research
getinsight

Date	**12/11/2014**

Buy	(formerly: Buy)
TP: € 50.80	(formerly: € 55.80)

Changes

	2014E		2015E	
	New	Delta	New	Delta
Sales	44,3	-11%	50,5	-10%
EBIT	0,2	-97%	6,6	-24%
EPS	0,07	-97%	2,39	-25%
EPS*	0,07	-97%	2,39	-25%
DPS	0,02	-96%	0,55	-21%

* clean

Homepage:	www.gksoftware.de
Sector:	IT/Software

ISIN	DE0007571424
Bloomberg	GKS:GR
Reuters	GKSG
Price (12/10/14):	€ 34.50
Market capitalisation	€ 64 million
EV	€ 50 million
Ø-volume (100 days)	€ 31,778
52W high	€ 52.00
52W low	€ 32.58

Financial calendar
04/29/2015	FY 2014
05/28/2015	Q1 2015

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

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GK SOFTWARE AG

Several project initiations up for a decision, first project from South Africa secured

GK reported 6.7% growth in the first nine months of the fiscal year 2014 and only just under 1% growth in Q3. This was, inter alia, due to the fact that initial outlays for a major project in Germany could not be invoiced because of the acquisition of the potential client. The primary trend (omnichannel) is still intact and the two recently announced South-African projects underline the international growth strategy. As per GK, it has several major projects on the verge of completion. However, we do not expect that all these projects can be reported in 2014 and hence we are reducing our estimates. The sales cycle of SAP seems longer to us (due to the scope of the project) at the same time, however, the completion is safer. With a 2015e EV/Sales multiple of about 1 the GK share is favourable in comparison to its peers and we expect that GK would return to its historical margin levels in the medium term.

■ Investment Highlights

■ A leading South-African retail company recently decided to implement SAP Point-of-Sale by GK solutions in one of its business lines (150 hypermarkets). The first project of GK in southern Africa includes modern omnichannel-compatible point-of-sales solutions that will be rolled out on more than 7,000 stationary and mobile devices in total. The adaption of the solutions to the specific requirements will be done by GK's own employees. At the same time another (smaller) customer in South Africa (from the public sector) has also chosen SAP Point-of-Sale by GK. This project will be handled by a certified GK Software partner.

■ The pipeline of GK/SAP is well filled. Four projects are up for a decision in the short term, two from Europe and two from North America. We expect at least one of these projects can still be reported in 2014. The high margin licence sales would then be recognised in 2014 and would have a corresponding effect on margins. We gained the impression that GK can better estimate the sales cycles of interested parties acquired by SAP now and is more closely integrated in the process.

■ **Outlook:** Based on the sales, GK continues to plan on exceeding the previous year's sales, however the margin guidance was revoked. This is inter alia, due to higher than expected costs of internationalisation and also due to the uncertainty about how many pipeline projects can still be gained as of the balance sheet date (31.12.2014). 2015 is expected to yield significant sales growth as compared to 2014 while simultaneously improving earnings.

■ 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	44.3	0.1	0.07	501.4	1.1	225.3	0.5%	0.4%
2015e	50.5	4.5	2.39	14.1	1.0	7.6	13.0%	11.7%
2016e	55.5	5.7	3.04	11.1	0.9	6.0	15.0%	13.3%

Source: GK Software AG / getinsight Research GmbH

**Q4 sales expected at
€ 13.8 million**

We expect GK to achieve sales of about € 13.8 million in Q4 and this would be roughly at the same level as the previous year Q4 figure. Given the current cost structure we assume the break-even-sales (per quarter) between € 11 million and € 11.5 million. As a result of the high gross margin, the fourth quarter sales expected by us leads to an EBIT of roughly over € 2 million. This means a slightly positive EBIT for the entire fiscal year 2014.

