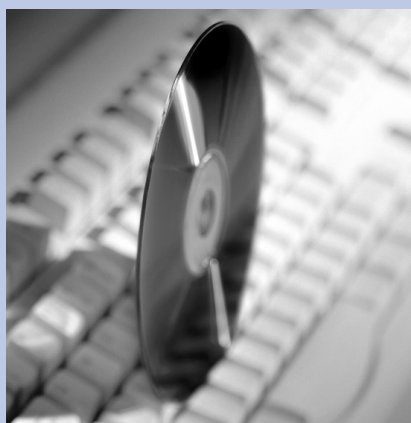


Datum **09/14/2009**



## GK SOFTWARE AG

ISIN: **DE0007571424**  
 Price (09/10/09): **€ 20.00**  
 Market capitalization **€ 33m**  
 Free float **24.33 %**

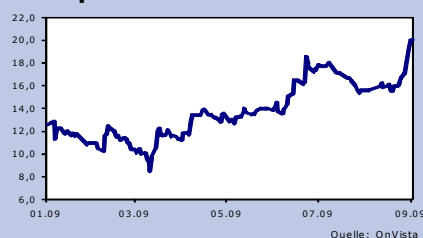
## Financial calendar

12/11/2009 Q3 figures

## Shareholder structure

GK Software Holding **70,57%**  
 R. Gläß **2,85%**  
 S. Kronmüller **2,25%**

## Price performance



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# GK SOFTWARE AG

## GK SOFTWARE continues to grow despite the crisis

■ **Recommendation: Buy** ■ **Target price: € 23.00**

In spite of the expected declining sales in the retail customer sector, GK SOFTWARE is continuing to show growth. The decreasing dynamics in the second quarter is of no significance, and over the course of the year, double-digit growth is still planned. This is ensured by the ongoing projects, all of which are on schedule. The company is holding firm to the previous forecast. Sales successes in the German discount food business have now given GK a market share of more than 40%. In addition, GK SOFTWARE strengthened the Storeweaver IT infrastructure solution, which it developed itself, through the successful integration of Solquest in the first half-year. Through references domestically and abroad, GK is on the right path for future growth. With a 2010 EV/EBIT of 6, the share continues to be favorably rated. We recommend buying the share. The raised target price is the result of a peer group comparison.

## Investment Highlights

In the first half-year, the sales of GK SOFTWARE increased by 11%. 6.2% of this can be attributed to organic growth. The flattening of the growth dynamics in the second quarter is the result of the payment structure of the orders that were acquired, which will only be due in the second half of the year. There were no project delays so that the double-digit growth targeted by the company is assured.

On the operating basis so far (excl. the recently acquired company Solquest), the operating margin in the first half-year was 18.9%. The Solquest takeover, however, is putting a strain on the 2009 margins. Due to the restructuring and integration costs during the course of the takeover, the earnings per share dropped in the first half-year from € 0.62 to € 0.52. In the second half-year, we are proceeding on the assumption that business so far is indicating margins that are comparable with the previous year (18.5%). Solquest should have a balanced EBIT, taking into consideration the restructuring costs (€ 0.52 million expected) coming up in the second half-year. The decline of the margin at the Group level in 2009 is therefore only temporary.

Outlook: Based on the good first half-year, the advanced level of delivery of ongoing projects, and positive developments in the acquisition of new customers, the company expects double-digit growth for sales. Here, the company is expecting EBIT margins at the level of the previous year (based on the current group of consolidated companies). We are proceeding on the assumption of sales amounting to € 18.5 million, including € 16.5 million from the current group of consolidated companies and the rest from the acquired company Solquest.

## Key Figures

	Sales	Net inc. adj.	EPS adj.	P/E	EV/Sales	EV/EBIT	EBIT Margin	ROE (%)
2007	10.7	1.6	1.25	n.m.	n.m.	n.m.	21.7	88.7
2008	15.0	2.0	1.22	13.92	1.9	10.2	18.5	29.3
2009e	18.5	2.5	1.52	13.12	1.4	8.6	16.5	20.2
2010e	23.5	3.2	1.91	10.47	1.1	6.0	18.5	21.3
2011e	28.3	3.9	2.32	8.61	0.9	4.9	18.7	21.0

Source: Company information / Vara Research GmbH

**New industry sectors  
and internationalization  
are driving growth**

**Discussions with  
domestic and foreign  
business groups**

**Branch office solution  
for gas stations – GK is  
pushing forward into  
other sub-segments**

**Future topics like  
“mobile payment” and  
“self-checkout” are on  
the agenda**

In Germany, GK has already carved out a leading role in the market in some retail segments. In the discount food sector, the market share is now more than 40%. GK also has growth options and references in other areas of retail (e.g. drugstores, fashion, department stores, and cell phone stores). GK SOFTWARE is also successful internationally. GK received the “Best International Solution” award from a jury of experts from the well-known trade journal "Retail Week" for the international customer project with Douglas. By receiving an order to equip the merchandising stores of Aston Martin, GK has successfully entered the important British market. Consequently, there are good prospects for larger orders from foreign retail companies.

