

Date **05/16/2011**

Buy (old: Hold)

PT: € 56.45 (old: € 55.70)

Changes

	2010		2011	
	New	Delta	New	Delta
Sales	27.7	2.3%	32.2	2.5%
EBIT	6.4	22%	6.4	2.5%
EPS	2.50	17%	2.58	0%
EPS*	2.50	17%	2.58	0%
DPS	0.50	-25%	0.55	-32%

*clean

Homepage: www.gksoftware.de

Industry: IT/Software

ISIN: DE0007571424

Bloomberg: GKS:GR
Reuters: GKSG
Price (05/13/11): € 49.00
Market Cap: m€ 88
Enterprise Value: m€ 80
Ø-volume (100 days): € 34,222
52W High: € 59.10
52W Low: € 39.01
Free Float: 42.6 %

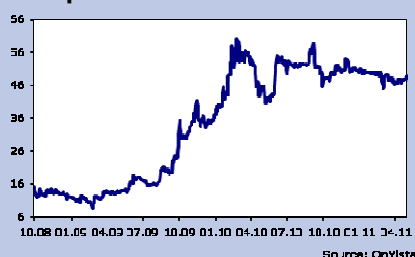
Financial Calendar

05/26/2011 Q1 report
06/16/2011 Annual meeting
08/30/2011 HY-Report

Shareholder structure

GK Software Holding 52.33%
R. Gläß 2.95%
S. Kronmüller 2.09%

Share performance



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GK SOFTWARE AG

Opportunity/risk profile turns positive

The 2010 figures of GK SOFTWARE have exceeded our expectations and we have slightly raised our estimations for 2011 accordingly. The completion of the pilot in the major project at EDEKA ("proof of concept") together with the company's partnership partner SAP signals the initiation of further joint projects. As, in our eyes, GK solutions represent a significant expansion of the service portfolio for the retail industry, we consider the speed, scope and frequency with which both companies are able to complete joint projects to be a highly important factor. The rapid increase in the company's stock market price at the end of 2009 reflected the capital market's initial reaction to the SAP partnership. On the basis of the twelve-month lateral movement and with a dynamic price-earnings ratio (2010 to 2012) of 0.98, the share once again offers an advantageous opportunity/risk profile, in particular due to the fact that the growth rates we anticipated still leave scope for positive surprises in the form of additional projects in the SAP partnership.

Investment Highlights

- Growth remains at a high level with stable margins. With a turnover of EUR 27.7 million (19%) and an EBIT margin of 23.2%, GK SOFTWARE has ended the financial year above its target range. The EBIT margin benefitted from the partial liquidation of an originally executed value correction. We anticipate further two-figure growth rates for the years 2011 (16%) and 2012 (20%). We forecast an EBIT margin of 20% (2011) and 19.5% (2012), each at the upper end of the range targeted by the company (18% to 20%). In our estimations, we have assumed a maximum proportional increase of sales and development costs. The past few years have shown that margins of over 20% are possible with the GK business model. Retail, as the end consumer, is benefiting from increasing consumption, whereby the environment for GK SOFTWARE is becoming more profitable.
- Major orders and promising pipelines have secured short-term growth. In mid-March, GK SOFTWARE announced a commission by a sports goods manufacturer from Herzogenaurach which wants to equip its 2,000 branches with GK SOFTWARE solutions. The companies have agreed to keep further details confidential. The relation of the 2,000 branches of this company to the 19,000 branches already equipped gives an indication of the order size. It should be taken into account that unlike discounters and building supplies stores, the branches are equipped with a below-average number of cash points.

Key figures

	Sales	Net result	Adj. EPS	Adj. P/E	EV/Sales	EV/EBIT	EBIT-Margin	ROE (%)
2008	15.0	2.0	1.22	13.92	1.38	7.46	18.5%	29.3%
2009	23.3	4.5	2.70	8.51	1.48	5.85	25.2%	33.2%
2010	27.7	4.5	2.50	20.02	2.96	12.75	23.2%	22.6%
2011e	32.2	4.6	2.58	18.17	2.37	11.85	20.0%	17.6%
2012e	38.7	5.4	3.00	15.59	1.97	10.10	19.5%	17.8%

Source: Company information / Vara Research GmbH

**“Proof of concept”
created -
SAP partnership to pick
up speed**

**Dividends of EUR 0.50
per share; war chest
remains well-stocked**

GK SOFTWARE is also progressing well abroad through its own sales and important references. The Russian market leader X5 Retail Group is a GK customer and is taking an active part in the market consolidation. Most recently, the X5 Retail Group (now 31.7% market share) took over the number five company in the Russian market, “Kopeyka” (5.4% market share).

