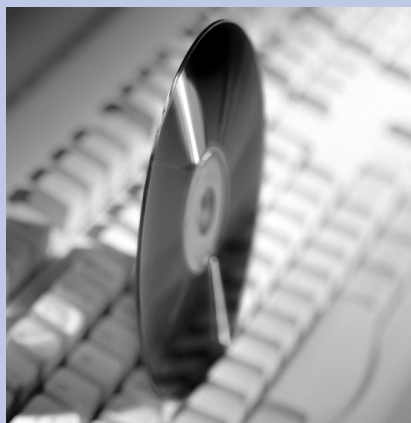


Date

06/21/2010



GK SOFTWARE AG

ISIN: **DE0007571424**
 Price (06/16/10): **€ 50.37**
 Market capitalization **€ 84 m**
 Free Float **34.82 %**

Financial calendar

08/26/2010 Q2 figures

Shareholder structure

GK Software Holding **59.76%**
 R. Gläß **3.17%**
 Deutsche Asset Mgmt. **3.15%**
 Universal Inv. Ges. **3.02%**
 S. Kronmüller **2.25%**

Price Trend



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GK SOFTWARE AG

Stage being set for further growth in 2010

■ **Recommendation: Hold** ■ **Target price: € 50.85**

First-quarter results were in line with our expectations. GK shares have given back some of their gains since the start of 2010 in the market correction precipitated by the euro crisis. Coming after a dramatic surge in sales in 2009 (+55%), we expect 2010 to be a year of consolidation characterized by moderate growth (2010e: 7.3%). Between 2007 and 2010e average annual growth thus comes to a solid 30%. The medium-term growth story based on the distribution partnership with SAP is still intact. We believe GK shares are fairly valued despite a considerable 2010 PE of 24. We see fair value at € 50.85, and continue recommending holding shares (previous recommendation: hold).

Investment Highlights

- GK SOFTWARE posted a 25.3% rise in sales in the first quarter. Initial consolidation of the acquired company Solquest contributed particularly to growth. The affect of this will be smaller over the course of the full year. Organic growth in Q1 amounted to 8%. EBIT and EPS rose 22.5% and 12.8% respectively. EBIT margin was slightly lower year-on-year at 18.4% (vs. 18.9%), but on target for the full year. The Solquest acquisition impacted margins, causing staff costs to rise in parallel with additional hiring of international distribution personnel.
- The company is well-positioned currently in a number of tender imitations. As the acquisition of new distribution contracts typically takes several months, the next deals from the SAP partnership following the EDEKA project are not expected until the second half of the year. Over the medium term the SAP distribution partnership should be instrumental in landing larger international orders. GK is simultaneously building up its own distribution to avoid dependency, for which the partnership could serve as a door-opener to large corporate retailers.
- GK is moving forward with its internationalization plans. Costs for expanding distribution capacity in the US, Russia and the UK totaled approximately € 0.25 million in the first quarter. Following a successful pilot project, the first large order has now been received in Russia from the leading retailer with 1,000 stores. In accordance with plans, the company moved into the pilot markets of China and Bosnia together with existing Danish customer Jysk Nordic. Efforts began to prepare the first country-specific versions for the customer Hornbach.

Key Indicators

	Sales	Net inc. adj.	EPS adj.	P/E	EV/Sales	EV/EBIT	EBIT Margin	ROE (%)
2008	15.0	2.0	1.22	13.92	1.9	10.2	18.5	29.3
2009	23.3	4.5	2.70	8.51	1.6	6.5	25.2	33.2
2010e	25.0	3.5	2.09	24.10	3.1	16.1	19.5	21.5
2011e	28.9	4.1	2.44	20.65	2.7	13.9	19.5	21.8
2012e	33.7	4.8	2.87	17.57	2.3	11.9	19.5	21.8

