

Date 03/12/2018

Recommendation:

Buy (previous: Buy)
PT: € 123.00 (prev.: € 146.00)

GK Software

Industry: Software
Segment: Prime Standard
ISIN: DE0007571424
Reuters: GKSG

Price (30/11/2018): € 79.00
Market Cap € 149m
EV € 153m
Ø-volume `000€ 128
52W High € 135.50
52W Low € 73.40

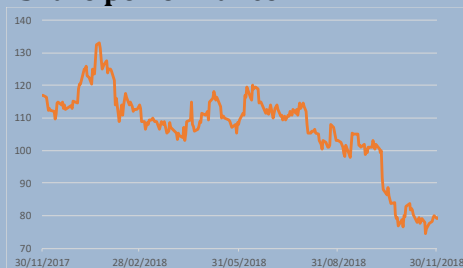
Financial Calendar

GB 2018 26/04/2019
Q1 2019 30/05/2019
AGM 2019 20/06/2019

Shareholder structure

GK Software Hldg. 49.7%
SAP SE 5.3%
R.Gläß 2.7%
S.Kronmüller 2.3%

Share performance



Daniel Grossjohann

dg@equits.de
+49 (0)69 95 41 16 08

Thomas J. Schiessle

ts@equits.de
+49 (0)69 95 45 43 60



EQUITS GmbH
Am Schieferstein 3
D-60435 Frankfurt

GK SOFTWARE SE

North American business continues to pick up speed

In the first 9 months GK Software achieved a sales growth of 13.6%. The typically strong final quarter should also benefit this year from the fact that project work already performed, which could not yet be recorded as sales, can be shown in Q4. We therefore leave our revenue estimate unchanged, as do our EBIT expectations. The award of OmniPOS as a leading solution by Forrester (Point of Service, Q3 2018) strengthens the position in international competition. Especially in the important North American market, GK Software (No. 5 for new installations worldwide) was successful - 4 of the 8 new customers in this fiscal year came from the USA.

As a result of the price declines in technology stocks in the past two months, however, the peer group multiples and thus also the price target are falling.

✓ **Sales development 9M 2018:** With a sales contribution of 67.05 million (+22.7%), the core business **GK/Retail** was also the fastest-growing segment. Revenues in the IT Services segment declined by € 3.23 million, mainly due to the loss of a major hardware maintenance contract. In terms of revenue types, services (52.2%) continued to account for the largest share, followed by maintenance (27.7%) and licenses/customer-specific developments (21.2%).

✓ **Q4 2018:** Our implicit assumptions for Q4 2018 (sales € 31.9 million; EBIT: € 10.1 million), especially with regard to EBIT, are to a large extent also dependent on the extent to which emerging sales successes can be realised in this financial year.

✓ According to the **RBR study (10/2018)** on the POS market, GK Software achieved market leadership in Europe (market share 10%) for **new installations**. Worldwide GK Software is ranked 5th for new installations, but the largest European competitor in this market. Already twelve of the top 50 retailers worldwide are customers of GK Software.

Company outlook: GK Software maintains the outlook given for 2018 (15% sales growth and over 15% EBIT margin in the GK/Retail core business), but points out the importance of the occurrence of certain sales events. The medium-term forecast, which implies sales of around € 135 million in 2020, was also confirmed. The forecasts are subject to the previous reservations. The development of new markets has priority over margin targets, and even postponed projects or a deterioration in the general economic situation can affect the forecast.

Key figures - GK Software SE

	Sales	EBITDA	EBIT	EPS (adj.)	EV/Sales	P/E
2016 a	77.3	7.8	3.9	1.50	1.28	31.3
2017 a	90.5	8.8	5.0	2.05	2.03	46.2
2018 e	106.8	14.6	10.4	3.56	1.43	22.2
2019 e	122.0	18.5	14.0	4.70	1.25	16.8
2020 e	137.3	21.1	16.5	5.63	1.11	14.0

Source: Company Data, EQUITS

Three sources of strategic growth

In terms of strategic growth options, GK Software is pursuing three main directions. This is the integration of **new technologies** such as IoT, Artificial Intelligence and Blockchain, which are already demanded by large retailers. A second source of growth is the development of **new customer groups** - for example by addressing even smaller dealers with a SaaS offering. The development of **new segments**, such as Petrol and Hospitality, will also take effect as early as 2019. The focus here will be above all on larger US retailers, who - unlike in Europe - often include restaurant offers and petrol stations in their range of services.

