

Date **09/25/2014**

**Buy** (formerly: Buy)  
**TP: € 55.80** (formerly: € 56.75)

### Changes

	2014E		2015E	
	New	Delta	New	Delta
Sales	49.6	0%	56.4	0%
EBIT	6.2	0%	8.7	0%
EPS	2.43	0%	3.19	0%
EPS*	2.43	0%	3.19	0%
DPS	0.53	0%	0.70	0%

\* clean

Homepage: [www.gksoftware.de](http://www.gksoftware.de)  
 Sector: IT/Software

ISIN DE0007571424  
 Bloomberg GKS:GR  
 Reuters GKSG  
 Price (09/23/14): € 40.50  
 Market capitalisation € 77 million  
 EV € 60 million  
 Ø-Volume (100 days) € 46,434  
 52W high € 52.00  
 52W low € 23.50

### Financial calendar

11/27/2014 Q3 2014  
 04/29/2015 FY 2014

### Shareholder structure

GK Software Holding 49.8%  
 SAP AG 5.3%  
 R. Gläß 3.3%  
 S. Kronmüller 2.3%

### Price trends



Source: getinsight Research GmbH

**Daniel Grossjohann**  
[grossjohann@getinsight.de](mailto:grossjohann@getinsight.de)  
 +49 (0)69 2561 285 23

**Benjamin Ludacka**  
[ludacka@getinsight.de](mailto:ludacka@getinsight.de)  
 +49 (0)69 2561 285 22

## GK SOFTWARE AG

### Further large-scale projects are expected for H2

GK Software achieved an increase in sales of 8.4% in the first half of the fiscal year 2014. The EBIT margin with -5.4% was still negative. However, the business model of GK usually has a distinctive seasonal pattern with a strong licence business in Q4. The need for IT-investments in the retail sector continues to be high. Some major pipeline projects where GK is well-positioned are now reaching a final decision. We expect GK to announce two major projects in H2 (after Loblaw). However, from investors' point of view, it is more relevant that the investment backlog of omni channel projects dissolve and GK/SAP can participate noticeably rather than the spot-on earnings estimation for 2014. We consider GK to be well positioned here and in addition, the investments (expansion costs in USA, product development) should have already exceeded their zenith in 2014. With an EV/Sales value of below 2 GK is priced reasonable as compared to its peers.

### ■ Investment Highlights

- The sales growth in H1 2014 was particularly attributable to the sales from maintenance (+22.2%) and services (+20.2%) – the two main sales source. Whereas the sales of licence that are most subject to seasonal effects declined by 6.8%. Based on the project pipeline, typical sales cycle and the strategic direction of the retail market, we expect a significantly strong second half of the year for GK. The requirement of IT investment in retail remains high and the topics addressed by GK i.e omni-channel, cloud, InMemory-databasing continue to remain high on the agenda of the retail groups. Congruent solution packages as provided by GK and SAP does not otherwise exist in the market. Therefore, we view SAP/GK to have a competitive advantage in comparison to the purchase of various individual solutions.
- **Outlook:** GK SOFTWARE reaffirms its previous guidance, which provides a significant business expansion in 2014 and a significant growth in 2015 (at 2014 levels comparable margin). The GK/Retail business is expected to return to the margin levels of the year 2008 - 2011 (18% - 23%). The business segment IT services that anticipates a significant sales expansion for 2014 is expected to deliver EBIT margins in high single-digit percentage range. All the forecasts continue to be subject of the proviso that no external factors occur that would distinctively hold back the investment propensity of the retail.

### ■ Key ratios

	Sales	Net result	adj. EPS	adj. P/E	EV/Sales	EV/EBIT	EBIT Margin	ROE (%)
2012	28.4	1.1	0.59	64.7	2.4	55.0	4.3%	3.7%
2013	42.5	0.6	0.34	93.5	1.1	43.7	2.5%	2.0%
2014e	49.6	4.6	2.43	16.7	1.2	8.9	13.5%	12.4%
2015e	56.4	6.0	3.19	12.7	1.1	6.8	15.5%	13.9%
2016e	62.1	7.3	3.87	10.5	1.0	5.6	17.0%	15.0%

Source: GK Software AG / getinsight Research GmbH

**Increased utilisation of  
consultants and  
increased use of third  
party services**

The sales increase of over 20% in the personnel-intensive IT services were disproportionately higher to the development of personnel costs (+8.8%) and number of employees (-1%) respectively. Besides the higher utilisation of its own personnel the additional sales volume was achieved by increased utilisation of third party services. The strategic decision to scale on the increased use of trained and certified partner will thus be already evident in the half yearly profit and loss statement. This may cost margin for a short term, but raises capacity restraints to some extent and provide scaling capabilities for the licence business. Therewith we view GK to be excellently equipped for a strong upturning business.

