Vara Research
CREATING TRUST

Date   **03.09.2008**

GK SOFTWARE AG

ISIN: **DE0007571424**
Price (28.08.08):   **€ 19.50**
Market capitalization   **€ 32.5m**
Free float   **24,93 %**

Financial calendar

10.11. –	Eigenkapitalforum
12.11.2008	2008
27.11.2008	Q3 figures
16.04.2009	GB 2008
14.05.2009	Q1 figures
11.06.2009	AGM 2009

Shareholder structure
GK Software Holding   **70.57%**
R. Gläß   **2.25%**
S. Kronmüller   **2.25%**

Price performance

Quelle: OnVista

Michael Vara
+49 (0)69 – 66 36 80 71
vara@vararesearch.de

Daniel Grossjohann
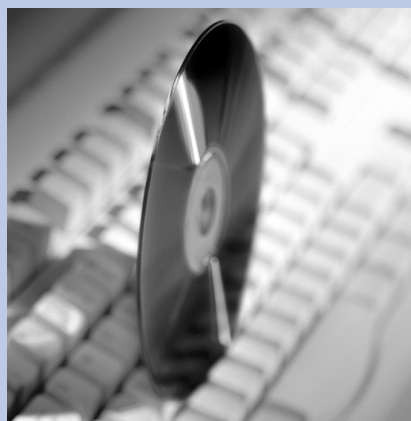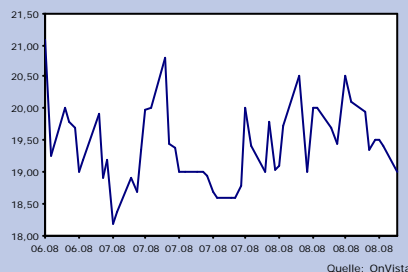+49 (0)69 – 61 99 33 31
grossjohann@vararesearch.de

GK SOFTWARE AG

GK SOFTWARE records strong 1HY, lands major project

■ **Recommendation: Buy**   ■ **Target price: € 45.50**

GK SOFTWARE recorded a significant increase in revenues (+45.5%) for the first half of the year, and EBIT was up a disproportionately high 80.7%. With the global ESCADA contract, which was announced in July, GK SOFTWARE penetrated the high-end fashion segment, which also shows that GK/Retail can compete with the products of major providers because of its regional flexibility (retail practices). At the operational level, the company continues to deliver successful performance. Although the company successfully carried out its IPO against the background of a difficult market environment, this has up to now hardly been honored by investors. We consider the fair value per share to be € 45.50 and recommend buying this stock.

■ Investment highlights

- With revenues at € 7.69 million (first half 07: € 5.28 million), GK SOFTWARE has been exhibiting dynamic growth. Operating results showed a disproportionately high increase of 80.7% to € 1.52 million, which represents an EBIT margin (exclusive of IPO expenses) of 19.8% (Q1 07: 15.9%). The strong current growth accompanied by high margins would seem to confirm our forecasts, i.e., revenues of € 14.6 million and EBIT of € 3.65 million for the upper end of the guidance range. IPO expenses were charged against shareholders' equity, and a further outflow of funds in the amount of € 0.6 million will follow in the 2. half.

- We are of the opinion that the business of GK SOFTWARE is not very dependent upon the performance of the overall economy. The technology is currently driving investment in the retail sector. The performance of the economy is of only secondary importance when it comes to these major strategic projects (cf. ESCADA). There are no signs of a tendency to postpone the awarding of contracts in the marketplace, which means that the industry can be expected to exhibit robust performance even in the case of a lackluster economy. Major projects can, however, result in a volatile revenue stream.

- The StoreWeaver platform supports integration of a retailer's branch outlets with the company' enterprise systems. In addition to platform independence, the main advantages of this solution are fast potential deployment at the international level and the possibility of centralized management of the hardware infrastructure (e.g., cash registers, scales). For the many retailers that use IT infrastructures consisting of small distributed systems (e.g., ESCADA), this can represent a major advantage.

- The company is expecting both revenues and earnings to be well into the double-digit range in 2008. We continue to expect an increase of approximately 36% in revenues.

