

Date **07.05.2012**

Buy (old: Buy)

PT: € 58,50 (alt: € 53,45)

Changes

	2012E		2013E	
	New	Delta	New	Delta
Sales	35.2	-5.8%	45.1	-1.2%
EBIT	7.03	-5.9%	9.47	-1.2%
EPS	2.82	-6.6%	3.78	-2.1%
EPS*	2.82	-6.6%	3.78	-2.1%
DPS	0.57	-12%	0.74	-7.5%

*clean

Homepage: www.gksoftware.de

Industry: IT/Software

ISIN	DE0007571424
Bloomberg	GKS:GR
Reuters	GKSG
Price (03.05.12):	€ 42.00
Market Cap:	€ 75 m
Enterprise Value:	€ 67 m
Ø-volume (100 days):	€ 29,500
52W High:	€ 49.70
52W Low:	€ 33.32
Free Float:	42.5 %

Financial Calendar

24.05.2012	Q1-Report
28.06.2012	Annual Meeting
29.08.2012	Q2-Report

Shareholder structure

GK Software Holding	52.33%
R. Gläß	2.95%
S. Kronmüller	2.23%

Share performance



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GK SOFTWARE AG

Waiting for major SAP projects

The 2011 figures reported by GK SOFTWARE are in line with our expectations. Group sales of € 31.8 million amounted to 14.7% above the previous year's figure. Although the high-margin licence business experienced only slight growth in 2011, GK succeeded with its EBIT margin of 21% in exceeding the margin guidance (18%-20%). For 2012, we are looking at an EBIT margin of 20% and growth of just over 10%, in which we have taken into account sales generated by the marketing partner SAP to a certain extent. We are convinced that the partnership with SAP will involve further major projects – primarily because the benefit of the SAP-ERP solution in retail is considerably increased by the GK/retail modules. Even so, the acquisition of major projects could take up more time than we initially thought. With a PE ratio of 15, the GK share still has potential to increase. The market environment is still intact: 25% of the cash till systems still in use are more than 10 years old.

Investment Highlights

- Maintenance and licence proceeds at GK are reported separately (unlike other software companies). The licence proceeds (+0.2%) thus only represent new business. In cases in which orders were negotiated through SAP, the latter receives a sales commission which reduces the reported licence proceeds. We are therefore assuming that the actual new business for GK in 2011 has grown by a high-single-figure percentage.
- Maintenance proceeds reached € 8.75 million (+ 25.8%) in 2011 and benefited from the growth of installations. With a 38.5% increase in inventories and 35,000 newly installed systems in 2011, further growth in maintenance business is expected in 2012. Sales from services also exhibited dynamic growth in 2011 with € 14.5 million (+27.8% year-on-year). In 2011 GK increased its number of employees by 17%; this upwards trend will continue in 2012 although not at the same rate. With an increase in SAP projects, we are assuming that GK consultants will concentrate on change requests. GK Software's trained consultants can undertake the basic parameterisation of the installations. In our view, this will enable GK to cope with a rapid increase in orders without establishing a large fixed cost pool itself.
- Outlook: the official outlook for GK SOFTWARE promises further sales growth in both 2012 and 2013 with an EBIT margin between 18% and 20%. This is on the proviso that the macro environment does not deteriorate substantially. In terms of its outlook, GK has been conservative in previous years as well. For 2012, we are now assuming low two-figure sales increases and an EBIT margin of 20%. The business model has demonstrated that this is easily achievable.

Key figures

	Um- satz	JÜ ber.	EPS ber.	KGV	EV/ Sales	EV/ EBIT	EBIT Marge	ROE (%)
2010	27.7	4.5	2.50	20.02	2.96	12.75	23.2%	22.6%
2011	31.8	4.6	2.55	16.07	2.14	10.21	21.0%	18.1%
2012e	35.1	5.0	2.82	14.89	1.89	9.47	20.0%	16.7%
2013e	45.1	6.8	3.78	11.11	1.48	7.03	21.0%	19.2%
2014e	54.4	8.2	4.56	9.22	1.22	5.82	21.0%	19.6%

Quelle: Unternehmensangaben / Vara Research GmbH

Equipped for the future

**Radical change in
hardware business**

**Consolidation underway
amongst software
manufacturers as well**

The R&D expenses for GK SOFTWARE increased considerably in 2011. The capitalised development costs amounted to 1.49 million (previous year: € 0.65 million), while the research costs recorded directly as expenses rose to € 0.615 million (previous year: € 0.157 million). The background to this includes developments for the OpenScale scales solution, the mobile cash till and the adaptation of the modules for SAP. In addition, GK/Retail was adapted to the operating systems iOS (Apple) and Android.

