

Date 17/05/2016

Recommendation:

Buy (previous: Buy)

PT: € 54.35 (previous: € 45.20)

GK Software

Industry: Software

Segment: Prime Standard

ISIN: DE0007571424

Reuters: GKSG

Price (13/05/2016): € 42.16

Market Cap € 80 Mio.

EV € 88 Mio.

Ø-volume `000€ (100 days) 34.3

52W High € 42.99

52W Low € 28.90

Financial Calendar

Q1 report 26/05/2016

AGM 16/06/2016

Q2 report 30/08/2016

Shareholder structure

GK Software Hldg. 49.8%

SAP AG 5.3%

R.Gläß 3.3%

S.Kronmüller 2.3%

Share performance



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GK SOFTWARE AG

Major jump in sales in 2015, further growth and positive EBIT margin expected in 2016

GK has clearly exceeded our expectations in terms of its sales in 2015 (+40.3%, with two-thirds of this increase being attributable to organic growth). However, this was not the case for its operating results, in spite of a very strong performance in the final quarter. We expect the new OmniPOS solution introduced in February 2016 – in addition to the company's close partnership with SAP and the acquisition of the new customer ALDI Nord – to be a major driver of growth in 2016. We have raised our sales projections for the years to come to a significant degree to reflect the healthy state of the company's order book – while nonetheless remaining somewhat below the level of its own sales targets, which are based on an aspirational doubling of the 2014 sales figures within a three-year period. The GK share may fundamentally still be viewed as favourably priced, if one assumes that it will again be possible to achieve operating margins (EBIT) of 15% over the medium term.

- ✓ In Q4 2016, GK Software generated quarterly sales of €20.6 million and EBIT in the amount of approximately €2.1 million, successfully increasing its sales from one quarter to the next in 2015. This growth in sales is also set to continue in 2016 – on the basis of a pipeline that is currently being bolstered by both the launch of the new OmniPOS solution and the weak performance of a number of the company's competitors. Corroboration for this assessment is provided by the acquisition of ALDI Nord as a customer (1/2016) and the highly positive initial feedback from potential customers with regard to the OmniPOS presentation at the EuroCIS (2/2016).
- ✓ The partnership with SAP continues to grow. While five new customers were acquired through or in conjunction with SAP in 2014, the number of such new projects rose to 14 in 2015. We anticipate that SAP will also play a major role in 2016. The acquisition of the ALDI Nord project announced in Q1 2016 is also a product of the partnership with SAP. The rest of the company's order book is also looking healthy. Joint appearances by SAP and GK at trade fairs, for example the NRF in the US, serve to reinforce the close collaboration between the two companies.

Outlook for the company: GK Software expects to experience further growth in 2016 (and in the years thereafter): Interest in the new solutions on the market is apparently high and the company's order book is very full. The EBIT margin is expected to be positive in 2016, with a Group EBIT margin of 15% being the goal over the medium term. The sales target for the medium term is a doubling of the results for 2014 (€44.6 million) within three years, assuming average growth in the double-digit percentage range over the next few years.

Key figures - GK Software AG

	Sales	EBITDA	EBIT	EPS (adj.)	EV/Sales	P/E
2014 a	44.6	0.0	-3.0	-0.99	1.61	-42.4
2015 a	62.6	2.2	-1.3	-0.79	1.19	-43.7
2016 e	71.2	7.4	2.5	0.95	1.24	44.5
2017 e	85.2	12.8	7.0	2.71	1.04	15.6
2018 e	96.2	18.5	11.9	4.58	0.92	9.2

Source: Company Data, EQUITS GmbH

OmniPOS – more modern software architecture, closely aligned with SAP developments

OmniPOS constitutes a significant enhancement of the GK/Retail Suite, which takes a number of factors into account: On the one hand, the software architecture is now of a more modular nature, with a clearer, more consistent approach being taken to the mapping of the omni-channel universe; on the other hand, it is now even more closely interlinked with SAP. GK's research and development activities in 2015 were closely aligned with those at SAP, enabling the integration of the latter's new developments and enhancements with regard to hybris, Fiori, HANA and CAR within GK's own product development at an early stage. In light of the foregoing, it is not surprising that the GK solutions once more successfully underwent the SAP premium qualification process in March 2016. The advantage of this optimum interlinking of the solutions of GK and SAP in the retail trade context is now even more apparent and will have the effect of further improving GK's sales prospects.