The award by the renowned market researcher **Forrester** in September 2018 and the highlighting of the strengths of the "**SAP Omnichannel POS by GK**" solution in the areas of Omnichannel capabilities, product quality/architecture and cloud offering has strengthened the reputation of the GK brand especially in the North American market. At the end of September, the Canadian **Avril Supermarché Santé**, a fast-growing natural food chain based in Québec, announced that it was one of the first companies in North America to successfully go live with GK and SAP solutions at the end of 2017 and that it had therefore also opted for the POS solution at the recently opened modern megastore in Laval.

Appendix

Income Statement	2015	2016	2017	2018e	2019e	2020e
Sales	62.602	77.333	90.452	106.750	121.978	137.346
Change in finished goods	0.000	0.000	0.000	0.000	0.000	0.000
Other own costs capitalized	0.525	0.382	0.000	0.000	0.000	0.000
Other operating income	1.726	1.769	5.197	6.133	7.008	7.891
Total performance	64.853	79.483	95.649	112.884	128.987	145.237
Cost of material	-8.266	-7.681	-8.530	-8.266	-8.885	-9.444
Gross profit	56.587	71.802	87.119	104.618	120.102	135.793
Personnel expenses	-39.668	-47.669	-57.809	-67.694	-76.306	-86.353
Other operating expenses	-14.742	-16.330	-20.537	-22.305	-25.304	-28.309
EBITDA	2.177	7.803	8.773	14.618	18.492	21.132
Depreciation/amortisation	-3.453	-3.861	-3.780	-4.264	-4.465	-4.649
EBIT	-1.276	3.942	4.993	10.355	14.027	16.482
Financial result	-0.107	-0.491	-0.653	-1.226	-1.156	-1.070
Non operating result before taxes	0.000	0.000	0.000	0.000	0.000	0.000
EBT	-1.383	3.452	4.340	9.128	12.871	15.413
Non operating result after taxes	0.000	0.000	0.000	0.000	0.000	0.000
Taxes	-0.117	-0.626	-0.456	-2.328	-3.862	-4.624
Minority interest	0.000	0.000	0.002	0.052	0.052	0.052
Net result	-1.500	2.826	3.885	6.852	9.061	10.840
Adjustments	0.00	0.00	0.00	0.00	0.00	0.00
Adjusted net result	-1.500	2.826	3.885	6.852	9.061	10.840
Average number of shares	1.89	1.89	1.90	1.93	1.93	1.93
Average number of shares (dil.)	1.97	2.00	1.95	1.95	1.95	1.95
EPS	-0.79	1.50	2.05	3.56	4.70	5.63
Adjusted EPS	-0.79	1.50	2.05	3.56	4.70	5.63
Adjusted EPS (diluted)	-0.76	1.41	2.00	3.51	4.64	5.55
DPS	0.00	0.00	0.00	0.00	0.71	1.13

Source: EQUI.TS; company data

Cash Flow Statement	2015	2016	2017	2018e	2019e	2020e
Net cash provided by operating activities	2.196	3.699	15.224	7.191	9.866	11.800
Net cash used in investing activities	-18.583	-5.099	-9.278	-9.129	-4.431	-4.912
Net cash provided by financing activities	12.574	-2.119	19.121	-2.000	-2.000	-3.359
Change in cash and securities	-3.813	-3.519	25.067	-3.938	3.434	3.529
Cash and secur. at the end of the period	7.377	6.017	30.479	26.541	29.975	33.504