Wincor Nixdorf recently surprised the markets with a profits warning. However, the conclusion that commercial enterprises will now spend less on hardware (and thus possibly software as well) is incorrect. NCR, the American rival of Wincor, has even increased its 2012 forecasts recently, so it seems more the case that market shares in the hardware business are simply shifting. Another feature of this picture is the report that IBM wants to sell its cash till hardware business to Toshiba. Should this actually occur, there would be another major player on the market. We do not see any direct risk for GK SOFTWARE here, as the GK/Retail software is not dependent on specific hardware. Our assessment is that the sale of the cash till division to Toshiba would not change the status of IBM as a service partner to GK SOFTWARE: the IT service business of IBM is a contractual partner to GK.

Similar to the radical change in the hardware business, consolidation is also taking place among the small software providers whose solutions often carve out a niche for themselves in the industry. GK SOFTWARE intends to play an active role here and has also demonstrated this with the acquisition of Solquest GmbH (in 2009). Acquisitions are sensible for GK in particular if technologies can be acquired which can be integrated into the GK/Retail standard solution, or which involve special industry expertise or an interesting customer base. In contrast, the acquisition of a platform which would have to be further developed in parallel to GK/Retail would not be of interest.

Profit and Loss Account

in €m.	2009	2010	2011	2012e	2013e	2014e
Sales revenues	23.277	27.690	31.753	35.150	45.103	54.416
Change in finished goods and work in progress	-0.873	0.000	0.000	0.000	0.000	0.000
Other own cost capitalized	1.067	0.649	1.489	1.648	2.115	2.551
Other operating income	0.826	1.368	0.729	0.807	1.035	1.249
Total performance	24.296	29.706	33.971	37.604	48.253	58.217
Cost of material	-0.561	-1.540	-0.611	-1.202	-1.091	-1.317
Gross profit	23.735	28.166	33.360	36.402	47.161	56.900
Personnel expenses	-12.117	-14.840	-18.601	-20.591	-26.862	-32.483
Other operating expenses/income	-5.448	-5.344	-6.158	-6.816	-8.672	-10.387
EBITDA	6.171	7.982	8.601	8.995	11.628	14.029
Depreciation/amortisation	-1.281	-1.548	-1.947	-1.965	-2.157	-2.602
EBIT	4.890	6.435	6.654	7.030	9.472	11.427
Financial result	0.143	-0.128	-0.085	0.143	0.147	0.161
Non operating result before taxes	0.000	0.000	0.000	0.000	0.000	0.000
Pre tax result	5.033	6.307	6.569	7.173	9.619	11.589
Non operating result after taxes	0.000	0.000	0.000	0.000	0.000	0.000
Taxes	-1.516	-1.836	-2.005	-2.125	-2.849	-3.433
Minority interest	0.000	0.000	0.000	0.000	0.000	0.000
Net result	3.517	4.471	4.564	5.048	6.770	8.156
Adjustments	0.984	0.000	0.000	0.000	0.000	0.000
Adjusted net result	4.501	4.471	4.564	5.048	6.770	8.156
Average number of shares	1.665	1.790	1.790	1.790	1.790	1.790
EPS	2.11	2.50	2.55	2.82	3.78	4.56
Adjusted EPS	2.70	2.50	2.55	2.82	3.78	4.56
DPS	1.00	0.50	0.50	0.57	0.74	0.89