■ Key ratios

	Sales	Net inc. adj.	EPS adj.	P/E	EV/ Sales	EV/ EBITDA	EBIT Margin	ROE (%)
2006	7.1	0.9	0.74	n.a.	n.a.	n.a.	22.6	94.9
2007	10.7	1.6	1.25	n.a.	n.a.	n.a.	21.7	88.7
2008e	14.6	2.7	1.64	11.86	1.4	5.7	25.0	38.3
2009e	20.6	5.0	3.00	6.51	0.8	2.3	33.0	33.9
2010e	27.9	7.1	4.27	4.57	0.3	0.9	35.0	34.2

Source: Company information / Vara Research GmbH

ESCADA will deploy GK/Retail worldwide. This will involve over 400 retail outlets in some 60 countries. Deployment will begin in 2009 with support for ESCADA's 194 own outlets and over 200 franchise locations. The two parties have agreement not to divulge the volume of the transaction, which we estimate to represent a volume of approximately € 1 million. The worldwide roll-out is likely to take about 18 months. The introduction of the GK/Retail solution by ESCADA despite the fact that the company is involved in a process of radical change is to us also indicative of the strategic benefits (customer loyalty, cost reduction and optimal organization) the solution offers for retailers.

The order from ESCADA will make an important contribution to the further growth of GK SOFTWARE. For the first time, it was possible to sign on a well-known company from the high-end fashion segment, and this is likely to send out a positive signal. This order will also drive further internationalization.

Two further customers, Gries Deco Company GmbH ('DEPOT") and TSG 1899 Hoffenheim Fußball-Spielbetriebs GmbH, were also signed on after the Q2 reporting date. In addition to the GK POS solution, which runs on IBM "SurePOS 500" cash register hardware, the 125 "DEPOT" outlets (stand-alone locations, franchise and shop-in-shop operations) also use the Head Office, Store Manager and the GK/Retail Enterprise Cockpit functionalities that come with the total package delivered by GK SOFTWARE. The roll-out was completed in only two months. TSG Hoffenheim, a football club supported by SAP founder Dietmar Hopp, will be able to use GK/Retail Standard as is with virtually no adjustments.

Significant differences in valuation as compared with the pre-money valuation in connection with GK SOFTWARE's stock market debut resulted from the increase in the number of shares (now 1.665 million) and the net inflow of funds, which we estimate at approximately € 7.4 million. We have made no adjustments in estimates for 2008e and 2009e. The fair value per share of € 45.50 is reflects equal application of FCF and peer group valuations. The FCF method yields a value of € 54.80, whereas a peer comparison would imply a value of € 36.20.

Risks: 1) Potential disadvantage in term of size and financial strength as compared with larger competitors such as, for example, Wincor Nixdorf; 2) internationalization could require investment in excess of the volume planned; and 3) The time frame for international expansion is limited to about three years.

Profit and Loss Account

(in €m)	2005	2006	2007	2008e	2009e	2010e
Sales revenues	4.172	7.079	10.745	14.607	20.592	27.863
Change in finished goods and work in progress	0.514	0.976	-0.002	-1.203	-1.696	-2.295
Other own cost capitalized	0.317	0.318	0.558	1.265	1.784	2.413
Other operating income	0.061	0.205	0.379	-0.043	-0.060	-0.082
Total performance	5.064	8.578	11.680	14.626	20.619	27.900
Cost of material	-0.204	-0.227	-0.486	-0.513	-0.791	-1.180
Gross profit	4.860	8.351	11.194	14.113	19.828	26.720
Personnel expenses	-3.090	-4.900	-6.152	-7.885	-9.976	-13.023
Other operating expenses/income	-1.065	-1.509	-2.183	-1.979	-2.349	-3.104
EBITDA	0.705	1.942	2.859	4.249	7.503	10.593
Depreciation/amortisation	-0.182	-0.342	-0.527	-0.598	-0.708	-0.841
EBIT	0.523	1.600	2.332	3.652	6.795	9.752
Financial result	-0.038	0.020	-0.115	0.258	0.331	0.394
Non operating result before taxes	0.000	0.000	0.000	0.000	0.000	0.000
Pre tax result	0.485	1.620	2.217	3.909	7.126	10.146
Non operating result after taxes	0.000	0.000	0.000	0.000	0.000	0.000
Taxes	-0.194	-0.693	-0.656	-1.173	-2.138	-3.044
Minority interest	0.000	0.000	0.000	0.000	0.000	0.000
Net result	0.291	0.927	1.561	2.737	4.988	7.102
Adjustments	0.000	0.000	0.000	0.000	0.000	0.000
Adjusted net result	0.291	0.927	1.561	2.737	4.988	7.102
Average number of shares	1.25	1.25	1.25	1.67	1.67	1.67
EPS	0.23	0.74	1.25	1.64	3.00	4.27
Adjusted EPS	0.23	0.74	1.25	1.64	3.00	4.27
DPS	0.00	0.00	0.64	0.00	0.00	0.00

