099	-4.161	-4.571	-4.258
Net cash provided by financing activities	-1.606	12.574	-2.119	-2.000	-3.046	-3.784
Change in cash and securities	-3.569	-3.813	-3.519	-0.297	2.540	3.143
Cash and secur. at the end of the period	10.173	7.377	6.017	5.720	8.261	11.404

Source: EQUI.TS; company data

- Please consider the disclaimer at the end of this document -

Balance Sheet	2014	2015	2016	2017e	2018e	2019e
Long term assets	13.445	30.944	32.736	32.905	33.356	33.355
Intangible assets	8.474	25.190	23.828	22.435	21.142	19.649
Tangible assets	4.970	5.753	8.902	10.464	12.207	13.700
Financial assets	0.002	0.002	0.007	0.007	0.007	0.007
Current assets	28.270	33.074	33.963	36.950	42.049	48.092
Inventories	1.159	1.655	1.180	1.351	1.484	1.635
Accounts Receivables	12.375	19.100	21.512	24.625	27.051	29.800
Other current assets	4.563	4.943	5.254	5.254	5.254	5.254
Cash and securities	10.173	7.377	6.017	5.720	8.261	11.404
Other assets	2.957	3.742	4.915	4.915	4.915	4.915
Total assets	44.673	67.760	71.615	74.771	80.321	86.363
Equity	30.555	28.967	31.654	36.409	43.623	51.292
Reserves	30.555	28.967	31.654	36.409	43.623	51.292
Minorities	0.000	0.000	0.000	0.000	0.000	0.000
Provisions	3.321	4.081	3.222	3.307	3.396	3.489
Liabilities	8.600	32.085	33.183	31.500	29.746	28.026
Interest bearing liabilities	1.132	14.723	14.763	12.763	10.763	8.763
Accounts Payables	1.634	2.091	2.187	2.504	2.750	3.030
Other non-interest bearing liabilities	5.835	15.271	16.233	16.233	16.233	16.233
Other liabilities	2.196	2.628	3.555	3.555	3.555	3.555
Total equity and liabilities	44.673	67.760	71.615	74.771	80.321	86.363

Source: EQUITS; company data

Key Ratios	2014	2015	2016	2017e	2018e	2019e
Ratios for corporate valuation						
EV/Sales	1.61	1.19	1.28	1.57	1.43	1.30
EV/EBITDA	1969.16	34.17	12.67	12.34	8.53	7.72
EV/EBIT	-23.84	-58.32	25.08	19.12	11.42	10.12
P/E reported	-42.38	-43.72	31.27	30.37	17.48	15.27
P/E clean	-42.38	-43.72	31.27	30.37	17.48	15.27
PCPS	41.00	24.45	15.24	16.35	11.58	10.46
Price-to-book ratio	2.59	2.26	2.79	3.97	3.31	2.82
Profitability ratios						
EBITDA margin	0.1%	3.5%	10.1%	12.7%	16.7%	16.8%
EBIT margin	-6.8%	-2.0%	5.1%	8.2%	12.5%	12.8%
Pre tax margin	-6.7%	-2.2%	4.5%	7.7%	12.1%	12.6%
Net margin	-4.2%	-2.4%	3.7%	5.4%	8.5%	8.8%
Free-cash-flow-margin	0.3%	n.m.	0.7%	5.3%	8.1%	8.9%
ROE	-5.9%	-5.0%	9.3%	14.0%	20.6%	19.9%
Productivity ratios						
Sales/employees (in EUR '000)	78.0	84.7	84.9	90.0	94.1	98.8
Personnel expenses/employees (in '000)	50.3	53.7	52.3	53.0	53.3	56.4
Net result/employees (in '000)	-3.3	-2.0	3.1	4.8	8.0	8.7
Number of employees	572	739	911	984	1033	1085
Financial ratios						
Equity ratio	68.4%	42.7%	44.2%	48.7%	54.3%	59.4%
Gearing	46.2%	133.9%	126.2%	105.4%	84.1%	68.4%
Dividend yield	0.0%	0.0%	0.0%	0.7%	1.2%	1.5%
Cash-flow ratio						
Cash-flow per share	1.02	1.42	3.07	4.67	6.60	7.30
Free-Cash-flow per share	0.08	-8.45	0.27	2.47	4.18	5.05
Other ratios						
Depreciation/Sales	6.8%	5.5%	5.0%	4.5%	4.2%	4.0%
Capex/Sales	4.0%	29.8%	6.8%	4.7%	4.7%	4.0%
Working Capital/Sales	26.7%	29.8%	26.5%	26.5%	26.5%	26.5%
Tax rate	37.4%	-8.5%	18.1%	30.0%	30.0%	30.0%

Source EQUITS

DISCLAIMER

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

Company responsible for the publication: EQUI.TS GmbH

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:

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:

EQUI.TS 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:

(22/05/2017)

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

(Closing price on 19/05/2017)

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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