Vara Research

CREATING TRUST

Date   **12/02/2010**

GK SOFTWARE AG

ISIN: **DE0007571424**
Price (12/02/10):   **€ 50,27**
Market cap.   **€ 84 m**
Free Float   **34.82 %**

Financial calendar

Shareholder structure

GK Software Holding	**59,76%**
R. Gläß	**3,17%**
Deutsche Asset Mgmt.	**3,15%**
Universal Inv. Ges.	**3,02%**
A. Bremke	**3,01%**
S. Kronmüller	**2,25%**

Price Trend

Source: OnVista

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GK SOFTWARE AG

Strong final quarter will be crowning achievement of 2010

■ **Recommendation: Hold**   ■ **Target price: € 56.00**

In the first nine months GK increased its sales by just under 30% to €17.1 million, with further growth in licensing as a proportion of sales to 19.3% (9M 2009: 18%). The economic environment is positive with opportunities for growth also coming from abroad, as underlined by the recently announced order from the Irish pharmacy chain Unicare Pharmacy Ltd. We have raised our estimates for GK SOFTWARE slightly. Estimates for US peer companies have also risen after Q3. The peer valuation (€45.54 per share) did not provide much of a boost. Taking into account the result of the FCF appraisal (€66.45 per share), this produces a fair value per share of €56.

■ Investment Highlights

In the third quarter GK was unable to increase sales (€4.6 million) in comparison with the previous year. This reflects seasonal lead-in times for projects, however, rather than indicating a decline in growth momentum. This effect, combined with the resulting slightly negative EBIT, was also observed in Q3 2009 and Q3 2007. Each of these years finished with a very strong fourth quarter. The company's implicit guidance for the fourth quarter 2010 expects sales of around €10 million (Q4 2009: €10.1 million). Projects in progress are completely on schedule.

The order placed by the Celesio subsidiary Unicare Pharmacy Ltd. marks not only GK SOFTWARE's entry into the Irish market, but also into the pharmacy retail segment. Unicare is the Irish market leader in this segment. With some 850 employees it operates 72 pharmacies in Ireland, all of which will have GK/Retail installed. The DocMorris distribution channel will also be equipped with the GK solution. By adapting the GK/Retail standard software to this new business area it will be expanded to include additional features, which will make it easier to win future contracts in the pharmacy segment. The Unicare parent Celesio operates in 28 countries, trading in pharmaceutical products. As a result, we believe that success in implementing the project in Ireland means there would be considerable potential for further orders in other countries.

With new recruits bringing the headcount to 343 (30.9.2009: 277), GK SOFTWARE has expanded the software development and project management sections in particular. New hirings are also planned for the future to cope with growth. GK's order pipeline is well filled, and the company is in intensive negotiations with potential customers, both domestically and internationally.

■ Key Data

	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	27.1	3.8	2.26	22.23	2.9	14.77	19.5	23.0
2011e	31.4	4.5	2.71	18.54	2.5	12.41	20.0	23.7
2012e	36.8	5.2	3.12	16.10	2.1	10.86	19.5	23.0

Source: Company information / Vara Research GmbH

Brighter investment climate – retail increased 2010 IT budgets significantly

The retail investment climate has brightened significantly in 2010 throughout the world. Martec International market researchers expect IT budgets in retail to be 1.3% of sales for 2010. In 2009 this proportion was only around 1%. The EHI Retail Institute expects a further high need for investment, pointing out that 20% of software in use is more than 10 years old.

Rainer Gläß is "Entrepreneur of the Year 2010"

The founder and CEO of GK SOFTWARE AG, Rainer Gläß, has received an award as "Entrepreneur of the Year 2010" in the category Information and Communications Technology / Media. The prize, which is sponsored by the auditing and consulting company Ernst & Young, was awarded by a high-caliber seven-strong jury chaired by former Minister President Prof. Lothar Späth. Other prize-winners this year included Prof. Claus Hipp, managing partner of HIPP Werk Georg Hipp OHG, and Dirk Roßmann, founder and CEO of the health and beauty retail chain Dirk Rossmann GmbH.

Outlook for 2010

GK SOFTWARE expects double-digit growth for 2010, with sales in the region of €27 million. The EBIT margin is expected to reach a level of about 18.5% of sales in 2010.

■ Profit and Loss Account

(in €m)	2007	2008	2009	2010e	2011e	2012e
Sales revenues	10.745	15.029	23.277	27.061	31.418	36.817
Change in finished goods and work in progress	-0.002	-1.260	-0.873	-1.089	-1.264	-1.481
Other own cost capitalized	0.558	0.815	1.067	0.849	0.985	1.155
Other operating income	0.379	0.424	0.826	1.009	1.172	1.373
Total performance	11.680	15.008	24.296	27.830	32.312	37.864
Cost of material	-0.486	-0.514	-0.561	-0.993	-0.996	-1.351
Gross profit	11.194	14.494	23.735	26.837	31.316	36.512
Personnel expenses	-6.152	-8.047	-12.117	-14.306	-16.685	-19.627
Other operating expenses/income	-2.183	-2.954	-5.448	-5.743	-6.592	-7.650
EBITDA	2.859	3.493	6.171	6.788	8.038	9.236
Depreciation/amortisation	-0.527	-0.719	-1.281	-1.511	-1.755	-2.056
EBIT	2.332	2.775	4.890	5.277	6.284	7.179
Financial result	-0.115	0.090	0.143	0.112	0.177	0.262
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	5.389	6.460	7.441
Non operating result after taxes	0.000	0.000	0.000	0.000	0.000	0.000
Taxes	-0.656	-0.830	-1.516	-1.623	-1.946	-2.241
Minority interest	0.000	0.000	0.000	0.000	0.000	0.000
Net result	1.561	2.034	3.517	3.766	4.515	5.200
Adjustments	0.000	0.000	0.984	0.000	0.000	0.000
Adjusted net result	1.561	2.034	4.501	3.766	4.515	5.200
Average number of shares	1.25	1.67	1.67	1.67	1.67	1.67
EPS	1.25	1.22	2.11	2.26	2.71	3.12
Adjusted EPS	1.25	1.22	2.70	2.26	2.71	3.12
DPS	0.64	0.00	1.00	0.72	0.85	1.00

