

Date 07/05/2019

Recommendation:

Buy (previous: Buy)

PT: € 114.50 (prev.: € 103.00)

GK Software

Industry: Software

Segment: Prime Standard

ISIN: DE0007571424

Reuters: GKSG

Price (06/05/2019): € 83.60

Market Cap € 158m

EV € 183m

Ø-volume `000€ 111

52W High € 120.00

52W Low € 62.20

Financial Calendar

Q1 2019 30/05/2019

AGM 2019 20/06/2019

Q2 2019 29/08/2019

Shareholder structure

GK Software Hldg. 48.5%

R.Gläß 2.7%

S.Kronmüller 2.3%

Share performance



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GK SOFTWARE SE

Medium-term margin targets still in focus

With 2018 revenues of € 106.2 million and EBITDA of € 6.8 million, GK Software was at the top end of the indicative figures reported in January. In the license business, twelve new customers were acquired last year, and license revenues rose by more than 45%. Nevertheless, in addition to a (scheduled) decline in IT service revenue, expected but unrealized sales opportunities were the reason why EBITDA and EBIT were weaker than in the previous year. In the future, the company will pay more attention to the margin situation, which is, among other things, implied by the appointment of a costs officer and the renewed commitment to the 2020 EBIT margin target (in the core business) of 15% for operating performance. As an innovative technology company, GK Software (especially in a peer comparison) continues to be favorable with an EV/sales (2019e) of 1.5.

- ✓ The 17.4% sales growth in 2018 was driven by a strong **license business** (+45.8%). **Services**, which account for almost half of the Group's revenues, also recorded a significant increase of 29.2%. By contrast, **maintenance revenues** (2018: € 28.2 million) shrank by 3.4%. This was caused by the IT Services segment and the medium-term withdrawal from hardware maintenance. The core segment GK/Retail also increased its maintenance revenues by around 9%.
- ✓ **Internationalization** continued in 2018. Four of the eleven new GK/Retail customers are US food retailers, which significantly increases GK's visibility in the important US market. Other new customers included retailers from Egypt and Australia for the first time. The installed base grew by 13% to just under 0.3 million systems and now covers 58 countries (including Australia, Japan, Singapore and Hong Kong for the first time).
- ✓ In 2018, GK Software invested around € 14.1 million in its own product portfolio and a further € 0.85 million in research. The **R&D ratio** (to sales) was thus around 14%. The focus in 2018 was on the integration of acquired know-how in the area of "artificial intelligence" and "mobile solutions" into the company's own product world, as well as the expansion of cloud capability. The high willingness to innovate and the close partnership with SAP, including the use of new technologies, are paying off. The GK solution **OmniPOS**, for example, was described by Forrester as the leading solution in the industry study "Point of Service" in 2018.

Company outlook: The medium-term forecast, which implies sales of around € 135 million in 2020 (with a 15% EBIT margin in the core business), was confirmed. For 2019, the company is again aiming for a not inconsiderable increase in retail sales, with the EBIT margin expected to significantly exceed the level achieved in 2018.

Key figures - GK Software SE

	Sales	EBITDA	EBIT	EPS (adj.)	EV/Sales	P/E
2017 a	90.5	8.8	5.0	2.05	2.03	46.2
2018 a	106.2	6.8	1.6	0.48	2.01	204.6
2019 e	122.2	14.7	9.2	2.81	1.49	29.8
2020 e	138.8	23.1	17.4	5.84	1.32	14.3
2021 e	155.9	27.8	21.8	7.51	1.17	11.1

Source: Company Data, EQUI.TS

Sales estimate slightly raised

The 2018 figures exceeded our adjusted expectations for revenue and EBITDA. EBIT of € 1.6 million was in line with our expectations, while net profit and EPS were well above our estimates. The latter was due to a positive tax effect, which should not occur again in 2019. We have raised our revenue expectations slightly in the light of the final figures.