GK’s order pipeline is well filled, and the company is in negotiations with other potential customers, both domestically and internationally. Projects that could emerge from this in the upcoming months would be predominantly seen in the figures of 2010 and 2011. The sales slated for 2009 come from ongoing projects. Although there was noticeable caution in new customer acquisition between March and July of this year, the situation has now normalized. The expected declining sales in the retail market, which HDE estimated to be up to 2% (nominal) in 2009, does not appear to have a lasting affect on IT spending in the sector that is relevant to GK SOFTWARE.

GK SOFTWARE is continuing to develop the functionality of its own solution, and new sub-segments within the retail sphere (e.g. gas stations) are being addressed. GK SOFTWARE introduced an integrated branch office solution this year for the first time in the gas station customer segment, which incorporates all the peripherals (including gas pumps, price towers). Through this, it is possible to offer an industry-specific standard solution to this interesting customer group. It is already being used by COOP Switzerland (supermarkets with affiliated gas stations). In the British market, the combination of supermarket and gas station is common in the so-called hypermarkets.

Innovative strength is an important differentiating feature of GK SOFTWARE. This is also demonstrated by the continued expansion of personnel in the area of research and support. Release 12, which was published in 2008 and contains numerous product innovations, generated considerable interest among customers. “Mobile payment” and “self-checkout”, which are considered to be future issues by the retail market, are still a development priority in the product range.

## Profit and Loss Account

(in €m)	2006	2007	2008	2009e	2010e	2011e
Sales revenues	7.079	10.745	15.029	18.451	23.453	28.273
Change in finished goods and work in progress	0.976	-0.002	-1.260	-0.217	-0.276	-0.333
Other own cost capitalized	0.318	0.558	0.815	1.033	1.312	1.582
Other operating income	0.205	0.379	0.424	0.632	0.803	0.968
Total performance	8.578	11.680	15.008	19.897	25.292	30.490
Cost of material	-0.227	-0.486	-0.514	-0.621	-0.988	-1.787
Gross profit	8.351	11.194	14.494	19.277	24.303	28.703
Personnel expenses	-4.900	-6.152	-8.047	-12.497	-14.159	-16.594
Other operating expenses/income	-1.509	-2.183	-2.954	-3.942	-4.936	-5.876
EBITDA	1.942	2.859	3.493	2.837	5.208	6.233
Depreciation/amortisation	-0.342	-0.527	-0.719	-0.780	-0.870	-0.956
EBIT	1.600	2.332	2.775	2.057	4.339	5.277
Financial result	0.020	-0.115	0.090	0.132	0.141	0.167
Non operating result before taxes	0.000	0.000	0.000	0.000	0.000	0.000
Pre tax result	1.620	2.217	2.864	2.190	4.480	5.444
Non operating result after taxes	0.000	0.000	0.000	0.000	0.000	0.000
Taxes	-0.693	-0.656	-0.830	-0.635	-1.299	-1.578
Minority interest	0.000	0.000	0.000	0.000	0.000	0.000
Net result	0.927	1.561	2.034	1.555	3.181	3.866
Adjustments	0.000	0.000	0.000	0.984	0.000	0.000
Adjusted net result	0.927	1.561	2.034	2.539	3.181	3.866
Average number of shares	1.25	1.25	1.67	1.67	1.67	1.67
EPS	0.74	1.25	1.22	0.93	1.91	2.32
Adjusted EPS	0.74	1.25	1.22	1.52	1.91	2.32
DPS	0.00	0.64	0.00	0.00	0.00	0.00