**Expectations from  
H2 2014**

Our estimates imply sales of about € 29 million in the second half of the year at a half yearly EBIT of about € 8 million. We consider this to be achievable after GK succeeds to report two major projects in H2 2014 after Loblaw (here the order was announced in the beginning of July). However, more important than exact achievement of the expected results is that the momentum in the area of omni channel projects continue to remain visible and GK/SAP secure a significant market share in the recent themes (with regards to the actual implementation) - based on product and market position of SAP in the ERP area.

## Profit and Loss Account

in € million	2011	2012	2013	2014e	2015e	2016e
<b>Sales revenues</b>	<b>31.753</b>	<b>28.426</b>	<b>42.458</b>	<b>49.556</b>	<b>56.417</b>	<b>62.058</b>
Change in finished goods and work in progress	0.000	-0.127	0.000	0.000	0.000	0.000
Other own cost capitalized	1.489	0.748	0.376	0.438	0.499	0.549
Other operating income	0.729	1.658	2.451	2.711	3.086	3.395
<b>Total performance</b>	<b>33.971</b>	<b>30.704</b>	<b>45.285</b>	<b>52.705</b>	<b>60.002</b>	<b>66.002</b>
Cost of material	-0.611	-0.673	-4.082	-4.497	-5.120	-5.632
<b>Gross profit</b>	<b>33.360</b>	<b>30.031</b>	<b>41.202</b>	<b>48.208</b>	<b>54.882</b>	<b>60.370</b>
Personnel expenses	-18.601	-19.441	-25.605	-26.654	-29.291	-31.364
Other operating expenses/income	-6.158	-7.290	-12.258	-12.370	-14.007	-15.333
<b>EBITDA</b>	<b>8.601</b>	<b>3.301</b>	<b>3.340</b>	<b>9.185</b>	<b>11.584</b>	<b>13.674</b>
Depreciation/amortisation	-1.947	-2.068	-2.295	-2.495	-2.840	-3.124
<b>EBIT</b>	<b>6.654</b>	<b>1.233</b>	<b>1.045</b>	<b>6.690</b>	<b>8.744</b>	<b>10.550</b>
Financial result	-0.085	0.043	-0.113	-0.021	0.031	0.076
Non operating result before taxes	0.000	0.000	0.000	0.000	0.000	0.000
<b>Pre tax result</b>	<b>6.569</b>	<b>1.277</b>	<b>0.932</b>	<b>6.670</b>	<b>8.775</b>	<b>10.625</b>
Non operating result after taxes	0.000	0.000	0.000	0.000	0.000	0.000
Taxes	-2.005	-0.226	-0.331	-2.082	-2.739	-3.317
Minority interest	0.000	0.000	0.000	0.000	0.000	0.000
<b>Net result</b>	<b>4.564</b>	<b>1.051</b>	<b>0.601</b>	<b>4.588</b>	<b>6.036</b>	<b>7.309</b>
Adjustments	0.000	0.000	0.000	0.000	0.000	0.000
Adjusted net result	4.564	1.051	0.601	4.588	6.036	7.309
Average number of shares	1.790	1.790	1.791	1.890	1.890	1.890
<b>EPS</b>	<b>2.55</b>	<b>0.59</b>	<b>0.34</b>	<b>2.43</b>	<b>3.19</b>	<b>3.87</b>
Adjusted EPS	2.55	0.59	0.34	2.43	3.19	3.87
DPS	0.50	0.00	0.25	0.57	0.73	0.84