Margin expectations for 2019 in the mid to high single-digit percentage range

Our margin estimate for 2019 is subject to greater uncertainty. On the margin side, the company sees 2019 as an intermediate step that significantly exceeds the 2018 figure. We believe that a margin in the higher single-digit percentage range is realistic. Many developments support the margin expansion: The company's decision to concentrate on its core business (and the medium-term abandonment of service revenues not related to software) will have a positive impact on the margin. The license business - driven also by product innovations - appears to be gaining momentum, which should also expand margins. The efficiency improvements initiated in the North American market did not take effect until the end of 2018 and are continuing at the beginning of 2019. The **appointment of a costs officer** also demonstrates the greater importance of the margin issue. On the other hand, large projects (and their revenue realization) and project postponements (such as in 2018) can continue to have a significant impact on the margin. The **development of new markets** also continues to enjoy a high priority, which will pay off in the medium and long term, but may burden the margin in the short term.

Market environment remains favourable

Even though economic clouds were expected in many cases due to Brexit and the trade conflict, the consumer sentiment (GfK) remained positive at the beginning of the year. GfK (as of May 2019) expects private consumption in Germany to increase by 1.5% in 2019. Another positive factor for GK Software, however, is the fact that retailers are increasingly recognizing that the potential of digitization must also be fully exploited here. In the EHI study "POS systems 2018", 66% of respondents stated that they wanted to renew their POS systems by 2020.

Deutsche Fiskal - Demand recognized early, scaling successful?

The offer of the 100% GK subsidiary "**Deutsche Fiskal GmbH**" is primarily aimed at providers of POS solutions - not only in retail, but also, for example, in hotels and restaurants. As of January 1, 2020, fiscalization will become legally obligatory for cash registers, which is intended to prevent manipulation of records (regulated in the „Gesetz zum Schutz vor Manipulationen an digitalen Grundaufzeichnungen“ (Act on Protection against Manipulation of Digital Basic Records) and the "KassSichV" (Cash Register Security Ordinance)). Deutsche Fiskal offers a legally compliant solution based on a manufacturer- and platform-independent web service that can be directly connected to the "**Fiskal Cloud**". This has two major advantages: For retailers, this is a cost-effective alternative to purchasing new hardware (because the cloud solution also works with the existing hardware). For cash register solution providers, this is an alternative in order to ensure (non-trivial) implementation of legal requirements and/or to meet the wishes of their own customers for cost-effective implementation without additional hardware purchases. While GK customers can already use this solution, it is now necessary to acquire further partners who will bring the concept to the market and make it better known in the retail sector. The "Fiscal Cloud" business model is a highly scalable one that should become relevant in terms of revenue from 2020 onwards. On the margin side, further partner acquisition is a decisive success factor.

Valuation

In a peer comparison, the GK Software share continues to be favourable even after taking a size discount into account. The DCF valuation comes to a similar result. Based on the 2019 estimates, it becomes clear that GK Software is likely to show stronger growth (CAGR 2018a-21e) than most peers, but that the EBIT margin is still below average in 2019. The capital market should respond very positively to a stronger margin expansion. The median EBIT margin of the peer group of 15% is exactly at the level of the target figure targeted by GK Software for 2020.

Company	Market capitalisation in € m	P/E (2019e)	EV/Sales (2019e)	EV/EBITDA (2019e)	EV/EBIT (2019e)	CAGR (Sales) 2017e-20e (in %)	EBIT margin 2019e (in %)
Zebra Technologies Corp	8,889	16.4	2.84	13.2	15.4	5.0	18.5
NCR Corp	2,757	10.3	1.00	6.7	9.3	1.5	11.6
Manhattan Associates Inc	3,506	47.2	7.29	32.3	34.3	6.5	21.2
Vectron Systems AG	78	31.1	1.97	17.9	33.7	18.3	5.9
Mettler-Toledo International In	15,105	33.6	6.53	24.0	25.7	4.7	25.4
Atoss Software AG	447	36.4	6.07	21.2	22.5	10.3	27.0
Shopify Inc	23,499	495.8	18.19	455.2	1040.6	34.7	1.7
Intershop Communications AG	55	-47.6	1.26	50.5	-50.5	24.4	-2.5
MEDIAN	2,757	35.0	4.46	22.6	26.8	8.4	15.1
GK Software SE	158	29.8	1.49	12.4	19.9	13.7	7.5