Source: GK SOFTWARE AG / Vara Research GmbH

in % of Sales	2009	2010	2011	2012e	2013e	2014e
Sales revenues	100.0	100.0	100.0	100.0	100.0	100.0
Total performance	104.4	107.3	107.0	107.0	107.0	107.0
Cost of material	-2.4	-5.6	-1.9	-3.4	-2.4	-2.4
Gross profit	102.0	101.7	105.1	103.6	104.6	104.6
Personnel expenses	-52.1	-53.6	-58.6	-58.6	-59.6	-59.7
Other operating expenses/income	-23.4	-19.3	-19.4	-19.4	-19.2	-19.1
EBITDA	26.5	28.8	27.1	25.6	25.8	25.8
Depreciation/amortisation	-5.5	-5.6	-6.1	-5.6	-4.8	-4.8
EBIT	21.0	23.2	21.0	20.0	21.0	21.0
Financial result	0.6	-0.5	-0.3	0.4	0.3	0.3
Non operating result before taxes	-	-	-	-	-	-
Pre tax result	21.6	22.8	20.7	20.4	21.3	21.3
Non operating result after taxes	-	-	-	-	-	-
Taxes	-6.5	-6.6	-6.3	-6.0	-6.3	-6.3
Minority interest	-	-	-	-	-	-
Net result	15.1	16.1	14.4	14.4	15.0	15.0
Adjustments	4.2	-	-	-	-	-
Adjusted net result	19.3	16.1	14.4	14.4	15.0	15.0

Source: GK SOFTWARE AG / Vara Research GmbH

Balance of Accounts

in €m.	2009	2010	2011	2012e	2013e	2014e
Long term assets	12.743	13.166	13.664	14.008	14.014	14.021
Intangible assets	9.333	9.116	9.540	8.935	8.495	7.202
Tangible assets	3.410	4.050	4.124	5.072	5.518	6.819
Financial assets	0.000	0.000	0.000	0.000	0.000	0.000
Current assets	19.242	31.110	29.084	32.938	38.790	45.726
Inventories	0.000	0.000	0.000	0.000	0.000	0.000
Trade receivables	5.846	14.110	11.945	13.223	16.967	20.471
Receivables	2.759	3.558	3.279	3.279	3.279	3.279
Cash and securities	10.637	13.442	13.859	16.436	18.544	21.976
Other assets	0.390	0.529	0.727	0.727	0.727	0.727
Total assets	32.375	44.805	43.475	47.672	53.530	60.474
Equity	15.300	24.332	28.231	32.385	38.130	44.966
Reserves	15.300	24.332	28.231	32.385	38.130	44.966
Minorities	0.000	0.000	0.000	0.000	0.000	0.000
Provisions	0.847	0.921	1.109	1.118	1.128	1.138
Liabilities	14.953	17.060	11.462	11.497	11.601	11.697
Interest bearing liabilities	6.724	5.983	5.243	5.243	5.243	5.243
Trade payables	0.774	0.476	0.329	0.364	0.467	0.564
Non interest bearing liabilities	7.455	10.601	5.891	5.891	5.891	5.891
Other liabilities	1.276	2.491	2.672	2.672	2.672	2.672
Total equity and liabilities	32.375	44.805	43.475	47.672	53.530	60.474

Source: GK SOFTWARE AG / Vara Research GmbH

in %	2009	2010	2011	2012e	2013e	2014e
Long term assets	39.4	29.4	31.4	29.4	26.2	23.2
Intangible assets	28.8	20.3	21.9	18.7	15.9	11.9
Tangible assets	10.5	9.0	9.5	10.6	10.3	11.3
Financial assets	0.0	0.0	0.0	0.0	0.0	0.0
Current assets	59.4	69.4	66.9	69.1	72.5	75.6
Inventories	-	-	-	-	-	-
Trade receivables	18.1	31.5	27.5	27.7	31.7	33.9
Receivables	8.5	7.9	7.5	6.9	6.1	5.4
Cash and securities	32.9	30.0	31.9	34.5	34.6	36.3
Other assets	1.2	1.2	1.7	1.5	1.4	1.2
Total assets	100.0	100.0	100.0	100.0	100.0	100.0
Equity	47.3	54.3	64.9	67.9	71.2	74.4
Reserves	47.3	54.3	64.9	67.9	71.2	74.4
Minorities	-	-	-	-	-	-
Provisions	2.6	2.1	2.6	2.3	2.1	1.9
Liabilities	46.2	38.1	26.4	24.1	21.7	19.3
Interest bearing liabilities	20.8	13.4	12.1	11.0	9.8	8.7
Trade payables	2.4	1.1	0.8	0.8	0.9	0.9
Non interest bearing liabilities	23.0	23.7	13.6	12.4	11.0	9.7
Other liabilities	3.9	5.6	6.1	5.6	5.0	4.4
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.	2009	2010	2011	2012e	2013e	2014e
Net cash provided by operating activities	5.7	1.7	4.7	5.8	5.3	7.4
Net cash used in investing activities	-9.4	-2.7	-2.7	-2.3	-2.2	-2.6
Net cash provided by financing activities	5.5	3.8	-1.6	-0.9	-1.0	-1.3
Change in cash and securities	1.8	2.8	0.4	2.6	2.1	3.4
Cash and securities at the end of the period	10.6	13.4	13.9	16.4	18.5	22.0