**2014 results
encumbered by one-time
effects**

2014 was not only affected by the acquisition of a retail chain which was about to conclude a contract with GK but also from the development costs of the new solutions-world Omni-POS (which will be launched in HY1 2015). This was compounded by the delays in the implementation of a further well-filled pipeline. Even though the three effects together cause a weaker as expected results in 2014 but they cannot be termed as an indication for 2015 as the pipeline has matured further. Second driver for 2015 is the new product line Omni-POS. In addition, the growing installed base provides for annual increase in maintenance sales.

**Omni-Channel topic is
further gaining
momentum**

After majority of the retail groups are long working on enhancing an omni-channel strategy, the concept of omni-channel is now increasingly finding attention in the media. According to a recent survey of German Trade Congress / Tata Consultancy only 30% of retailers in Germany have implemented their omni-channel strategy completely, 17% have analysed appropriate processes and systems, and 53% are preparing their supply chains for it. New (shopping) Apps such as shopkick require a very efficient IT infrastructure (software), enables a better observation of customer behaviour and at the same time they are more comfortable as card systems (for e.g. Payback) for the customer.

■ Profit and Loss Account

in € million	2011	2012	2013	2014e	2015e	2016e
Sales revenues	**31.753**	**28.426**	**42.458**	**44.256**	**50.481**	**55.529**
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	0.391	0.447	0.491
Other operating income	0.729	1.658	2.451	2.273	2.593	2.853
Total performance	**33.971**	**30.704**	**45.285**	**46.921**	**53.520**	**58.872**
Cost of material	-0.611	-0.673	-4.082	-5.483	-5.254	-5.780
Gross profit	**33.360**	**30.031**	**41.202**	**41.438**	**48.266**	**53.093**
Personnel expenses	-18.601	-19.441	-25.605	-27.974	-27.973	-29.735
Other operating expenses/income	-6.158	-7.290	-12.258	-11.035	-11.212	-12.258
EBITDA	**8.601**	**3.301**	**3.340**	**2.430**	**9.081**	**11.100**
Depreciation/amortisation	-1.947	-2.068	-2.295	-2.208	-2.519	-2.771
EBIT	**6.654**	**1.233**	**1.045**	**0.221**	**6.562**	**8.330**
Financial result	-0.085	0.043	-0.113	-0.037	-0.006	0.025
Non operating result before taxes	0.000	0.000	0.000	0.000	0.000	0.000
Pre tax result	**6.569**	**1.277**	**0.932**	**0.185**	**6.556**	**8.354**
Non operating result after taxes	0.000	0.000	0.000	0.000	0.000	0.000
Taxes	-2.005	-0.226	-0.331	-0.058	-2.046	-2.608
Minority interest	0.000	0.000	0.000	0.000	0.000	0.000
Net result	**4.564**	**1.051**	**0.601**	**0.127**	**4.509**	**5.747**
Adjustments	0.000	0.000	0.000	0.000	0.000	0.000
Adjusted net result	4.564	1.051	0.601	0.127	4.509	5.747
Average number of shares	1.790	1.790	1.791	1.890	1.890	1.890
EPS	**2.55**	**0.59**	**0.34**	**0.07**	**2.39**	**3.04**
Adjusted EPS	2.55	0.59	0.34	0.07	2.39	3.04
DPS	0.50	0.00	0.25	0.02	0.55	0.66

Source: GK SOFTWARE AG / getinsight Research GmbH

in % of Sales	2011	2012	2013	2014e	2015e	2016e
Sales revenues	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Total performance	107.0	108.0	106.7	106.0	106.0	106.0
Cost of material	-1.9	-2.4	-9.6	-12.4	-10.4	-10.4
Gross profit	**105.1**	**105.6**	**97.0**	**93.6**	**95.6**	**95.6**
Personnel expenses	-58.6	-68.4	-60.3	-63.2	-55.4	-53.5
Other operating expenses/income	-19.4	-25.6	-28.9	-24.9	-22.2	-22.1
EBITDA	**27.1**	**11.6**	**7.9**	**5.5**	**18.0**	**20.0**
Depreciation/amortisation	-6.1	-7.3	-5.4	-5.0	-5.0	-5.0
EBIT	**21.0**	**4.3**	**2.5**	**0.5**	**13.0**	**15.0**
Financial result	-0.3	0.2	-0.3	-0.1	-0.0	0.0
Non operating result before taxes	-	-	-	-	-	-
Pre tax result	**20.7**	**4.5**	**2.2**	**0.4**	**13.0**	**15.0**
Non operating result after taxes	-	-	-	-	-	-
Taxes	-6.3	-0.8	-0.8	-0.1	-4.1	-4.7
Minority interest	-	-	-	-	-	-
Net result	**14.4**	**3.7**	**1.4**	**0.3**	**8.9**	**10.3**
Adjustments	-	-	-	-	-	-
Adjusted net result	14.4	3.7	1.4	0.3	8.9	10.3

