

Date 05/09/2018

**Recommendation:**

**Buy** (previous: Buy)  
**PT: € 146.00** (prev.: € 155.80)

**GK Software**

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

**Price (04/09/2018): € 101.00**  
Market Cap € 191m  
EV € 195m  
Ø-volume `000€ 161  
52W High € 135.50  
52W Low € 97.40

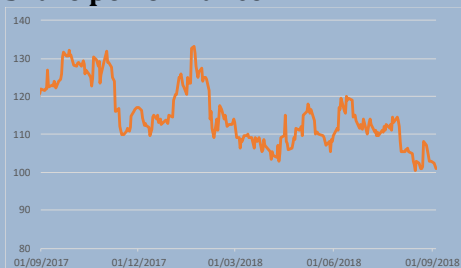
**Financial Calendar**

Q3 2018 26/11/2018  
Eigenkapitalforum 26/11/2018  
FY 2018 26/04/2019

**Shareholder structure**

GK Software Hldg. 49.7%  
SAP SE 5.3%  
R.Gläß 2.7%  
S.Kronmüller 2.3%

**Share performance**



**Daniel Grossjohann**

[dg@equits.de](mailto:dg@equits.de)

+49 (0)69 95 41 16 08

**Thomas J. Schiessle**

[ts@equits.de](mailto:ts@equits.de)

+49 (0)69 95 45 43 60



EQUITS GmbH  
Am Schieferstein 3  
D-60435 Frankfurt

# GK SOFTWARE SE

## Well-filled pipeline, strong H2 to be expected

The half-year figures showed an 11% increase in revenues to € 49 million. Intensive investments in products and the further strengthening of the organisation - the number of employees increased by 13.5% in H1 - have significantly depressed EBITDA (€ 2.4 million; H1 17: € 5.3 million). We are leaving our 2018 revenue estimate unchanged; our EBITDA estimate is declining, partly due to higher than expected personnel costs. Our new estimates are still in line with the current company outlook for 2018, which GK Software continues to adhere to: On the one hand, there are good sales opportunities and another two US dealers have already been acquired as new customers in Q3; on the other hand, the efficiency of the non-European subsidiaries was further improved. Fundamentally and especially in comparison with peer companies, the GK share remains rather favorable.

✓ **Revenue mix in H1: License revenues** increased (due to a strong first quarter) by 18.9% to € 6.6 million. **Service revenues** (€ 22.9 million) declined slightly. However, this was due to the fact that approximately € 4 million for customer-specific developments, which would previously have been booked as service revenues, could now be recorded as software revenues requiring maintenance. Total **maintenance business** increased by 2.9%, with maintenance in the GK/Retail division increasing by 12.9%, while hardware maintenance declined.

✓ In H1, GK Software won **six (international) new OmniPOS customers**, including **US supermarket operator Hy-Vee** (>245 stores, approx. USD 10 billion annual sales), as well as a migration project in the DACH region. With one exception, the new customers were acquired jointly with SAP (bringing the number of joint customer projects to 60). Two more US retailers were acquired as customers after the reporting period.

✓ In June 2018, GK Software acquired **valuephone GmbH**, a company whose product portfolio is offered as SaaS, supplements GK's product portfolio and is already seamlessly integrated into it. The final purchase price has not yet been determined, but will be a maximum EV/sales multiple of just under 2 (on a 2017 sales basis) - which in our opinion is very moderate.

**Company outlook:** GK Software confirmed both the outlook delivered for 2018 (15% sales growth and over 15% EBIT margin in the GK/Retail core business) and the medium-term forecast, which implies sales of around € 135 million in 2020. The forecast is under the previous reservations. For example, opening up new markets takes priority over margin targets; postponed projects or a deterioration in the general economic situation can also affect the forecast.