Source: GK SOFTWARE AG / getinsight Research GmbH

in % of Sales	2011	2012	2013	2014e	2015e	2016e
<b>Sales revenues</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Total performance	107.0	108.0	106.7	106.4	106.4	106.4
Cost of material	-1.9	-2.4	-9.6	-9.1	-9.1	-9.1
<b>Gross profit</b>	<b>105.1</b>	<b>105.6</b>	<b>97.0</b>	<b>97.3</b>	<b>97.3</b>	<b>97.3</b>
Personnel expenses	-58.6	-68.4	-60.3	-53.8	-51.9	-50.5
Other operating expenses/income	-19.4	-25.6	-28.9	-25.0	-24.8	-24.7
<b>EBITDA</b>	<b>27.1</b>	<b>11.6</b>	<b>7.9</b>	<b>18.5</b>	<b>20.5</b>	<b>22.0</b>
Depreciation/amortisation	-6.1	-7.3	-5.4	-5.0	-5.0	-5.0
<b>EBIT</b>	<b>21.0</b>	<b>4.3</b>	<b>2.5</b>	<b>13.5</b>	<b>15.5</b>	<b>17.0</b>
Financial result	-0.3	0.2	-0.3	-0.0	0.1	0.1
Non operating result before taxes	-	-	-	-	-	-
<b>Pre tax result</b>	<b>20.7</b>	<b>4.5</b>	<b>2.2</b>	<b>13.5</b>	<b>15.6</b>	<b>17.1</b>
Non operating result after taxes	-	-	-	-	-	-
Taxes	-6.3	-0.8	-0.8	-4.2	-4.9	-5.3
Minority interest	-	-	-	-	-	-
<b>Net result</b>	<b>14.4</b>	<b>3.7</b>	<b>1.4</b>	<b>9.3</b>	<b>10.7</b>	<b>11.8</b>
Adjustments	-	-	-	-	-	-
Adjusted net result	14.4	3.7	1.4	9.3	10.7	11.8

Source: GK SOFTWARE AG / getinsight Research GmbH

## Balance of Accounts

in € million	2011	2012	2013	2014e	2015e	2016e
<b>Long term assets</b>	<b>13.664</b>	<b>15.810</b>	<b>14.718</b>	<b>13.682</b>	<b>12.504</b>	<b>11.507</b>
Intangible assets	9.540	10.924	9.922	8.629	7.336	6.043
Tangible assets	4.124	4.884	4.794	5.052	5.166	5.462
Financial assets	0.000	0.002	0.002	0.002	0.002	0.002
<b>Current assets</b>	<b>29.084</b>	<b>26.580</b>	<b>32.351</b>	<b>41.408</b>	<b>47.820</b>	<b>54.974</b>
Inventories	0.000	1.019	1.043	1.217	1.386	1.524
Trade receivables	11.945	11.629	13.754	16.053	18.276	20.104
Receivables	3.279	3.550	3.812	3.812	3.812	3.812
Cash and securities	13.859	10.382	13.742	20.325	24.346	29.534
<b>Other assets</b>	<b>0.727</b>	<b>1.978</b>	<b>0.753</b>	<b>0.753</b>	<b>0.753</b>	<b>0.753</b>
<b>Total assets</b>	<b>43.475</b>	<b>44.367</b>	<b>47.821</b>	<b>55.843</b>	<b>61.076</b>	<b>67.233</b>
<b>Equity</b>	<b>28.231</b>	<b>28.332</b>	<b>33.156</b>	<b>40.896</b>	<b>45.854</b>	<b>51.774</b>
Reserves	28.231	28.332	33.156	40.896	45.854	51.774
Minorities	0.000	0.000	0.000	0.000	0.000	0.000
<b>Provisions</b>	<b>1.109</b>	<b>4.271</b>	<b>2.540</b>	<b>2.584</b>	<b>2.630</b>	<b>2.678</b>
<b>Liabilities</b>	<b>11.462</b>	<b>10.114</b>	<b>10.196</b>	<b>10.434</b>	<b>10.663</b>	<b>10.852</b>
Interest bearing liabilities	5.243	3.475	2.290	2.290	2.290	2.290
Trade payables	0.329	0.843	1.421	1.659	1.889	2.077
Non interest bearing liabilities	5.891	5.795	6.485	6.485	6.485	6.485
<b>Other liabilities</b>	<b>2.672</b>	<b>1.651</b>	<b>1.928</b>	<b>1.928</b>	<b>1.928</b>	<b>1.928</b>
<b>Total equity and liabilities</b>	<b>43.475</b>	<b>44.367</b>	<b>47.821</b>	<b>55.843</b>	<b>61.076</b>	<b>67.233</b>