Further near-shore development location established

A further near-shore development location was acquired in February 2016, in the form of the new wholly owned subsidiary Eurosoftware-UA LLC (Lwiw, Ukraine). Since 2002, the most important near-shore R&D location has been Pilsen, Czech Republic (Eurosoftware s.r.o.), with 174 employees at present (2014: 158). However, Eastern Europe/Russia were/are also of interest to GK as end-customer markets.

Income Statement	2013	2014	2015	2016e	2017e	2018e
Sales	42.458	44.634	62.602	71.235	85.160	96.247
Change in finished goods	0.000	0.000	0.000	0.000	0.000	0.000
Other own costs capitalized	0.376	0.512	0.525	0.597	0.714	0.807
Other operating income	2.451	2.188	1.726	1.964	2.348	2.654
Total performance	45.285	47.333	64.853	73.796	88.222	99.708
Cost of material	-4.082	-5.151	-8.266	-8.271	-9.359	-9.648
Gross profit	41.202	42.182	56.587	65.525	78.863	90.059
Personnel expenses	-25.605	-28.749	-39.668	-41.551	-46.905	-50.582
Other operating expenses	-12.258	-13.397	-14.742	-16.592	-19.152	-20.962
EBITDA	3.340	0.037	2.177	7.383	12.806	18.515
Depreciation/amortisation	-2.295	-3.052	-3.453	-4.871	-5.822	-6.580
EBIT	1.045	-3.015	-1.276	2.512	6.984	11.935
Financial result	-0.113	0.028	-0.107	0.031	0.276	0.348
Non operating result before taxes	0.000	0.000	0.000	0.000	0.000	0.000
EBT	0.932	-2.987	-1.383	2.542	7.260	12.283
Non operating result after taxes	0.000	0.000	0.000	0.000	0.000	0.000
Taxes	-0.331	1.117	-0.117	-0.751	-2.143	-3.627
Minority interest	0.000	0.000	0.000	0.000	0.000	0.000
Net result	0.601	-1.870	-1.500	1.792	5.116	8.657
Adjustments	0.00	0.00	0.00	0.00	0.00	0.00
Adjusted net result	0.601	-1.870	-1.500	1.792	5.116	8.657
Average number of shares	1.79	1.89	1.89	1.89	1.89	1.89
EPS	0.34	-0.99	-0.79	0.95	2.71	4.58
Adjusted EPS	0.34	-0.99	-0.79	0.95	2.71	4.58
DPS	0.25	0.00	0.00	0.00	0.60	1.01

Source: EQUI.TS; company data

Cash Flow Statement	2013	2014	2015	2016e	2017e	2018e
Net cash provided by operating activities	1.829	-0.394	2.196	4.159	6.860	12.008
Net cash used in investing activities	-0.951	-1.569	-18.583	-2.716	-3.547	-4.308
Net cash provided by financing activities	2.483	-1.606	12.574	-2.000	-2.000	-3.126
Change in cash and securities	3.361	-3.569	-3.813	-0.557	1.314	4.574
Cash and secur. at the end of the period	13.742	10.173	7.377	6.820	8.134	12.708

Source: EQUI.TS; company data

- Please consider the disclaimer at the end of this document -

Balance Sheet	2013	2014	2015	2016e	2017e	2018e
Long term assets	14.718	13.445	30.944	28.789	26.513	24.242
Intangible assets	9.922	8.474	25.190	23.897	22.604	21.311
Tangible assets	4.794	4.970	5.753	4.891	3.908	2.929
Financial assets	0.002	0.002	0.002	0.002	0.002	0.002
Current assets	32.351	28.270	33.074	35.379	41.309	49.559
Inventories	1.043	1.159	1.655	1.883	2.251	2.544
Accounts Receivables	13.754	12.375	19.100	21.733	25.982	29.364
Other current assets	3.812	4.563	4.943	4.943	4.943	4.943
Cash and securities	13.742	10.173	7.377	6.820	8.134	12.708
Other assets	0.753	2.957	3.742	3.742	3.742	3.742
Total assets	47.821	44.673	67.760	67.910	71.565	77.543
Equity	33.156	30.555	28.967	30.758	35.874	43.405
Reserves	33.156	30.555	28.967	30.758	35.874	43.405
Minorities	0.000	0.000	0.000	0.000	0.000	0.000
Provisions	2.540	3.321	4.081	4.151	4.224	4.301
Liabilities	10.196	8.600	32.085	30.373	28.838	27.209
Interest bearing liabilities	2.290	1.132	14.723	12.723	10.723	8.723
Accounts Payables	1.421	1.634	2.091	2.380	2.845	3.215
Other non-interest bearing liabilities	6.485	5.835	15.271	15.271	15.271	15.271
Other liabilities	1.928	2.196	2.628	2.628	2.628	2.628
Total equity and liabilities	47.821	44.673	67.760	67.910	71.565	77.543