### Key figures - GK Software SE

|        | Sales | EBITDA | EBIT | EPS (adj.) | EV/Sales | P/E  |
|--------|-------|--------|------|------------|----------|------|
| 2016 a | 77.3  | 7.8    | 3.9  | 1.50       | 1.28     | 31.3 |
| 2017 a | 90.5  | 8.8    | 5.0  | 2.05       | 2.03     | 46.2 |
| 2018 e | 106.8 | 14.6   | 10.4 | 3.57       | 1.82     | 28.3 |
| 2019 e | 122.0 | 18.5   | 14.0 | 4.72       | 1.60     | 21.4 |
| 2020 e | 137.3 | 21.1   | 16.5 | 5.65       | 1.42     | 17.9 |

Source: Company Data, EQUITS

## **Internationalization progressing, sales pipeline well filled**

The new customers acquired in H1 2018 are broadly diversified regionally. With the acquisition of a pharmaceutical wholesaler with around 470 locations in Australia, GK solutions will soon be represented on all continents. However, the biggest sales success in H1 was the acquisition of the US supermarket operator Hy-Vee, which generates sales of around USD 10 billion in its around 250 (very large) stores with a total of over 80,000 employees. After the balance sheet date, two further dealers were acquired from the important US retail market. Other international new customer acquisitions in H1 were a luxury fashion retailer with over 300 locations worldwide, a Scandinavian electronics retailer (400 locations), a Saudi Arabian household goods retailer (30 locations) and a pharmacy chain in Egypt (20 locations). The sales successes are rounded off by a migration project at a DIY store with 90 locations in Germany and Luxembourg. The sales pipeline for the second half of the year is reportedly well filled.

## **Market observers see "SAP Omnichannel POS by GK" as "Leader"**

In the current market study "Forrester Wave: Point of Service, Q3 2018", in which Forrester deals with 14 solutions, SAP and GK emerge victorious in terms of current offerings and market presence and, alongside Oracle, Aptos and PCMS, are in the Leader quadrant. A current RBR study shows a market share of 43% for GK in Western Europe in the newly installed Grocery POS systems segment, and a global market share (in the Tier 1 retailer segment) of 10%. Both market studies underline the success of the partnership with SAP.

However, media reports about the stop of an "SAP project worth millions for merchandise management" at GK customer Lidl have no negative financial impact on GK. According to Lidl, the stop is not a decision against SAP, but for its own system; accordingly, only the eLWIS rollout is affected, but not other SAP projects at Lidl.

## **Employee training programs are used intensively**

In the first half of the year, GK Software SE gained 136 new employees (27 of them from the takeover of valuephone), bringing the number of employees to 1147. The company invests intensively in the training and development of its employees, and new employees undergo extensive, standardized introductory training. All employees are offered a permanently adapted training program by the GK Academy, which was used by 908 employees in the first half of the year alone.

## **Implicit expectations for the second half of 2018**

In particular, we underestimated the cost effects from the increase in personnel in H1 and had now adjusted them accordingly. Our 2018 sales estimate (implicit expectation H2 2018: approx. € 57 million) should be well achievable, with EBITDA (implicit expectation H2 2018: € 12.2 million) the new license business in particular is of decisive importance. Existing sales opportunities point to a strong second half of the year.