Source: GK SOFTWARE AG / Vara Research GmbH

Key Figures*

	2009	2010	2011	2012e	2013e	2014e
Valuation ratios						
Market capitalization (in € m)	38.30	89.50	76.52	75.18	75.18	75.18
Enterprise Value (in € m)	34.38	82.04	67.91	66.56	66.56	66.56
EV/Sales	1.48	2.96	2.14	1.89	1.48	1.22
EV/EBITDA	4.81	10.28	7.90	7.40	5.72	4.74
EV/EBIT	5.85	12.75	10.21	9.47	7.03	5.82
P/E reported	10.89	20.02	16.07	14.89	11.11	9.22
P/E clean	8.51	20.02	16.07	14.89	11.11	9.22
PCPS	7.98	15.13	11.42	10.71	8.41	6.98
Price to book	2.50	3.68	2.71	2.32	1.97	1.67
Profitability ratios						
EBITDA margin	30.7%	28.8%	27.1%	25.6%	25.8%	25.8%
EBIT margin	25.2%	23.2%	21.0%	20.0%	21.0%	21.0%
Pre tax margin	25.8%	22.8%	21.3%	20.4%	21.3%	21.3%
Net margin	19.3%	16.1%	15.0%	14.4%	15.0%	15.0%
Free cash flow margin	n.m.	10.6%	13.4%	13.4%	15.0%	15.0%
ROE	33.2%	22.6%	18.1%	16.7%	19.2%	19.6%
Productivity ratios						
Sales/employees (in € `000)	80.0	75.7	67.9	65.0	75.4	82.7
Net result/employees (in € `000)	15.5	12.2	10.2	9.3	11.3	12.4
Number of employees	291	366	468	541	598	658
Financial ratios						
Equity ratio	47.3%	54.3%	64.9%	67.9%	71.2%	74.4%
Gearing	-25.3%	-29.3%	-29.8%	-33.9%	-34.3%	-36.7%
Dividend yield	4.3%	1.0%	1.2%	1.4%	1.8%	2.1%
Cash flow ratios						
Cash flow per share	2.88	3.30	3.74	3.92	4.99	6.02
Free cash flow per share	-2.41	1.64	2.37	2.63	3.78	4.56
Other ratios						
Depreciation/sales	5.5%	5.6%	6.1%	5.6%	4.8%	4.8%
Capex/sales	37.8%	10.8%	7.7%	6.6%	4.8%	4.8%
Working capital/sales	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
Tax rate	30.1%	29.1%	29.6%	29.6%	29.6%	29.6%

* Based on clean figures

Source: GK SOFTWARE AG / Vara Research GmbH

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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	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
GK SOFTWARE AG	05/16/2011	Buy	€ 56.45
GK SOFTWARE AG	06/20/2011	Buy	€ 56.45
GK SOFTWARE AG	08/16/2011	Buy	€ 50.90
GK SOFTWARE AG	09/08/2011	Buy	€ 52.70
GK SOFTWARE AG	11/14/2011	Buy	€ 53.35
GK SOFTWARE AG	12/14/2011	Buy	€ 53.35
GK SOFTWARE AG	03/06/2012	Buy	€ 53.35

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:

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3. **Date of initial publication of the financial analysis:
(05/07/2012)**
4. **Date and time of the prices of financial instruments disclosed therein:
(Price on 05/03/2012)**

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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