Quelle: GK SOFTWARE AG / Vara Research GmbH

■ Balance of Accounts

(in €m)	2005	2006	2007	2008e	2009e	2010e
Long term assets	0.717	1.025	3.748	4.360	5.358	6.825
Intangible assets	0.497	0.719	1.128	1.428	1.978	2.878
Tangible assets	0.220	0.306	2.620	2.932	3.380	3.947
Financial assets	0.000	0.000	0.000	0.000	0.000	0.000
Current assets	4.852	6.711	8.064	20.111	28.010	38.392
Inventories	1.025	2.001	1.999	2.717	3.831	5.184
Receivables	1.485	2.253	3.161	4.297	6.058	8.197
Cash and securities	2.342	2.457	2.904	13.097	18.121	25.012
Other assets	0.014	0.006	0.018	0.018	0.018	0.018
Total assets	5.583	7.742	11.830	24.489	33.386	45.235
Equity	0.513	1.440	2.081	12.218	17.206	24.308
Reserves	0.513	1.440	2.081	12.218	17.206	24.308
Minorities	0.000	0.000	0.000	0.000	0.000	0.000
Provisions	0.257	0.707	0.577	0.580	0.582	0.585
Liabilities	4.653	5.378	8.388	10.908	14.814	19.559
Interest bearing liabilities	0.000	0.002	1.376	1.376	1.376	1.376
Non interest bearing liabilities	4.653	5.376	7.012	9.532	13.438	18.183
Other liabilities	0.160	0.217	0.784	0.784	0.784	0.784
Total equity and liabilities	5.583	7.742	11.830	24.489	33.386	45.235

Quelle: GK SOFTWARE AG / Vara Research GmbH

■ Cash Flow Statement

(in €m)	2005	2006	2007	2008e	2009e	2010e
Net cash provided by operating activites	1.656	0.763	1.920	4.002	6.730	9.199
Net cash used in investing activities	-0.555	-0.653	-2.046	-1.210	-1.706	-2.308
Net cash provided by financing activities	0.000	0.002	0.573	7.400	0.000	0.000
Change in cash and securities	1.101	0.112	0.447	10.193	5.025	6.891
Cash and securities at the end of the period	2.342	2.457	2.904	13.097	18.121	25.012

Quelle: GK SOFTWARE AG / Vara Research GmbH

■ Key Figures

	2005	2006	2007	2008e	2009e	2010e
Profitability ratios						
EBITDA margin	16.9%	27.4%	26.6%	29.1%	36.4%	38.0%
EBIT margin	12.5%	22.6%	21.7%	25.0%	33.0%	35.0%
Pre tax margin	11.6%	22.9%	20.6%	26.8%	34.6%	36.4%
Net margin	7.0%	13.1%	14.5%	18.7%	24.2%	25.5%
Free cash flow margin	n.m.	8.7%	n.m.	17.3%	22.8%	24.2%
ROE	113.5%	94.9%	88.7%	38.3%	33.9%	34.2%
ROCE	-86.2%	-212.9%	280.5%	205.7%	381.1%	516.2%
Produktivity ratios						
Sales/employees (in € `000)	77.3	85.3	76.8	83.5	98.2	120.5
Net result/employees (in € `000)	5.4	11.2	11.2	15.6	23.8	30.7
Number of employees	54	83	140	175	210	231
Financial ratios						
Equity ratio	9.2%	18.6%	17.6%	49.9%	51.5%	53.7%
Gearing	-445.4%	-166.0%	-70.9%	-95.5%	-97.0%	-97.0%
Dividend yield	n.a.	n.a.	n.a.	0.0%	0.0%	0.0%
Cash flow ratios						
Cash flow per share	0.29	1.02	1.57	2.00	3.42	4.77
Free cash flow per share	-0.15	0.49	-0.52	1.52	2.82	4.05
Other ratios						
Depreciation/sales	4.4%	4.8%	4.9%	4.1%	3.4%	3.0%
Capex/sales	13.3%	9.2%	24.3%	8.3%	8.3%	8.3%
Working capital/sales	-58.4%	-13.8%	5.9%	10.0%	15.0%	15.0%
Tax rate	40.0%	42.8%	29.6%	30.0%	30.0%	30.0%
Valuation ratios						
EV/Sales	n.m.	n.m.	n.m.	1.42	0.76	0.32
EV/EBITDA	n.m.	n.m.	n.m.	4.88	2.10	0.83
EV/EBIT	n.m.	n.m.	n.m.	5.68	2.31	0.91
P/E reported	n.m.	n.m.	n.m.	11.86	6.51	4.57
P/E clean	n.m.	n.m.	n.m.	11.86	6.51	4.57
PCPS	n.m.	n.m.	n.m.	9.73	5.70	4.09