## Appendix

| <b>Income Statement</b>           | <b>2015</b>   | <b>2016</b>   | <b>2017</b>   | <b>2018e</b>   | <b>2019e</b>   | <b>2020e</b>   |
|-----------------------------------|---------------|---------------|---------------|----------------|----------------|----------------|
| <b>Sales</b>                      | <b>62.602</b> | <b>77.333</b> | <b>90.452</b> | <b>106.750</b> | <b>121.978</b> | <b>137.346</b> |
| Change in finished goods          | 0.000         | 0.000         | 0.000         | 0.000          | 0.000          | 0.000          |
| Other own costs capitalized       | 0.525         | 0.382         | 0.000         | 0.000          | 0.000          | 0.000          |
| Other operating income            | 1.726         | 1.769         | 5.197         | 6.133          | 7.008          | 7.891          |
| <b>Total performance</b>          | <b>64.853</b> | <b>79.483</b> | <b>95.649</b> | <b>112.884</b> | <b>128.987</b> | <b>145.237</b> |
| Cost of material                  | -8.266        | -7.681        | -8.530        | -8.266         | -8.885         | -9.444         |
| <b>Gross profit</b>               | <b>56.587</b> | <b>71.802</b> | <b>87.119</b> | <b>104.618</b> | <b>120.102</b> | <b>135.793</b> |
| Personnel expenses                | -39.668       | -47.669       | -57.809       | -67.694        | -76.306        | -86.353        |
| Other operating expenses          | -14.742       | -16.330       | -20.537       | -22.305        | -25.304        | -28.309        |
| <b>EBITDA</b>                     | <b>2.177</b>  | <b>7.803</b>  | <b>8.773</b>  | <b>14.618</b>  | <b>18.492</b>  | <b>21.132</b>  |
| Depreciation/amortisation         | -3.453        | -3.861        | -3.780        | -4.264         | -4.465         | -4.649         |
| <b>EBIT</b>                       | <b>-1.276</b> | <b>3.942</b>  | <b>4.993</b>  | <b>10.355</b>  | <b>14.027</b>  | <b>16.482</b>  |
| Financial result                  | -0.107        | -0.491        | -0.653        | -1.226         | -1.156         | -1.070         |
| Non operating result before taxes | 0.000         | 0.000         | 0.000         | 0.000          | 0.000          | 0.000          |
| EBT                               | -1.383        | 3.452         | 4.340         | 9.128          | 12.871         | 15.413         |
| Non operating result after taxes  | 0.000         | 0.000         | 0.000         | 0.000          | 0.000          | 0.000          |
| Taxes                             | -0.117        | -0.626        | -0.456        | -2.328         | -3.862         | -4.624         |
| Minority interest                 | 0.000         | 0.000         | 0.002         | 0.052          | 0.052          | 0.052          |
| <b>Net result</b>                 | <b>-1.500</b> | <b>2.826</b>  | <b>3.885</b>  | <b>6.852</b>   | <b>9.061</b>   | <b>10.840</b>  |
| Adjustments                       | 0.00          | 0.00          | 0.00          | 0.00           | 0.00           | 0.00           |
| <b>Adjusted net result</b>        | <b>-1.500</b> | <b>2.826</b>  | <b>3.885</b>  | <b>6.852</b>   | <b>9.061</b>   | <b>10.840</b>  |
| Average number of shares          | 1.89          | 1.89          | 1.90          | 1.92           | 1.92           | 1.92           |
| Average number of shares (dil.)   | 1.97          | 2.00          | 1.95          | 1.95           | 1.95           | 1.95           |
| EPS                               | -0.79         | 1.50          | 2.05          | 3.57           | 4.72           | 5.65           |
| Adjusted EPS                      | -0.79         | 1.50          | 2.05          | 3.57           | 4.72           | 5.65           |
| Adjusted EPS (diluted)            | -0.76         | 1.41          | 2.00          | 3.51           | 4.64           | 5.55           |
| DPS                               | 0.00          | 0.00          | 0.00          | 0.00           | 0.71           | 1.13           |

Source: EQUI.TS; company data

| <b>Cash Flow Statement</b>                | <b>2015</b> | <b>2016</b> | <b>2017</b> | <b>2018e</b> | <b>2019e</b> | <b>2020e</b> |
|---|-------------|-------------|-------------|--------------|--------------|--------------|
| Net cash provided by operating activities | 2.196       | 3.699       | 15.224      | 7.191        | 9.866        | 11.800       |
| Net cash used in investing activities     | -18.583     | -5.099      | -9.278      | -9.129       | -4.431       | -4.912       |
| Net cash provided by financing activities | 12.574      | -2.119      | 19.121      | -2.000       | -2.000       | -3.359       |
| Change in cash and securities             | -3.813      | -3.519      | 25.067      | -3.938       | 3.434        | 3.529        |
| Cash and secur. at the end of the period  | 7.377       | 6.017       | 30.479      | 26.541       | 29.975       | 33.504       |