Source: GK SOFTWARE AG / getinsight Research GmbH

■ Balance of Accounts

in € million	2011	2012	2013	2014e	2015e	2016e
Long term assets	**13.664**	**15.810**	**14.718**	**14.126**	**13.452**	**13.010**
Intangible assets	9.540	10.924	9.922	8.629	7.336	6.043
Tangible assets	4.124	4.884	4.794	5.496	6.114	6.965
Financial assets	0.000	0.002	0.002	0.002	0.002	0.002
Current assets	**29.084**	**26.580**	**32.351**	**36.326**	**41.734**	**47.103**
Inventories	0.000	1.019	1.043	1.087	1.240	1.364
Trade receivables	11.945	11.629	13.754	14.337	16.353	17.988
Receivables	3.279	3.550	3.812	3.812	3.812	3.812
Cash and securities	13.859	10.382	13.742	17.090	20.329	23.939
Other assets	**0.727**	**1.978**	**0.753**	**0.753**	**0.753**	**0.753**
Total assets	**43.475**	**44.367**	**47.821**	**51.205**	**55.938**	**60.865**
Equity	**28.231**	**28.332**	**33.156**	**36.436**	**40.915**	**45.625**
Reserves	28.231	28.332	33.156	36.436	40.915	45.625
Minorities	0.000	0.000	0.000	0.000	0.000	0.000
Provisions	**1.109**	**4.271**	**2.540**	**2.584**	**2.630**	**2.678**
Liabilities	**11.462**	**10.114**	**10.196**	**10.256**	**10.465**	**10.634**
Interest bearing liabilities	5.243	3.475	2.290	2.290	2.290	2.290
Trade payables	0.329	0.843	1.421	1.481	1.690	1.859
Non interest bearing liabilities	5.891	5.795	6.485	6.485	6.485	6.485
Other liabilities	**2.672**	**1.651**	**1.928**	**1.928**	**1.928**	**1.928**
Total equity and liabilities	**43.475**	**44.367**	**47.821**	**51.205**	**55.938**	**60.865**

Source: GK SOFTWARE AG / getinsight Research GmbH

in % of the balance sheet total	2011	2012	2013	2014e	2015e	2016e
Long term assets	**31.4**	**35.6**	**30.8**	**27.6**	**24.0**	**21.4**
Intangible assets	21.9	24.6	20.7	16.9	13.1	9.9
Tangible assets	9.5	11.0	10.0	10.7	10.9	11.4
Financial assets	0.0	0.0	0.0	0.0	0.0	0.0
Current assets	**66.9**	**59.9**	**67.6**	**70.9**	**74.6**	**77.4**
Inventories	-	2.3	2.2	2.1	2.2	2.2
Trade receivables	27.5	26.2	28.8	28.0	29.2	29.6
Receivables	7.5	8.0	8.0	7.4	6.8	6.3
Cash and securities	31.9	23.4	28.7	33.4	36.3	39.3
Other assets	**1.7**	**4.5**	**1.6**	**1.5**	**1.3**	**1.2**
Total assets	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Equity	**64.9**	**63.9**	**69.3**	**71.2**	**73.1**	**75.0**
Reserves	64.9	63.9	69.3	71.2	73.1	75.0
Minorities	-	-	-	-	-	-
Provisions	**2.6**	**9.6**	**5.3**	**5.0**	**4.7**	**4.4**
Liabilities	**26.4**	**22.8**	**21.3**	**20.0**	**18.7**	**17.5**
Interest bearing liabilities	12.1	7.8	4.8	4.5	4.1	3.8
Trade payables	0.8	1.9	3.0	2.9	3.0	3.1
Non interest bearing liabilities	13.6	13.1	13.6	12.7	11.6	10.7
Other liabilities	**6.1**	**3.7**	**4.0**	**3.8**	**3.4**	**3.2**
Total equity and liabilities	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