Following the successfully created pilot in the EDEKA project in February 2011, the company’s partnership partner SAP is now expected to begin marketing GK solutions abroad. Major retail companies can now be approached. Reciprocally, we believe that SAP needs these partnership products created by GK to provide retail companies with comprehensive services. Since the expansion of the partnership in July 2010, the collaboration does not only include the two GK modules “Store Device Control” and “Offline mobile handheld application”, but also the solution package “Point of Sales Solution”.

The potential of the SAP partnership is currently difficult to assess, as the proof of concept was completed only a few weeks ago when the productive pilot was created. However, we believe that SAP has a specific focus on the retail sector and aims to cover a range of areas, as demonstrated by the takeover of SAF Simulation, Analysis and Forecasting. Furthermore, SAP already has numerous ERP-customer relationships with retail companies which can now be expanded. Against this background, we see great potential which could be tapped as early as 2011 within the scope of new projects. We estimate that around 20% of sales in 2010 could be traced back to the SAP partnership. For 2011, we assume there will be a similar proportion of turnover, which is likely to increase during the course of 2012. To support these new projects, GK is expected to increase staff numbers. We estimate that there will be 30 to 40 new hires in Implementation and Product Development. The sustainable development of the partnership beyond existing plans will require further investments in GK SOFTWARE implementation capacities.

The dividend proposed at the Annual General Meeting 2011 was EUR 0.50 per share (dividend payout ratio approx. 20%). The basic dividend therefore remains the same as last year (EUR 0.50 + EUR 0.50 special dividends per share on the occasion of the 20-year company anniversary). GK Software therefore still has the option of making further acquisitions. For 2011 we anticipate smaller acquisitions, but have not taken this into account in the model.

Profit and Loss Account

in €m.	2007	2008	2009	2010	2011e	2012e
Sales revenues	10.745	15.029	23.277	27.690	32.193	38.739
Change in finished goods and work in progress	-0.002	-1.260	-0.873	0.000	0.000	0.000
Other own cost capitalized	0.558	0.815	1.067	0.649	0.754	0.908
Other operating income	0.379	0.424	0.826	1.368	1.591	1.914
Total performance	11.680	15.008	24.296	29.706	34.538	41.561
Cost of material	-0.486	-0.514	-0.561	-1.540	-2.833	-3.603
Gross profit	11.194	14.494	23.735	28.166	31.706	37.959
Personnel expenses	-6.152	-8.047	-12.117	-14.840	-17.329	-20.927
Other operating expenses/income	-2.183	-2.954	-5.448	-5.344	-6.139	-7.312
EBITDA	2.859	3.493	6.171	7.982	8.238	9.720
Depreciation/amortisation	-0.527	-0.719	-1.281	-1.548	-1.800	-2.166
EBIT	2.332	2.775	4.890	6.435	6.439	7.554
Financial result	-0.115	0.090	0.143	-0.128	0.060	0.022
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	6.307	6.498	7.576
Non operating result after taxes	0.000	0.000	0.000	0.000	0.000	0.000
Taxes	-0.656	-0.830	-1.516	-1.836	-1.888	-2.201
Minority interest	0.000	0.000	0.000	0.000	0.000	0.000
Net result	1.561	2.034	3.517	4.471	4.610	5.375
Adjustments	0.000	0.000	0.984	0.000	0.000	0.000
Adjusted net result	1.561	2.034	4.501	4.471	4.610	5.375
Average number of shares	1.250	1.665	1.665	1.790	1.790	1.790
EPS	1.25	1.22	2.11	2.50	2.58	3.00
Adjusted EPS	1.25	1.22	2.70	2.50	2.58	3.00
DPS	0.64	0.00	1.00	0.50	0.55	0.65