Source: EQUI.TS; company data

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

| <b>Balance Sheet</b>                   | <b>2015</b>   | <b>2016</b>   | <b>2017</b>    | <b>2018e</b>   | <b>2019e</b>   | <b>2020e</b>   |
|--|---------------|---------------|----------------|----------------|----------------|----------------|
| Long term assets                       | 30.944        | 32.736        | 39.575         | 44.441         | 44.407         | 44.670         |
| Intangible assets                      | 25.190        | 23.828        | 25.359         | 24.459         | 23.559         | 22.959         |
| Tangible assets                        | 5.753         | 8.902         | 14.183         | 19.949         | 20.815         | 21.678         |
| Financial assets                       | 0.002         | 0.007         | 0.033          | 0.033          | 0.033          | 0.033          |
| <b>Current assets</b>                  | <b>33.074</b> | <b>33.963</b> | <b>61.424</b>  | <b>61.780</b>  | <b>69.227</b>  | <b>76.804</b>  |
| Inventories                            | 1.655         | 1.180         | 0.990          | 1.169          | 1.336          | 1.504          |
| Accounts Receivables                   | 19.100        | 21.512        | 22.839         | 26.955         | 30.800         | 34.680         |
| Other current assets                   | 4.943         | 5.254         | 7.116          | 7.116          | 7.116          | 7.116          |
| Cash and securities                    | 7.377         | 6.017         | 30.479         | 26.541         | 29.975         | 33.504         |
| Other assets                           | 3.742         | 4.915         | 5.599          | 5.599          | 5.599          | 5.599          |
| <b>Total assets</b>                    | <b>67.760</b> | <b>71.615</b> | <b>106.598</b> | <b>111.820</b> | <b>119.232</b> | <b>127.072</b> |
| <b>Equity</b>                          | <b>28.967</b> | <b>31.654</b> | <b>38.669</b>  | <b>45.469</b>  | <b>54.478</b>  | <b>63.907</b>  |
| Reserves                               | 28.967        | 31.654        | 37.598         | 44.385         | 53.381         | 62.797         |
| Minorities                             | 0.000         | 0.000         | 1.071          | 1.084          | 1.098          | 1.111          |
| Provisions                             | 4.081         | 3.222         | 3.226          | 3.316          | 3.411          | 3.510          |
| <b>Liabilities</b>                     | <b>32.085</b> | <b>33.183</b> | <b>59.364</b>  | <b>57.695</b>  | <b>56.004</b>  | <b>54.316</b>  |
| Interest bearing liabilities           | 14.723        | 14.763        | 32.323         | 30.323         | 28.323         | 26.323         |
| Accounts Payables                      | 2.091         | 2.187         | 1.835          | 2.166          | 2.475          | 2.787          |
| Other non-interest bearing liabilities | 15.271        | 16.233        | 25.206         | 25.206         | 25.206         | 25.206         |
| Other liabilities                      | 2.628         | 3.555         | 5.340          | 5.340          | 5.340          | 5.340          |
| <b>Total equity and liabilities</b>    | <b>67.760</b> | <b>71.615</b> | <b>106.598</b> | <b>111.820</b> | <b>119.232</b> | <b>127.072</b> |