Quelle: GK SOFTWARE AG / Vara Research GmbH

A. Disclosures in accordance with § 34 b WpHG (German Securities Trading Act), Finanzanalyseverordnung (FinAnV) (Ordinance on the Analysis of Financial Instruments):

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

Company responsible for the publication: Vara Research GmbH

Authors of this financial analysis: Daniel Großjohann, Analyst and Michael Vara, Analyst and Managing Director of Vara Research GmbH

Vara Research GmbH is subject to regulation through the Federal Financial Supervisory Authority (BaFin).

Previous financial analyses:

Company	Date	Rating	Target price
GK SOFTWARE AG	**13/5/2008**	**n.a.**	**n.a.**

II. Additional disclosures:

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 going to press; no changes were made afterwards, however.

2. Summary of the valuation principles and methods used in preparation of the analysis:

Vara Research 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 publication of the financial analysis: (03/09/2008)

4. Date and time of the prices of financial instruments disclosed therein: (Price on 28/08/2008)

5. Updates:

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

III. Disclosures on possible conflicts-of-interest:

An agreement exists between Vara Research GmbH and ICF Kursmakler AG on the preparation of this publication. Vara Research GmbH receives consideration to that extent.

The success of Vara Research GmbH is based on direct and/or indirect payments from issuers and institutional investors in connection with business activities, which affect the issuer and his securities.

Vara Research GmbH (and affiliated companies), the authors as well as other persons and companies who participated in the preparation of the financial analysis

-   Do not hold any material investments in the issuer. Employees of Vara Research GmbH are, however, possibly owners of securities or investments, which are named in the document (or are related to such) and will possibly acquire securities or investments named in the document or place orders for such.

-   Serve neither the issuer (by placing buy or sell orders in a market) nor financial instruments that are the subject of this financial analysis,

-   Were (within the last 12 months) not a participant in the management of a consortium for the issuance of financial instruments, which themselves or their issuer is the subject of this financial analysis,

-   Were neither bound to an agreement on services in connection with investment bank business towards the issuer, nor have they received consideration or promise of consideration from such agreements,

-   Have no other material financial interests in connection with the issuer or the subject of the financial analysis.

B. General disclosures/liability arrangement:

1.   This document was prepared by Vara Research GmbH exclusively for information purposes.

2.   This document is exclusively for publication on the homepage of the relevant company and intended for use by national institutional investors. Copying, forwarding and distribution is only allowed with written permission of Vara Research GmbH.

3.   This document is neither a recommendation nor an offer nor application of an offer for the purchase, sale or subscription of any security or investment. It is by no means meant to provide investment advice.

4.   This document, prepared by Vara Research GmbH, is based on information from sources (publicly available information and tax rates at the time of publication, which can, however, change), which, according to Vara Research GmbH, are dependable, yet not actually available for independent verification. Despite diligent verification, Vara Research GmbH cannot provide a guarantee, assurance or warranty for completeness and correctness; responsibility and liability is therefore excluded insofar as there is no intent or gross negligence on the part of Vara Research GmbH. All statements and opinions are exclusively those of Vara Research GmbH and can be changed without prior notice. Any error-caused misstatements of the document can be corrected by Vara Research GmbH, without Vara Research GmbH being held responsible for damages as a result of these misstatements.