Source: Refinitiv/Thomson Reuters; EQUITS

Appendix

Income Statement	2016	2017	2018	2019e	2020e	2021e
Sales	77.333	90.452	106.151	122.239	138.833	155.906
Change in finished goods	0.000	0.000	0.000	0.000	0.000	0.000
Other own costs capitalized	0.382	0.000	0.000	0.000	0.000	0.000
Other operating income	1.769	5.197	3.617	4.165	4.731	5.312
Total performance	79.483	95.649	109.768	126.405	143.564	161.218
Cost of material	-7.681	-8.530	-7.733	-8.905	-9.554	-10.669
Gross profit	71.802	87.119	102.035	117.500	134.010	150.550
Personnel expenses	-47.669	-57.809	-68.791	-75.417	-79.954	-87.662
Other operating expenses	-16.330	-20.537	-26.411	-27.413	-30.951	-35.074
EBITDA	7.803	8.773	6.833	14.670	23.105	27.813
Depreciation/amortisation	-3.861	-3.780	-5.237	-5.502	-5.751	-5.986
EBIT	3.942	4.993	1.596	9.168	17.354	21.827
Financial result	-0.491	-0.653	-1.425	-1.523	-1.467	-1.393
Non operating result before taxes	0.000	0.000	0.000	0.000	0.000	0.000
EBT	3.452	4.340	0.171	7.645	15.888	20.433
Non operating result after taxes	0.000	0.000	0.000	0.000	0.000	0.000
Taxes	-0.626	-0.456	0.752	-2.235	-4.645	-5.973
Minority interest	0.000	0.002	0.002	0.002	0.002	0.002
Net result	2.826	3.885	0.925	5.412	11.245	14.462
Adjustments	0.00	0.00	0.00	0.00	0.00	0.00
Adjusted net result	2.826	3.885	0.925	5.412	11.245	14.462
Average number of shares	1.89	1.90	1.93	1.93	1.93	1.93
Average number of shares (dil.)	2.00	1.95	1.95	1.95	1.95	1.95
EPS	1.50	2.05	0.48	2.81	5.84	7.51
Adjusted EPS	1.50	2.05	0.48	2.81	5.84	7.51
Adjusted EPS (diluted)	1.41	2.00	0.47	2.77	5.76	7.40
DPS	0.00	0.00	0.00	0.42	1.17	1.50

Source: EQUI.TS; company data

Cash Flow Statement	2016	2017	2018	2019e	2020e	2021e
Net cash provided by operating activities	3.699	15.224	-5.670	5.766	11.688	14.989
Net cash used in investing activities	-5.099	-9.278	-15.732	-4.993	-5.593	-6.203
Net cash provided by financing activities	-2.119	19.121	-0.294	-2.000	-2.812	-4.249
Change in cash and securities	-3.519	25.067	-21.696	-1.227	3.283	4.537
Cash and secur. at the end of the period	6.017	30.479	11.790	10.563	13.846	18.383