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	12.952	13.194	13.479
Intangible assets	1.128	1.633	9.333	8.968	8.549	7.944
Tangible assets	2.620	2.593	3.410	3.984	4.645	5.535
Financial assets	0.000	0.000	0.000	0.000	0.000	0.000
Current assets	8.064	15.382	19.242	22.474	27.096	32.503
Inventories	1.999	0.738	0.000	0.000	0.000	0.000
Trade receivables	2.263	3.023	5.846	6.797	7.891	9.247
Receivables	0.898	2.765	2.759	3.207	3.724	4.363
Cash and securities	2.904	8.855	10.637	12.470	15.481	18.892
Other assets	0.018	0.018	0.390	0.390	0.390	0.390
Total assets	11.830	19.626	32.375	35.816	40.680	46.371
Equity	2.081	11.782	15.300	17.401	20.722	24.502
Reserves	2.081	11.782	15.300	17.401	20.722	24.502
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	16.291	17.831	19.740
Interest bearing liabilities	1.376	1.256	6.724	6.724	6.724	6.724
Trade payables	0.471	0.526	0.774	0.900	1.045	1.224
Non interest bearing liabilities	6.541	4.021	7.455	8.667	10.063	11.792
Other liabilities	0.784	1.193	1.276	1.276	1.276	1.276
Total equity and liabilities	11.830	19.626	32.375	35.816	40.680	46.371

Source: GK SOFTWARE AG / Vara Research GmbH

Cash Flow Statement

(in €m)	2007	2008	2009	2010e	2011e	2012e
Net cash provided by operating activites	1.920	1.427	5.662	5.218	6.201	7.172
Net cash used in investing activities	-2.046	-2.579	-9.363	-1.720	-1.997	-2.340
Net cash provided by financing activities	0.573	7.098	5.468	-1.665	-1.193	-1.420
Change in cash and securities	0.447	5.946	1.767	1.833	3.011	3.411
Cash and securities at the end of the period	2.904	8.855	10.637	12.470	15.481	18.892

Source: GK SOFTWARE AG / Vara Research GmbH

Key Figures*

	2007	2008	2009	2010e	2011e	2012e
Valuation ratios						
Market capitalization (in € m)	-	28.31	38.30	83.70	83.70	83.70
Enterprise Value (in € m)	-	20.71	34.38	77.95	77.95	77.95
EV/Sales	-	1.38	1.48	2.88	2.48	2.12
EV/EBITDA	-	5.93	4.81	11.48	9.70	8.44
EV/EBIT	-	7.46	5.85	14.77	12.41	10.86
P/E reported	-	13.92	10.89	22.23	18.54	16.10
P/E clean	-	13.92	8.51	22.23	18.54	16.10
PCPS	-	9.36	7.98	15.85	13.35	11.53
Price to book	-	2.40	2.50	4.81	4.04	3.42
Profitability ratios						
EBITDA margin	26.6%	23.2%	30.7%	25.1%	25.6%	25.1%
EBIT margin	21.7%	18.5%	25.2%	19.5%	20.0%	19.5%
Pre tax margin	20.6%	19.1%	25.8%	19.9%	20.6%	20.2%
Net margin	14.5%	13.5%	19.3%	13.9%	14.4%	14.1%
Free cash flow margin	n.m.	12.0%	n.m.	15.4%	15.8%	15.3%
ROE	88.7%	29.3%	33.2%	23.0%	23.7%	23.0%
Productivity ratios						
Sales/employees (in € `000)	76.8	79.7	80.0	80.4	86.2	93.5
Net result/employees (in € `000)	11.2	10.8	15.5	11.2	12.4	13.2
Number of employees	140	189	291	337	364	394
Financial ratios						
Equity ratio	17.6%	60.0%	47.3%	48.6%	50.9%	52.8%
Gearing	-70.9%	-64.1%	-25.3%	-32.8%	-42.0%	-49.5%
Dividend yield	-	0.0%	4.3%	1.4%	1.7%	2.0%
Cash flow ratios						
Cash flow per share	1.57	1.82	2.88	3.17	3.77	4.36
Free cash flow per share	-0.52	1.09	-2.41	2.50	2.99	3.37
Other ratios						
Depreciation/sales	4.9%	4.8%	5.5%	5.6%	5.6%	5.6%
Capex/sales	24.3%	8.1%	37.8%	6.4%	6.4%	6.4%
Working capital/sales	5.9%	10.0%	15.0%	15.0%	15.0%	15.0%
Tax rate	29.6%	29.6%	29.0%	30.1%	30.1%	30.1%

*Based on clean figures

Source: 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

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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**
GK SOFTWARE AG	**06/21/2010**	**Hold**	**€ 50.85**
GK SOFTWARE AG	**09/08/2010**	**Hold**	**€ 56.95**

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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.

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3.   Date of initial publication of the financial analysis:
   (12/02/2010)

4.   **Date and time of the prices of financial instruments disclosed therein:**
   (Price on 11/29/2010)

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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