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	1.8	5.1	7.0
Net cash used in investing activities	-2.7	-4.0	-1.0	-1.6	-1.8	-2.3
Of which Capex	-2.4	-2.1	-1.2	-1.6	-1.8	-2.3
Net cash provided by financing activities	-1.6	-2.7	2.5	3.2	0.0	-1.0
Change in cash and securities	0.4	-3.5	3.4	3.3	3.2	3.6
Cash and securities at the end of the period	13.9	10.4	13.7	17.1	20.3	23.9

Source: GK SOFTWARE AG / getinsight Research GmbH

Key Figures

	2011	2012	2013	2014e	2015e	2016e
Valuation ratios						
Market capitalization (in € m)	76.52	68.02	56.20	63.69	63.69	63.69
Enterprise Value (in € m)	68.10	67.82	45.66	49.85	49.85	49.85
EV/Sales	2.14	2.39	1.08	1.13	0.99	0.90
EV/EBITDA	7.92	20.55	13.67	20.52	5.49	4.49
EV/EBIT	10.23	54.99	43.68	225.27	7.60	5.98
P/E reported	16.77	64.73	93.50	501.42	14.13	11.09
P/E clean	16.77	64.73	93.50	501.42	14.13	11.09
PCPS	11.42	14.40	48.20	26.78	9.00	7.44
Price to book	2.71	2.40	1.70	1.75	1.56	1.40
Profitability ratios						
EBITDA margin	27.1%	11.6%	7.9%	5.5%	18.0%	20.0%
EBIT margin	21.0%	4.3%	2.5%	0.5%	13.0%	15.0%
Pre tax margin	20.7%	4.5%	2.2%	0.4%	13.0%	15.0%
Net margin	14.4%	3.7%	1.4%	0.3%	8.9%	10.3%
Free cash flow margin	13.4%	9.4%	n.m.	1.7%	10.4%	11.2%
ROE	17.4%	3.7%	2.0%	0.4%	11.7%	13.3%
Productivity ratios						
Sales/employees (in € `000)	78.4	59.6	74.5	70.6	80.5	84.3
Net result/employees (in € `000)	11.3	2.2	1.1	0.2	7.2	8.7
Number of employees	405	477	570	627	627	658
Financial ratios						
Equity ratio	64.9%	63.9%	69.3%	71.2%	73.1%	75.0%
Gearing	-29.8%	-0.7%	-31.8%	-38.0%	-41.6%	-45.1%
Dividend yield	1.2%	0.0%	0.8%	0.0%	1.6%	2.0%
Cash flow ratios						
Cash flow per share	3.74	2.64	0.65	1.26	3.74	4.53
Free cash flow per share	2.37	1.49	-0.02	0.40	2.77	3.30
Other ratios						
Depreciation/sales	6.1%	7.3%	5.4%	5.0%	5.0%	5.0%
Capex/sales	7.7%	7.2%	2.8%	3.7%	3.7%	4.2%
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.

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Reference pursuant to section 4 subsection 4 point 4 FinAnV:

Previous financial analyses:

Company	Date	Rating	Target price
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	05/21/2014	Buy	€ 53.25
GK SOFTWARE AG	08/20/2014	Buy	€ 55.80

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 AllgemeineZeitung, 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.

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3. **Date of initial/original publication of the financial analysis: (12/11/2014)**

4. Date and time of the prices of financial instruments disclosed therein:
(Price on 12/10/2014)

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.

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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,

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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

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