Source: EQUI.TS; company data

| Key Ratios                             | 2015   | 2016   | 2017   | 2018e  | 2019e  | 2020e |
|--|--------|--------|--------|--------|--------|-------|
| <b>Ratios for corporate valuation</b>  |        |        |        |        |        |       |
| EV/Sales                               | 1.19   | 1.28   | 2.03   | 1.82   | 1.60   | 1.42  |
| EV/EBITDA                              | 34.17  | 12.67  | 20.90  | 13.31  | 10.52  | 9.21  |
| EV/EBIT                                | -58.32 | 25.08  | 36.72  | 18.79  | 13.87  | 11.81 |
| P/E reported                           | -43.72 | 31.27  | 46.22  | 28.29  | 21.39  | 17.88 |
| P/E clean                              | -43.72 | 31.27  | 46.22  | 28.29  | 21.39  | 17.88 |
| PCPS                                   | 24.45  | 15.24  | 23.50  | 17.30  | 14.23  | 12.43 |
| Price-to-book ratio                    | 2.26   | 2.79   | 4.78   | 4.37   | 3.63   | 3.09  |
| <b>Profitability ratios</b>            |        |        |        |        |        |       |
| EBITDA margin                          | 3.5%   | 10.1%  | 9.7%   | 13.7%  | 15.2%  | 15.4% |
| EBIT margin                            | -2.0%  | 5.1%   | 5.5%   | 9.7%   | 11.5%  | 12.0% |
| Pre tax margin                         | -2.2%  | 4.5%   | 4.8%   | 8.6%   | 10.6%  | 11.2% |
| Net margin                             | -2.4%  | 3.7%   | 4.3%   | 6.4%   | 7.4%   | 7.9%  |
| Free-cash-flow-margin                  | n.m.   | 0.7%   | n.m.   | 1.9%   | 7.5%   | 7.8%  |
| ROE                                    | -5.0%  | 9.3%   | 11.0%  | 16.2%  | 18.0%  | 18.2% |
| <b>Productivity ratios</b>             |        |        |        |        |        |       |
| Sales/employees (in EUR '000)          | 84.7   | 94.4   | 94.1   | 102.7  | 111.8  | 119.9 |
| Personnel expenses/employees (in '000) | 53.7   | 58.2   | 60.2   | 65.2   | 69.9   | 75.4  |
| Net result/employees (in '000)         | -2.0   | 3.5    | 4.0    | 6.6    | 8.3    | 9.5   |
| Number of employees                    | 739    | 819    | 961    | 1039   | 1091   | 1146  |
| <b>Financial ratios</b>                |        |        |        |        |        |       |
| Equity ratio                           | 42.7%  | 44.2%  | 36.3%  | 40.7%  | 45.7%  | 50.3% |
| Gearing                                | 133.9% | 126.2% | 175.7% | 145.9% | 118.9% | 98.8% |
| Dividend yield                         | 0.0%   | 0.0%   | 0.0%   | 0.0%   | 0.7%   | 1.1%  |
| <b>Cash-flow ratio</b>                 |        |        |        |        |        |       |
| Cash-flow per share                    | 1.42   | 3.07   | 4.02   | 5.84   | 7.10   | 8.12  |
| Free-Cash-flow per share               | -8.45  | 0.27   | -0.27  | 1.08   | 4.79   | 5.56  |
| <b>Other ratios</b>                    |        |        |        |        |        |       |
| Depreciation/Sales                     | 5.5%   | 5.0%   | 4.2%   | 4.0%   | 3.7%   | 3.4%  |
| Capex/Sales                            | 29.8%  | 6.8%   | 9.0%   | 8.6%   | 3.6%   | 3.6%  |
| Working Capital/Sales                  | 29.8%  | 26.5%  | 24.3%  | 24.3%  | 24.3%  | 24.3% |
| Tax rate                               | -8.5%  | 18.1%  | 10.5%  | 25.5%  | 30.0%  | 30.0% |

Source EQUITS

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

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| <b>Company</b> | <b>Analyst</b>           |            | <b>Rating</b> | <b>Price Target</b> |
|----------------|--------------------------|------------|---------------|---------------------|
| 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            |
| GK SOFTWARE AG | D.Grossjohann/T.Schießle | 21/11/2017 | Buy           | € 135.70            |
| GK SOFTWARE AG | D.Grossjohann/T.Schießle | 06/12/2017 | Buy           | € 136.00            |
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| GK SOFTWARE AG | D.Grossjohann/T.Schießle | 06/06/2018 | Buy           | € 155.80            |

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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: EQUITS 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:**

**(05/09/2018)**

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

**(Closing price on 04/09/2018)**

5. Updates:

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

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