

Date 21/11/2017

Recommendation:

Buy (previous: Hold)
PT: € 135.70 (prev.: € 135.70)

GK Software

Industry: Software
Segment: Prime Standard
ISIN: DE0007571424
Reuters: GKSG

Price (20/11/2017): € 110.90
Market Cap € 210m
EV € 205m
Ø-volume `000€ 265
52W High € 132.50
52W Low € 51.80

Financial Calendar

Q3 report 27/11/2017
FY 2017 26/04/2018

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

Dynamic growth continues in Q3 - Forecast confirmed

According to provisionally reported figures, GK achieved sales of €65.93 million (+ 24%) in the first 9 months and a notably disproportionate increase in EBITDA (€6.73 million, + 66.5%) and EBIT (€ 4.11 million, 9M 16: €1.04 million). Given these figures and the current sales opportunities, the company confirmed both the 2017 and medium-term forecasts. We similarly leave our estimates unchanged. Once the stock has moved away slightly from the 52-week high (€132) again, we recommend purchasing GK Software (with an unchanged price target).

- ✓ Our forecast for Q4 2017: For Q4 2017, we implicitly assume a turnover of €27.9 million, which corresponds to almost 30% of our expected annual turnover. The final quarter typically has the highest turnover. Over the past four years, GK has generated between 31% and 33% of its annual turnover in Q4 every year. Due to software business being typically strong in the final quarter, Q4 has usually also been the most profitable quarter. Progress of the software license business in Q4 is decisive for achieving the implicit Q4 EBIT forecast of approx. €3.77 million.
- ✓ Although new client projects are typically responsible for some volatility in quarterly sales, GK was able to achieve more than 20% growth in all three quarters in 2017 compared to the same quarters the previous year. The fluctuations in growth rates have declined during the previous quarters, partly due to the higher turnover benchmark.
- ✓ GK is reasonably priced, especially when compared with companies that (like GK Software) generate a significant portion of their turnover through software/SaaS. This is especially true when considering growth prospects and technology portfolio. GK has, for example, the third highest expected growth (CAGR 17-19: 14.4%) in the ten-title peer group. It is only for the much more expensive peers Shopify (CAGR 17-19: 36%; EV/turnover (18): 8.9) and Vectron (CAGR 17-19: 16.7%; EV/turnover (18): 4.0) that the market expects even stronger growth. With the acquisition of prudsys, GK has recently furthermore entered market areas such as "Artificial Intelligence" and "Machine Learning", thereby further bolstering its solution portfolio.

Key figures - GK Software AG

	Sales	EBITDA	EBIT	EPS (adj.)	EV/Sales	P/E
2015 a	62.6	2.2	-1.3	-0.79	1.19	-43.7
2016 a	77.3	7.8	3.9	1.50	1.28	31.3
2017 e	93.8	12.0	7.9	2.67	2.18	41.6
2018 e	110.1	18.1	13.8	4.69	1.86	23.6
2019 e	122.8	20.7	16.2	5.63	1.67	19.7

Source: Company Data, EQUITS

Appendix

Income Statement	2014	2015	2016	2017e	2018e	2019e
Sales	44.634	62.602	77.333	93.825	110.050	122.800
Change in finished goods	0.000	0.000	0.000	0.000	0.000	0.000
Other own costs capitalized	0.512	0.525	0.382	0.463	0.543	0.606
Other operating income	2.188	1.726	1.769	2.146	2.517	2.809
Total performance	47.333	64.853	79.483	96.434	113.110	126.215
Cost of material	-5.151	-8.266	-7.681	-9.151	-9.932	-10.523
Gross profit	42.182	56.587	71.802	87.283	103.178	115.692
Personnel expenses	-28.749	-39.668	-47.669	-55.211	-62.453	-69.908
Other operating expenses	-13.397	-14.742	-16.330	-20.110	-22.655	-25.097
EBITDA	0.037	2.177	7.803	11.961	18.070	20.687
Depreciation/amortisation	-3.052	-3.453	-3.861	-4.080	-4.314	-4.477
EBIT	-3.015	-1.276	3.942	7.881	13.756	16.210
Financial result	0.028	-0.107	-0.491	-0.670	-1.018	-0.898
Non operating result before taxes	0.000	0.000	0.000	0.000	0.000	0.000
EBT	-2.987	-1.383	3.452	7.211	12.738	15.312
Non operating result after taxes	0.000	0.000	0.000	0.000	0.000	0.000
Taxes	1.117	-0.117	-0.626	-2.164	-3.822	-4.594
Minority interest	0.000	0.000	0.000	0.015	0.065	0.065
Net result	-1.870	-1.500	2.826	5.063	8.981	10.783
Adjustments	0.00	0.00	0.00	0.00	0.00	0.00
Adjusted net result	-1.870	-1.500	2.826	5.063	8.981	10.783
Average number of shares	1.89	1.89	1.89	1.90	1.91	1.91
Average number of shares (dil.)	1.94	1.97	2.00	2.09	2.09	2.09
EPS	-0.99	-0.79	1.50	2.67	4.69	5.63
Adjusted EPS	-0.99	-0.79	1.50	2.67	4.69	5.63
Adjusted EPS (diluted)	-0.96	-0.76	1.41	2.42	4.30	5.16
DPS	0.00	0.00	0.00	0.60	1.01	1.26