Source: GK SOFTWARE AG / Vara Research GmbH

in % of Sales	2007	2008	2009	2010	2011e	2012e
Sales revenues	100.0	100.0	100.0	100.0	100.0	100.0
Total performance	108.7	99.9	104.4	107.3	107.3	107.3
Cost of material	-4.5	-3.4	-2.4	-5.6	-8.8	-9.3
Gross profit	104.2	96.4	102.0	101.7	98.5	98.0
Personnel expenses	-57.3	-53.5	-52.1	-53.6	-53.8	-54.0
Other operating expenses/income	-20.3	-19.7	-23.4	-19.3	-19.1	-18.9
EBITDA	26.6	23.2	26.5	28.8	25.6	25.1
Depreciation/amortisation	-4.9	-4.8	-5.5	-5.6	-5.6	-5.6
EBIT	21.7	18.5	21.0	23.2	20.0	19.5
Financial result	-1.1	0.6	0.6	-0.5	0.2	0.1
Non operating result before taxes	-	-	-	-	-	-
Pre tax result	20.6	19.1	21.6	22.8	20.2	19.6
Non operating result after taxes	-	-	-	-	-	-
Taxes	-6.1	-5.5	-6.5	-6.6	-5.9	-5.7
Minority interest	-	-	-	-	-	-
Net result	14.5	13.5	15.1	16.1	14.3	13.9
Adjustments	-	-	4.2	-	-	-
Adjusted net result	14.5	13.5	19.3	16.1	14.3	13.9

Source: GK SOFTWARE AG / Vara Research GmbH

Balance of Accounts

in €m.	2007	2008	2009	2010	2011e	2012e
Long term assets	3.748	4.226	12.743	13.166	14.431	15.553
Intangible assets	1.128	1.633	9.333	9.116	8.697	8.092
Tangible assets	2.620	2.593	3.410	4.050	5.733	7.461
Financial assets	0.000	0.000	0.000	0.000	0.000	0.000
Current assets	8.064	15.382	19.242	31.110	33.654	37.045
Inventories	1.999	0.738	0.000	0.000	0.000	0.000
Trade receivables	2.263	3.023	5.846	14.110	16.405	19.741
Receivables	0.898	2.765	2.759	3.558	3.558	3.558
Cash and securities	2.904	8.855	10.637	13.442	13.691	13.746
Other assets	0.018	0.018	0.390	0.529	0.529	0.529
Total assets	11.830	19.626	32.375	44.805	48.614	53.126
Equity	2.081	11.782	15.300	24.332	28.047	32.430
Reserves	2.081	11.782	15.300	24.332	28.047	32.430
Minorities	0.000	0.000	0.000	0.000	0.000	0.000
Provisions	0.577	0.847	0.847	0.921	0.937	0.954
Liabilities	8.388	5.803	14.953	17.060	17.138	17.251
Interest bearing liabilities	1.376	1.256	6.724	5.983	5.983	5.983
Trade payables	0.471	0.526	0.774	0.476	0.554	0.666
Non interest bearing liabilities	6.541	4.021	7.455	10.601	10.601	10.601
Other liabilities	0.784	1.193	1.276	2.491	2.491	2.491
Total equity and liabilities	11.830	19.626	32.375	44.805	48.614	53.126

Source: GK SOFTWARE AG / Vara Research GmbH

in %	2007	2008	2009	2010	2011e	2012e
Long term assets	31.7	21.5	39.4	29.4	29.7	29.3
Intangible assets	9.5	8.3	28.8	20.3	17.9	15.2
Tangible assets	22.1	13.2	10.5	9.0	11.8	14.0
Financial assets	-	-	0.0	0.0	0.0	0.0
Current assets	68.2	78.4	59.4	69.4	69.2	69.7
Inventories	16.9	3.8	-	-	-	-
Trade receivables	19.1	15.4	18.1	31.5	33.7	37.2
Receivables	7.6	14.1	8.5	7.9	7.3	6.7
Cash and securities	24.5	45.1	32.9	30.0	28.2	25.9
Other assets	0.2	0.1	1.2	1.2	1.1	1.0
Total assets	100.0	100.0	100.0	100.0	100.0	100.0
Equity	17.6	60.0	47.3	54.3	57.7	61.0
Reserves	17.6	60.0	47.3	54.3	57.7	61.0
Minorities	-	-	-	-	-	-
Provisions	4.9	4.3	2.6	2.1	1.9	1.8
Liabilities	70.9	29.6	46.2	38.1	35.3	32.5
Interest bearing liabilities	11.6	6.4	20.8	13.4	12.3	11.3
Trade payables	4.0	2.7	2.4	1.1	1.1	1.3
Non interest bearing liabilities	55.3	20.5	23.0	23.7	21.8	20.0
Other liabilities	6.6	6.1	3.9	5.6	5.1	4.7
Total equity and liabilities	100.0	100.0	100.0	100.0	100.0	100.0