Source: GK SOFTWARE/ Vara Research GmbH

Profit and Loss Account

(in €m)	2007	2008	2009	2010e	2011e	2012e
Sales revenues	10.745	15.029	23.277	24.971	28.936	33.744
Change in finished goods and work in progress	-0.002	-1.260	-0.873	-0.612	-0.709	-0.827
Other own cost capitalized	0.558	0.815	1.067	1.196	1.385	1.616
Other operating income	0.379	0.424	0.826	0.974	1.129	1.317
Total performance	11.680	15.008	24.296	26.528	30.741	35.849
Cost of material	-0.486	-0.514	-0.561	-0.987	-1.144	-1.334
Gross profit	11.194	14.494	23.735	25.541	29.597	34.515
Personnel expenses	-6.152	-8.047	-12.117	-13.334	-15.526	-18.181
Other operating expenses/income	-2.183	-2.954	-5.448	-5.944	-6.812	-7.869
EBITDA	2.859	3.493	6.171	6.264	7.259	8.465
Depreciation/amortisation	-0.527	-0.719	-1.281	-1.395	-1.616	-1.885
EBIT	2.332	2.775	4.890	4.869	5.642	6.580
Financial result	-0.115	0.090	0.143	0.110	0.169	0.249
Non operating result before taxes	0.000	0.000	0.000	0.000	0.000	0.000
Pre tax result	2.217	2.864	5.033	4.979	5.811	6.829
Non operating result after taxes	0.000	0.000	0.000	0.000	0.000	0.000
Taxes	-0.656	-0.830	-1.516	-1.500	-1.750	-2.057
Minority interest	0.000	0.000	0.000	0.000	0.000	0.000
Net result	1.561	2.034	3.517	3.480	4.061	4.772
Adjustments	0.000	0.000	0.984	0.000	0.000	0.000
Adjusted net result	1.561	2.034	4.501	3.480	4.061	4.772
Average number of shares	1.25	1.67	1.67	1.67	1.67	1.67
EPS	1.25	1.22	2.11	2.09	2.44	2.87
Adjusted EPS	1.25	1.22	2.70	2.09	2.44	2.87
DPS	0.64	0.00	1.00	0.65	0.75	0.90

Source: GK SOFTWARE AG / Vara Research GmbH

Balance of Accounts

(in €m)	2007	2008	2009	2010e	2011e	2012e
Long term assets	3.748	4.226	12.743	12.872	13.023	13.197
Intangible assets	1.128	1.633	9.333	8.968	8.549	7.944
Tangible assets	2.620	2.593	3.410	3.905	4.474	5.254
Financial assets	0.000	0.000	0.000	0.000	0.000	0.000
Current assets	8.064	15.382	19.242	21.528	25.756	30.803
Inventories	1.999	0.738	0.000	0.000	0.000	0.000
Trade receivables	2.263	3.023	5.846	6.272	7.268	8.475
Receivables	0.898	2.765	2.759	2.959	3.429	3.999
Cash and securities	2.904	8.855	10.637	12.297	15.059	18.329
Other assets	0.018	0.018	0.390	0.390	0.390	0.390
Total assets	11.830	19.626	32.375	34.791	39.168	44.390
Equity	2.081	11.782	15.300	17.114	20.088	23.608
Reserves	2.081	11.782	15.300	17.114	20.088	23.608
Minorities	0.000	0.000	0.000	0.000	0.000	0.000
Provisions	0.577	0.847	0.847	0.849	0.851	0.854
Liabilities	8.388	5.803	14.953	15.552	16.953	18.653
Interest bearing liabilities	1.376	1.256	6.724	6.724	6.724	6.724
Trade payables	0.471	0.526	0.774	0.830	0.962	1.122
Non interest bearing liabilities	6.541	4.021	7.455	7.998	9.268	10.808
Other liabilities	0.784	1.193	1.276	1.276	1.276	1.276
Total equity and liabilities	11.830	19.626	32.375	34.791	39.168	44.390