Source: EQUI.TS; company data

Key Ratios	2013	2014	2015	2016e	2017e	2018e
Ratios for corporate valuation						
EV/Sales	1.08	1.61	1.19	1.24	1.04	0.92
EV/EBITDA	13.67	1969.16	34.17	11.99	6.91	4.78
EV/EBIT	43.68	-23.84	-58.32	35.23	12.67	7.41
P/E reported	93.50	-42.38	-43.72	44.48	15.57	9.20
P/E clean	93.50	-42.38	-43.72	44.48	15.57	9.20
PCPS	48.20	41.00	24.45	11.84	7.24	5.20
Price-to-book ratio	1.70	2.59	2.26	2.59	2.22	1.84
Profitability ratios						
EBITDA margin	7.9%	0.1%	3.5%	10.4%	15.0%	19.2%
EBIT margin	2.5%	-6.8%	-2.0%	3.5%	8.2%	12.4%
Pre tax margin	2.2%	-6.7%	-2.2%	3.6%	8.5%	12.8%
Net margin	1.4%	-4.2%	-2.4%	2.5%	6.0%	9.0%
Free-cash-flow-margin	n.m.	0.3%	n.m.	5.6%	8.8%	11.4%
ROE	2.0%	-5.9%	-5.0%	6.0%	15.4%	21.8%
Productivity ratios						
Sales/employees (in EUR '000)	76.9	70.9	74.3	80.5	91.7	98.7
Personnel expenses/employees (in '000)	46.4	45.7	47.1	47.0	50.5	51.9
Net result/employees (in '000)	1.1	-3.0	-1.8	2.0	5.5	8.9
Number of employees	552	629	842	885	929	975
Financial ratios						
Equity ratio	69.3%	68.4%	42.7%	45.3%	50.1%	56.0%
Gearing	44.2%	46.2%	133.9%	120.8%	99.5%	78.6%
Dividend yield	0.8%	0.0%	0.0%	0.0%	1.4%	2.4%
Cash-flow ratio						
Cash-flow per share	0.65	1.02	1.42	3.56	5.83	8.10
Free-Cash-flow per share	-0.02	0.08	-8.45	2.13	3.95	5.82
Other ratios						
Depreciation/Sales	5.4%	6.8%	5.5%	6.8%	6.8%	6.8%
Capex/Sales	2.8%	4.0%	29.8%	3.8%	4.2%	4.5%
Working Capital/Sales	31.5%	26.7%	29.8%	29.8%	29.8%	29.8%
Tax rate	35.5%	37.4%	-8.5%	29.5%	29.5%	29.5%

Source EQUI.TS

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Authors of this financial analysis: Daniel Großjohann, Analyst, and Thomas Schießle, Analyst.

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Reference pursuant to section 4 subsection 4 point 4 FinAnV:

Company	Analyst		Rating	Price Target
GK SOFTWARE AG	D.Grossjohann/T.Schießle	15/06/2015	Buy	€ 46.00
GK SOFTWARE AG	D.Grossjohann/T.Schießle	09/09/2015	Buy	€ 45.00
GK SOFTWARE AG	D.Grossjohann/T.Schießle	04/12/2015	Buy	€ 46.80
GK SOFTWARE AG	D.Grossjohann/T.Schießle	07/03/2016	Buy	€ 45.20

II. Additional information:

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:
EQUI.TS 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

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3. Date of initial/original publication of the financial analysis:

(17/05/2016)

4. Date and time of the prices of financial instruments disclosed therein:

(Closing price on 13/05/2016)

5. Updates:

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

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