Source: GK SOFTWARE AG / Vara Research GmbH

## Balance of Accounts

(in €m)	2006	2007	2008	2009e	2010e	2011e
Long term assets	1.025	3.748	4.226	5.706	6.708	8.009
Intangible assets	0.719	1.128	1.633	2.583	2.983	3.483
Tangible assets	0.306	2.620	2.593	3.122	3.725	4.526
Financial assets	0.000	0.000	0.000	0.000	0.000	0.000
Current assets	6.711	8.064	15.382	16.495	20.189	24.215
Inventories	2.001	1.999	0.738	0.906	1.152	1.389
Receivables	2.253	3.161	5.789	7.107	9.033	10.890
Cash and securities	2.457	2.904	8.855	8.482	10.004	11.937
Other assets	0.006	0.018	0.018	0.018	0.018	0.018
Total assets	7.742	11.830	19.626	22.218	26.915	32.242
Equity	1.440	2.081	11.782	13.337	16.518	20.384
Reserves	1.440	2.081	11.782	13.337	16.518	20.384
Minorities	0.000	0.000	0.000	0.000	0.000	0.000
Provisions	0.707	0.577	0.847	0.850	0.852	0.855
Liabilities	5.378	8.388	5.803	6.838	8.352	9.810
Interest bearing liabilities	0.002	1.376	1.256	1.256	1.256	1.256
Non interest bearing liabilities	5.376	7.012	4.547	5.583	7.096	8.554
Other liabilities	0.217	0.784	1.193	1.193	1.193	1.193
Total equity and liabilities	7.742	11.830	19.626	22.218	26.915	32.242

Source: GK SOFTWARE AG / Vara Research GmbH

## Cash Flow Statement

(in €m)	2006	2007	2008	2009e	2010e	2011e
Net cash provided by operating activities	0.763	1.920	1.427	1.886	3.394	4.189
Net cash used in investing activities	-0.653	-2.046	-2.579	-2.259	-1.872	-2.257
Net cash provided by financing activities	0.002	0.573	7.098	0.000	0.000	0.000
Change in cash and securities	0.112	0.447	5.946	-0.373	1.522	1.933
Cash and securities at the end of the period	2.457	2.904	8.855	8.482	10.004	11.937

Source: GK SOFTWARE AG / Vara Research GmbH

## Key Figures

	2006	2007	2008	2009e	2010e	2011e
<b>Profitability ratios</b>						
EBITDA margin	27.4%	26.6%	23.2%	20.7%	22.2%	22.0%
EBIT margin	22.6%	21.7%	18.5%	16.5%	18.5%	18.7%
Pre tax margin	22.9%	20.6%	19.1%	17.2%	19.1%	19.3%
Net margin	13.1%	14.5%	13.5%	13.8%	13.6%	13.7%
Free cash flow margin	8.7%	n.m.	12.0%	8.6%	11.9%	11.6%
ROE	94.9%	88.7%	29.3%	20.2%	21.3%	21.0%
<b>Productivity ratios</b>						
Sales/employees (in € `000)	85.3	76.8	74.9	72.7	78.8	87.4
Net result/employees (in € `000)	11.2	11.2	10.1	10.0	10.7	12.0
Number of employees	83	140	201	254	298	324
<b>Financial ratios</b>						
Equity ratio	18.6%	17.6%	60.0%	60.0%	61.4%	63.2%
Gearing	-166.0%	-70.9%	-64.1%	-53.8%	-52.6%	-52.1%
Dividend yield	n.a.	n.a.	0.0%	0.0%	0.0%	0.0%
<b>Cash flow ratios</b>						
Cash flow per share	1.02	1.57	1.82	1.40	2.43	2.90
Free cash flow per share	0.49	-0.52	1.09	0.95	1.67	1.96
<b>Other ratios</b>						
Depreciation/sales	4.8%	4.9%	4.8%	4.2%	3.7%	3.4%
Capex/sales	9.2%	24.3%	8.1%	12.2%	8.0%	8.0%
Working capital/sales	-13.8%	5.9%	10.0%	15.0%	15.0%	15.0%
Tax rate	42.8%	29.6%	29.0%	29.0%	29.0%	29.0%
<b>Valuation ratios</b>						
EV/Sales	n.a.	n.a.	1.88	1.41	1.11	0.92
EV/EBITDA	n.a.	n.a.	8.10	6.82	5.01	4.18
EV/EBIT	n.a.	n.a.	10.20	8.57	6.01	4.94
P/E reported	n.a.	n.a.	13.92	21.42	10.47	8.61
P/E clean	n.a.	n.a.	13.92	13.12	10.47	8.61
PCPS	n.a.	n.a.	9.36	14.25	8.22	6.90

Source: GK SOFTWARE AG / Vara Research GmbH

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

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Previous financial analyses:

Company	Date	Rating	Target price
GK SOFTWARE AG	13/05/2008	n.a.	n.a.
GK SOFTWARE AG	03/09/2008	Buy	45.50
GK SOFTWARE AG	21/10/2008	Buy	28.45
GK SOFTWARE AG	19/12/2008	Buy	28.45
GK SOFTWARE AG	27/03/2009	Buy	28.45
GK SOFTWARE AG	14/05/2009	Buy	21.60
GK SOFTWARE AG	16/06/2009	Buy	21.60

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**3. Date of initial publication of the financial analysis:  
(14/09/2009)**

4. Date and time of the prices of financial instruments disclosed therein:  
(Price on 10/09/2009)

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.

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