Source: EQUI.TS; company data

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

Balance Sheet	2015	2016	2017	2018e	2019e	2020e
Long term assets	30.944	32.736	39.575	44.441	44.407	44.670
Intangible assets	25.190	23.828	25.359	24.459	23.559	22.959
Tangible assets	5.753	8.902	14.183	19.949	20.815	21.678
Financial assets	0.002	0.007	0.033	0.033	0.033	0.033
Current assets	33.074	33.963	61.424	61.780	69.227	76.804
Inventories	1.655	1.180	0.990	1.169	1.336	1.504
Accounts Receivables	19.100	21.512	22.839	26.955	30.800	34.680
Other current assets	4.943	5.254	7.116	7.116	7.116	7.116
Cash and securities	7.377	6.017	30.479	26.541	29.975	33.504
Other assets	3.742	4.915	5.599	5.599	5.599	5.599
Total assets	67.760	71.615	106.598	111.820	119.232	127.072
Equity	28.967	31.654	38.669	45.469	54.478	63.907
Reserves	28.967	31.654	37.598	44.385	53.381	62.797
Minorities	0.000	0.000	1.071	1.084	1.098	1.111
Provisions	4.081	3.222	3.226	3.316	3.411	3.510
Liabilities	32.085	33.183	59.364	57.695	56.004	54.316
Interest bearing liabilities	14.723	14.763	32.323	30.323	28.323	26.323
Accounts Payables	2.091	2.187	1.835	2.166	2.475	2.787
Other non-interest bearing liabilities	15.271	16.233	25.206	25.206	25.206	25.206
Other liabilities	2.628	3.555	5.340	5.340	5.340	5.340
Total equity and liabilities	67.760	71.615	106.598	111.820	119.232	127.072

Source: EQUITS; company data

Key Ratios	2015	2016	2017	2018e	2019e	2020e
Ratios for corporate valuation						
EV/Sales	1.19	1.28	2.03	1.43	1.25	1.11
EV/EBITDA	34.17	12.67	20.90	10.47	8.28	7.24
EV/EBIT	-58.32	25.08	36.72	14.78	10.91	9.28
P/E reported	-43.72	31.27	46.22	22.21	16.79	14.04
P/E clean	-43.72	31.27	46.22	22.21	16.79	14.04
PCPS	24.45	15.24	23.50	13.58	11.17	9.76
Price-to-book ratio	2.26	2.79	4.78	3.43	2.85	2.42
Profitability ratios						
EBITDA margin	3.5%	10.1%	9.7%	13.7%	15.2%	15.4%
EBIT margin	-2.0%	5.1%	5.5%	9.7%	11.5%	12.0%
Pre tax margin	-2.2%	4.5%	4.8%	8.6%	10.6%	11.2%
Net margin	-2.4%	3.7%	4.3%	6.4%	7.4%	7.9%
Free-cash-flow-margin	n.m.	0.7%	n.m.	1.9%	7.5%	7.8%
ROE	-5.0%	9.3%	11.0%	16.2%	18.0%	18.2%
Productivity ratios						
Sales/employees (in EUR '000)	84.7	94.4	94.1	102.7	111.8	119.9
Personnel expenses/employees (in '000)	53.7	58.2	60.2	65.2	69.9	75.4
Net result/employees (in '000)	-2.0	3.5	4.0	6.6	8.3	9.5
Number of employees	739	819	961	1039	1091	1146
Financial ratios						
Equity ratio	42.7%	44.2%	36.3%	40.7%	45.7%	50.3%
Gearing	133.9%	126.2%	175.7%	145.9%	118.9%	98.8%
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.9%	1.4%
Cash-flow ratio						
Cash-flow per share	1.42	3.07	4.02	5.82	7.07	8.09
Free-Cash-flow per share	-8.45	0.27	-0.27	1.08	4.77	5.54
Other ratios						
Depreciation/Sales	5.5%	5.0%	4.2%	4.0%	3.7%	3.4%
Capex/Sales	29.8%	6.8%	9.0%	8.6%	3.6%	3.6%
Working Capital/Sales	29.8%	26.5%	24.3%	24.3%	24.3%	24.3%
Tax rate	-8.5%	18.1%	10.5%	25.5%	30.0%	30.0%

Source EQUITS

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

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Company	Analyst		Rating	Price Target
GK SOFTWARE AG	D.Grossjohann/T.Schießle	06/12/2017	Buy	€ 136.00
GK SOFTWARE AG	D.Grossjohann/T.Schießle	07/05/2018	Buy	€ 155.80
GK SOFTWARE AG	D.Grossjohann/T.Schießle	06/06/2018	Buy	€ 155.80
GK SOFTWARE AG	D.Grossjohann/T.Schießle	05/09/2018	Buy	€ 146.00
GK SOFTWARE AG	D.Grossjohann/T.Schießle	03/12/2018	Buy	€ 123.00

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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.

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3. Date of initial/original publication of the financial analysis:

(03/12/2018)

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

(Closing price on 30/11/2018)

5. Updates:

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