Source: GK SOFTWARE AG / Vara Research GmbH

Cash Flow Statement

(in €m)	2007	2008	2009	2010e	2011e	2012e
Net cash provided by operating activities	1.920	1.427	5.662	4.849	5.615	6.581
Net cash used in investing activities	-2.046	-2.579	-9.363	-1.524	-1.766	-2.060
Net cash provided by financing activities	0.573	7.098	5.468	-1.665	-1.087	-1.252
Change in cash and securities	0.447	5.946	1.767	1.660	2.762	3.270
Cash and securities at the end of the period	2.904	8.855	10.637	12.297	15.059	18.329

Source: GK SOFTWARE AG / Vara Research GmbH

Key Figures*

	2007	2008	2009	2010e	2011e	2012e
Profitability ratios						
EBITDA margin	26.6%	23.2%	30.7%	25.1%	25.1%	25.1%
EBIT margin	21.7%	18.5%	25.2%	19.5%	19.5%	19.5%
Pre tax margin	20.6%	19.1%	25.8%	19.9%	20.1%	20.2%
Net margin	14.5%	13.5%	19.3%	13.9%	14.0%	14.1%
Free cash flow margin	n.m.	12.0%	n.m.	15.8%	15.9%	15.7%
ROE	88.7%	29.3%	33.2%	21.5%	21.8%	21.8%
Productivity ratios						
Sales/employees (in € `000)	76.8	79.7	80.0	74.2	79.4	85.7
Net result/employees (in € `000)	11.2	10.8	15.5	10.3	11.1	12.1
Number of employees	140	189	291	337	364	394
Financial ratios						
Equity ratio	17.6%	60.0%	47.3%	49.2%	51.3%	53.2%
Gearing	-70.9%	-64.1%	-25.3%	-32.3%	-41.2%	-48.9%
Dividend yield	n.a.	0.0%	4.3%	1.3%	1.5%	1.8%
Cash flow ratios						
Cash flow per share	1.57	1.82	2.88	2.93	3.41	4.00
Free cash flow per share	-0.52	1.09	-2.41	2.37	2.77	3.18
Other ratios						
Depreciation/sales	4.9%	4.8%	5.5%	5.6%	5.6%	5.6%
Capex/sales	24.3%	8.1%	37.8%	6.1%	6.1%	6.1%
Working capital/sales	5.9%	10.0%	15.0%	15.0%	15.0%	15.0%
Tax rate	29.6%	29.0%	30.1%	30.1%	30.1%	30.1%
Valuation ratios						
EV/Sales	n.m.	1.88	1.65	3.14	2.71	2.32
EV/EBITDA	n.m.	8.10	5.35	12.50	10.79	9.25
EV/EBIT	n.m.	10.20	6.52	16.08	13.88	11.90
P/E reported	n.m.	13.92	10.89	24.10	20.65	17.57
P/E clean	n.m.	13.92	8.51	24.10	20.65	17.57
PCPS	n.m.	9.36	7.98	17.20	14.77	12.59

*Based on clean figures

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	05/13/2008	n.a.	n.a.
GK SOFTWARE AG	09/03/2008	Buy	€ 45.50
GK SOFTWARE AG	10/21/2008	Buy	€ 28.45
GK SOFTWARE AG	12/19/2008	Buy	€ 28.45
GK SOFTWARE AG	03/27/2009	Buy	€ 28.45
GK SOFTWARE AG	05/14/2009	Buy	€ 21.60
GK SOFTWARE AG	06/16/2009	Buy	€ 21.60
GK SOFTWARE AG	09/14/2009	Buy	€ 23.00
GK SOFTWARE AG	10/27/2009	Buy	€ 37.75
GK SOFTWARE AG	12/14/2009	Hold	€ 38.60
GK SOFTWARE AG	02/02/2010	Hold	€ 40.10
GK SOFTWARE AG	04/22/2010	Hold	€ 50.85

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3. **Date of initial publication of the financial analysis:**

(06/21/2010)

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

(Price on 06/16/2010)

5. Updates:

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