Source: GK SOFTWARE AG / getinsight Research GmbH

in % of the balance sheet total	2011	2012	2013	2014e	2015e	2016e
<b>Long term assets</b>	<b>31.4</b>	<b>35.6</b>	<b>30.8</b>	<b>24.5</b>	<b>20.5</b>	<b>17.1</b>
Intangible assets	21.9	24.6	20.7	15.5	12.0	9.0
Tangible assets	9.5	11.0	10.0	9.0	8.5	8.1
Financial assets	0.0	0.0	0.0	0.0	0.0	0.0
<b>Current assets</b>	<b>66.9</b>	<b>59.9</b>	<b>67.6</b>	<b>74.2</b>	<b>78.3</b>	<b>81.8</b>
Inventories	-	2.3	2.2	2.2	2.3	2.3
Trade receivables	27.5	26.2	28.8	28.7	29.9	29.9
Receivables	7.5	8.0	8.0	6.8	6.2	5.7
Cash and securities	31.9	23.4	28.7	36.4	39.9	43.9
<b>Other assets</b>	<b>1.7</b>	<b>4.5</b>	<b>1.6</b>	<b>1.3</b>	<b>1.2</b>	<b>1.1</b>
<b>Total assets</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Equity</b>	<b>64.9</b>	<b>63.9</b>	<b>69.3</b>	<b>73.2</b>	<b>75.1</b>	<b>77.0</b>
Reserves	64.9	63.9	69.3	73.2	75.1	77.0
Minorities	-	-	-	-	-	-
<b>Provisions</b>	<b>2.6</b>	<b>9.6</b>	<b>5.3</b>	<b>4.6</b>	<b>4.3</b>	<b>4.0</b>
<b>Liabilities</b>	<b>26.4</b>	<b>22.8</b>	<b>21.3</b>	<b>18.7</b>	<b>17.5</b>	<b>16.1</b>
Interest bearing liabilities	12.1	7.8	4.8	4.1	3.7	3.4
Trade payables	0.8	1.9	3.0	3.0	3.1	3.1
Non interest bearing liabilities	13.6	13.1	13.6	11.6	10.6	9.6
<b>Other liabilities</b>	<b>6.1</b>	<b>3.7</b>	<b>4.0</b>	<b>3.5</b>	<b>3.2</b>	<b>2.9</b>
<b>Total equity and liabilities</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: GK SOFTWARE AG / getinsight Research GmbH

## ■ Cash Flow Statement

(in € million)	2011	2012	2013	2014e	2015e	2016e
Net cash provided by operating activities	4.7	3.2	1.8	4.9	6.8	8.7
Net cash used in investing activities	-2.7	-4.0	-1.0	-1.5	-1.7	-2.1
<i>Of which Capex</i>	-2.4	-2.1	-1.2	-1.5	-1.7	-2.1
Net cash provided by financing activities	-1.6	-2.7	2.5	3.2	-1.1	-1.4
Change in cash and securities	0.4	-3.5	3.4	6.6	4.0	5.2
Cash and securities at the end of the period	13.9	10.4	13.7	20.3	24.3	29.5