Source: GK SOFTWARE AG / Vara Research GmbH

Cash Flow Statement

in €m.	2007	2008	2009	2010	2011e	2012e
Net cash provided by operating activities	1.9	1.4	5.7	1.7	4.2	4.3
Net cash used in investing activities	-2.0	-2.6	-9.4	-2.7	-3.1	-3.3
Net cash provided by financing activities	0.6	7.1	5.5	3.8	-0.9	-1.0
Change in cash and securities	0.4	5.9	1.8	2.8	0.2	0.1
Cash and securities at the end of the period	2.9	8.9	10.6	13.4	13.7	13.7

Source: GK SOFTWARE AG / Vara Research GmbH

Key Figures*

	2007	2008	2009	2010	2011e	2012e
Valuation ratios						
Market capitalization (in € m)	-	28.31	38.30	89.50	87.71	87.71
Enterprise Value (in € m)	-	20.71	34.38	82.04	80.25	80.25
EV/Sales	-	1.38	1.48	2.96	2.49	2.07
EV/EBITDA	-	5.93	4.81	10.28	9.74	8.26
EV/EBIT	-	7.46	5.85	12.75	12.46	10.62
P/E reported	-	13.92	10.89	20.02	19.03	16.32
P/E clean	-	13.92	8.51	20.02	19.03	16.32
PCPS	-	9.36	7.98	15.13	13.65	11.61
Price to book	-	2.40	2.50	3.68	3.13	2.70
Profitability ratios						
EBITDA margin	26.6%	23.2%	30.7%	28.8%	25.6%	25.1%
EBIT margin	21.7%	18.5%	25.2%	23.2%	20.0%	19.5%
Pre tax margin	20.6%	19.1%	25.8%	22.8%	20.2%	19.6%
Net margin	14.5%	13.5%	19.3%	16.1%	14.3%	13.9%
Free cash flow margin	n.m.	12.0%	n.m.	10.6%	10.4%	11.0%
ROE	88.7%	29.3%	33.2%	22.6%	17.6%	17.8%
Productivity ratios						
Sales/employees (in € `000)	76.8	79.7	80.0	75.7	81.4	90.9
Net result/employees (in € `000)	11.2	10.8	15.5	12.2	11.7	12.6
Number of employees	140	189	291	366	395	426
Financial ratios						
Equity ratio	17.6%	60.0%	47.3%	54.3%	57.7%	61.0%
Gearing	-70.9%	-64.1%	-25.3%	-29.3%	-26.2%	-22.8%
Dividend yield	-	0.0%	4.3%	1.0%	1.1%	1.3%
Cash flow ratios						
Cash flow per share	1.57	1.82	2.88	3.30	3.59	4.22
Free cash flow per share	-0.52	1.09	-2.41	1.64	1.88	2.39
Other ratios						
Depreciation/sales	4.9%	4.8%	5.5%	5.6%	5.6%	5.6%
Capex/sales	24.3%	8.1%	37.8%	10.8%	9.5%	8.5%
Working capital/sales	5.9%	10.0%	15.0%	15.0%	15.0%	15.0%
Tax rate	29.6%	29.0%	30.1%	29.1%	29.1%	29.1%

* Based on clean figures

Source: GK SOFTWARE AG / Vara Research GmbH

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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	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
GK SOFTWARE AG	12/02/2010	Hold	€ 56.00
GK SOFTWARE AG	01/19/2011	Hold	€ 55.70

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:
(05/16/2011)**

4. **Date and time of the prices of financial instruments disclosed therein:
(Price on 05/13/2011)**

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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