Source: EQUI.TS; company data

Cash Flow Statement	2014	2015	2016	2017e	2018e	2019e
Net cash provided by operating activities	-0.394	2.196	3.699	4.840	9.017	11.908
Net cash used in investing activities	-1.569	-18.583	-5.099	-7.724	-5.307	-5.143
Net cash provided by financing activities	-1.606	12.574	-2.119	13.000	-3.139	-3.940
Change in cash and securities	-3.569	-3.813	-3.519	10.115	0.571	2.825
Cash and secur. at the end of the period	10.173	7.377	6.017	16.133	16.704	19.528

Source: EQUI.TS; company data

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

Balance Sheet	2014	2015	2016	2017e	2018e	2019e
Long term assets	13.445	30.944	32.736	36.381	37.374	38.040
Intangible assets	8.474	25.190	23.828	25.635	24.342	22.849
Tangible assets	4.970	5.753	8.902	10.739	13.025	15.184
Financial assets	0.002	0.002	0.007	0.007	0.007	0.007
Current assets	28.270	33.074	33.963	48.918	54.250	60.816
Inventories	1.159	1.655	1.180	1.432	1.680	1.874
Accounts Receivables	12.375	19.100	21.512	26.100	30.613	34.160
Other current assets	4.563	4.943	5.254	5.254	5.254	5.254
Cash and securities	10.173	7.377	6.017	16.133	16.704	19.528
Other assets	2.957	3.742	4.915	4.915	4.915	4.915
Total assets	44.673	67.760	71.615	90.214	96.539	103.771
Equity	30.555	28.967	31.654	36.702	44.479	53.258
Reserves	30.555	28.967	31.654	36.117	43.894	52.673
Minorities	0.000	0.000	0.000	0.585	0.585	0.585
Provisions	3.321	4.081	3.222	3.307	3.396	3.489
Liabilities	8.600	32.085	33.183	46.650	45.109	43.469
Interest bearing liabilities	1.132	14.723	14.763	27.763	25.763	23.763
Accounts Payables	1.634	2.091	2.187	2.653	3.112	3.473
Other non-interest bearing liabilities	5.835	15.271	16.233	16.233	16.233	16.233
Other liabilities	2.196	2.628	3.555	3.555	3.555	3.555
Total equity and liabilities	44.673	67.760	71.615	90.214	96.539	103.771

Source: EQUITS; company data

Key Ratios	2014	2015	2016	2017e	2018e	2019e
Ratios for corporate valuation						
EV/Sales	1.61	1.19	1.28	2.18	1.86	1.67
EV/EBITDA	1969.16	34.17	12.67	17.10	11.32	9.89
EV/EBIT	-23.84	-58.32	25.08	25.96	14.87	12.62
P/E reported	-42.38	-43.72	31.27	41.59	23.64	19.69
P/E clean	-42.38	-43.72	31.27	41.59	23.64	19.69
PCPS	41.00	24.45	15.24	22.82	15.87	13.83
Price-to-book ratio	2.59	2.26	2.79	5.83	4.84	4.03
Profitability ratios						
EBITDA margin	0.1%	3.5%	10.1%	12.7%	16.4%	16.8%
EBIT margin	-6.8%	-2.0%	5.1%	8.4%	12.5%	13.2%
Pre tax margin	-6.7%	-2.2%	4.5%	7.7%	11.6%	12.5%
Net margin	-4.2%	-2.4%	3.7%	5.4%	8.2%	8.8%
Free-cash-flow-margin	0.3%	n.m.	0.7%	1.6%	7.3%	8.3%
ROE	-5.9%	-5.0%	9.3%	14.8%	22.0%	21.9%
Productivity ratios						
Sales/employees (in EUR '000)	78.0	84.7	84.9	95.4	103.5	110.0
Personnel expenses/employees (in '000)	50.3	53.7	52.3	56.1	58.7	62.6
Net result/employees (in '000)	-3.3	-2.0	3.1	5.1	8.4	9.7
Number of employees	572	739	911	984	1063	1116
Financial ratios						
Equity ratio	68.4%	42.7%	44.2%	40.7%	46.1%	51.3%
Gearing	46.2%	133.9%	126.2%	145.8%	117.0%	94.8%
Dividend yield	0.0%	0.0%	0.0%	0.5%	0.9%	1.1%
Cash-flow ratio						
Cash-flow per share	1.02	1.42	3.07	4.86	6.99	8.02
Free-Cash-flow per share	0.08	-8.45	0.27	0.79	4.22	5.33
Other ratios						
Depreciation/Sales	6.8%	5.5%	5.0%	4.3%	3.9%	3.6%
Capex/Sales	4.0%	29.8%	6.8%	4.8%	4.8%	4.2%
Working Capital/Sales	26.7%	29.8%	26.5%	26.5%	26.5%	26.5%
Tax rate	37.4%	-8.5%	18.1%	30.0%	30.0%	30.0%

Source EQUITS

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I. Disclosures on authorship, responsible company, regulatory authority:

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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	05/12/2016	Hold	€ 61.10
GK SOFTWARE AG	D.Grossjohann/T.Schießle	12/04/2017	Hold	€ 68.40
GK SOFTWARE AG	D.Grossjohann/T.Schießle	22/05/2017	Hold	€ 80.40
GK SOFTWARE AG	D.Grossjohann/T.Schießle	08/06/2017	Hold	€ 84.70
GK SOFTWARE AG	D.Grossjohann/T.Schießle	12/09/2017	Hold	€ 135.00
GK SOFTWARE AG	D.Grossjohann/T.Schießle	07/11/2017	Hold	€ 135.70

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%.

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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:

(21/11/2017)

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

(Closing price on 20/11/2017)

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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7. the author receives payments from the issuer,
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