Source: GK SOFTWARE AG / getinsight Research GmbH

## Key Figures

	2011	2012	2013	2014e	2015e	2016e
<b>Valuation ratios</b>						
Market capitalization (in € m)	76.52	68.02	56.20	76.55	76.55	76.55
Enterprise Value (in € m)	68.10	67.82	45.66	59.47	59.47	59.47
EV/Sales	2.14	2.39	1.08	1.20	1.05	0.96
EV/EBITDA	7.92	20.55	13.67	6.47	5.13	4.35
EV/EBIT	10.23	54.99	43.68	8.89	6.80	5.64
P/E reported	16.77	64.73	93.50	16.69	12.68	10.47
P/E clean	16.77	64.73	93.50	16.69	12.68	10.47
PCPS	11.42	14.40	48.20	10.74	8.58	7.30
Price to book	2.71	2.40	1.70	1.87	1.67	1.48
<b>Profitability ratios</b>						
EBITDA margin	27.1%	11.6%	7.9%	18.5%	20.5%	22.0%
EBIT margin	21.0%	4.3%	2.5%	13.5%	15.5%	17.0%
Pre tax margin	20.7%	4.5%	2.2%	13.5%	15.6%	17.1%
Net margin	14.4%	3.7%	1.4%	9.3%	10.7%	11.8%
Free cash flow margin	13.4%	9.4%	n.m.	11.4%	12.9%	13.5%
ROE	17.4%	3.7%	2.0%	12.4%	13.9%	15.0%
<b>Productivity ratios</b>						
Sales/employees (in € `000)	78.4	59.6	74.5	79.0	83.3	87.3
Net result/employees (in € `000)	11.3	2.2	1.1	7.3	8.9	10.3
Number of employees	405	477	570	627	677	711
<b>Financial ratios</b>						
Equity ratio	64.9%	63.9%	69.3%	73.2%	75.1%	77.0%
Gearing	-29.8%	-0.7%	-31.8%	-41.8%	-45.9%	-50.6%
Dividend yield	1.2%	0.0%	0.8%	1.4%	1.8%	2.1%
<b>Cash flow ratios</b>						
Cash flow per share	3.74	2.64	0.65	3.77	4.72	5.54
Free cash flow per share	2.37	1.49	-0.02	3.00	3.84	4.42
<b>Other ratios</b>						
Depreciation/sales	6.1%	7.3%	5.4%	5.0%	5.0%	5.0%
Capex/sales	7.7%	7.2%	2.8%	2.9%	2.9%	3.4%
Working capital/sales	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
Tax rate	30.5%	17.7%	35.5%	31.2%	31.2%	31.2%

Source: GK SOFTWARE AG / getinsight 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: getinsight Research GmbH**

**Authors of this financial analysis: Daniel Großjohann, Analyst, and Benjamin Ludacka, Analyst.**

getinsight Research GmbH is subject to regulation through the Federal Financial Supervisory Authority (BaFin).

Reference pursuant to section 4 subsection 4 point 4 FinAnV:

Previous financial analyses:

Company	Date	Rating	Target price
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	€ 53.45
GK SOFTWARE AG	12/14/2011	Buy	€ 53.45
GK SOFTWARE AG	03/06/2012	Buy	€ 53.45
GK SOFTWARE AG	05/07/2012	Buy	€ 58.50
GK SOFTWARE AG	06/27/2012	Buy	€ 58.50
GK SOFTWARE AG	01/07/2013	Buy	€ 56.50
GK SOFTWARE AG	04/15/2013	Buy	€ 46.75
GK SOFTWARE AG	05/13/2013	Buy	€ 46.75
GK SOFTWARE AG	06/26/2013	Buy	€ 46.75
GK SOFTWARE AG	09/24/2013	Buy	€ 42.20
GK SOFTWARE AG	12/04/2013	Buy	€ 42.20
GK SOFTWARE AG	04/25/2014	Buy	€ 52.68
GK SOFTWARE AG	08/20/2014	Buy	€ 56.75

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 publication; no substantial changes were made afterwards.

2. Summary of the valuation principles and methods used in preparation of the analysis:

getinsight 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/original publication of the financial analysis:  
(09/25/2014)**

**4. Date and time of the prices of financial instruments disclosed therein:  
(Price on 09/23/2014)**

5. Updates:

We have currently not yet set a fixed date to provide a precise update of this analysis. getinsight Research GmbH reserves the right to update the analysis unannounced.

**III. Disclosure on possible conflicts-of-interest** by the use of the following numeration as reference:

1. the author has a shareholding in an amount of more than 5% of the share capital,
2. the author has participated in the management of a consortium which has publicly issued financial instruments of the issuer within the last twelve months,
3. the author has carried out sales/purchase transactions on the analysed contents,
4. there exists personnel ties between the author and the issuer,
5. the author belongs to a controlling body of the issuer or by any other means exercises a corresponding control function,
6. the author has an agreement with the issuer on the preparation of analysis (assignment),
7. the author receives payments from the issuer,
8. the author concluded an agreement on services in connection with investment banking transactions in the last 12 months, and he has received consideration or promise of consideration from such agreement

**In the present financial analysis the conflict-of-interest mentioned under 6. applies.**

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