Source: EQUI.TS; company data

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

Balance Sheet	2016	2017	2018	2019e	2020e	2021e
Long term assets	32.736	39.575	52.799	52.291	52.134	52.350
Intangible assets	23.828	25.359	30.019	28.019	25.919	25.019
Tangible assets	8.902	14.183	22.746	24.238	26.181	27.297
Financial assets	0.007	0.033	0.034	0.034	0.034	0.034
Current assets	33.963	61.424	53.304	57.655	66.692	77.149
Inventories	1.180	0.990	0.486	0.560	0.636	0.714
Accounts Receivables	21.512	22.839	36.319	41.824	47.501	53.342
Other current assets	5.254	7.116	4.709	4.709	4.709	4.709
Cash and securities	6.017	30.479	11.790	10.563	13.846	18.383
Other assets	4.915	5.599	5.079	5.079	5.079	5.079
Total assets	71.615	106.598	111.182	115.025	123.904	134.578
Equity	31.654	38.669	40.256	45.666	56.097	68.308
Reserves	31.654	37.598	39.187	44.534	54.902	67.050
Minorities	0.000	1.071	1.069	1.132	1.195	1.258
Provisions	3.222	3.226	2.789	2.864	2.942	3.024
Liabilities	33.183	59.364	64.484	62.842	61.212	59.593
Interest bearing liabilities	14.763	32.323	34.819	32.819	30.819	28.819
Accounts Payables	2.187	1.835	2.365	2.723	3.093	3.474
Other non-interest bearing liabilities	16.233	25.206	27.300	27.300	27.300	27.300
Other liabilities	3.555	5.340	3.653	3.653	3.653	3.653
Total equity and liabilities	71.615	106.598	111.182	115.025	123.904	134.578

Source: EQUITS; company data

Key Ratios	2016	2017	2018	2019e	2020e	2021e
Ratios for corporate valuation						
EV/Sales	1.28	2.03	2.01	1.49	1.32	1.17
EV/EBITDA	12.67	20.90	31.30	12.45	7.90	6.56
EV/EBIT	25.08	36.72	134.00	19.92	10.52	8.37
P/E reported	31.27	46.22	204.62	29.76	14.32	11.14
P/E clean	31.27	46.22	204.62	29.76	14.32	11.14
PCPS	15.24	23.50	33.23	14.66	9.43	7.84
Price-to-book ratio	2.79	4.78	4.83	3.62	2.93	2.40
Profitability ratios						
EBITDA margin	10.1%	9.7%	6.4%	12.0%	16.6%	17.8%
EBIT margin	5.1%	5.5%	1.5%	7.5%	12.5%	14.0%
Pre tax margin	4.5%	4.8%	0.2%	6.3%	11.4%	13.1%
Net margin	3.7%	4.3%	0.9%	4.4%	8.1%	9.3%
Free-cash-flow-margin	0.7%	n.m.	n.m.	4.9%	8.3%	9.2%
ROE	9.3%	11.0%	2.3%	12.6%	22.1%	23.2%
Productivity ratios						
Sales/employees (in EUR '000)	94.4	94.1	85.8	94.1	101.8	108.8
Personnel expenses/employees (in '000)	58.2	60.2	55.6	58.0	58.6	61.2
Net result/employees (in '000)	3.5	4.0	0.7	4.2	8.2	10.1
Number of employees	819	961	1238	1299	1364	1433
Financial ratios						
Equity ratio	44.2%	36.3%	36.2%	39.7%	45.3%	50.8%
Gearing	126.2%	175.7%	176.2%	151.9%	120.9%	97.0%
Dividend yield	0.0%	0.0%	0.0%	0.5%	1.4%	1.8%
Cash-flow ratio						
Cash-flow per share	3.07	4.02	2.96	5.70	8.86	10.66
Free-Cash-flow per share	0.27	-0.27	-5.46	3.11	5.96	7.44
Other ratios						
Depreciation/Sales	5.0%	4.2%	4.9%	4.5%	4.1%	3.8%
Capex/Sales	6.8%	9.0%	11.3%	4.1%	4.0%	4.0%
Working Capital/Sales	26.5%	24.3%	32.4%	32.4%	32.4%	32.4%
Tax rate	18.1%	10.5%	-439.8%	29.2%	29.2%	29.2%

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	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
GK SOFTWARE AG	D.Grossjohann/T.Schießle	05/02/2019	Buy	€ 103.00

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

(07/05/2019)

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

(Closing price on 06/05/2019)

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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