

Date 04/06/2019

Recommendation:

Buy (previous: Buy)
PT: € 114.50 (prev.: € 114.50)

GK Software

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

Price (03/06/2019): € 68.60
Market Cap € 130m
EV € 151m
Ø-volume `000€ 111
52W High € 120.00
52W Low € 62.20

Financial Calendar

AGM 2019 20/06/2019
Q2 2019 29/08/2019
Q3 2019 26/11/2019

Shareholder structure

GK Software Hldg. 48.5%
R.Gläß 2.7%
S.Kronmüller 2.3%

Share performance



Daniel Grossjohann

dg@equits.de

+49 (0)69 95 41 16 08

Thomas J. Schiessle

ts@equits.de

+49 (0)69 95 45 43 60



EQUITS GmbH
Am Schieferstein 3
D-60435 Frankfurt

GK SOFTWARE SE

Outlook confirmed, sales mix weighs on Q1 margin

GK Software recorded a revenue increase of 3.7% in the first quarter of 2019 respectively 8.7% in its core business. Compared to the previous quarters, the only moderate growth is due to a base effect (strong Q1 2018), as well as the planned decline in revenues in the hardware-related maintenance business and lower license revenues. The latter had a negative impact on margins, as did the disproportionately low sales growth compared to the expansion of the workforce. EBITDA of €-0.67 million was clearly below the previous year's figure (€ 1.34 million). In view of the very well-filled pipeline, we are sticking to our expectations for 2019. The GK share continues to be favorable with an EV/sales volume of just under 1.3.

- ✓ With a revenue contribution of € 2.38 million, the high-margin but volatile license business (GK/Retail) in the first quarter was well below the figure of € 4.87 million achieved in the prior-year period. Despite good employee capacity utilization in the service business, the increase in sales clearly lagged behind the increase in the number of employees (+19.2%) as well as the increase in personnel expenditure (+20.9%). We see the Q1 growth rates and margins as a snapshot; growth in the financial year is more likely to be based on the increase in the number of employees. In addition, the program to secure earnings (effective from Q3) should also help GK to significantly exceed the EBIT margin from 2018 for the year as a whole.
- ✓ In the first quarter GK Software succeeded in acquiring three new customers. These are two US customers and a retail chain from Colombia that has opted for a contract on a subscription basis. In addition, an existing US customer also opted for the petrol station solution, which will go live in the third quarter of 2019.
- ✓ In April 2019, the AI solution "SAP Dynamic Pricing by GK" was successfully placed with SAP and is now distributed worldwide by SAP. The solution is based on the new AIR ("Artificial Intelligence for Retail") platform and supports retailers in automated price optimization (taking into account various influencing factors in real time).

Company outlook: The medium-term forecast, which implies sales of around € 135 million in 2020 (with a 15% EBIT margin in the core business), was again confirmed. For 2019, the company is aiming for a not inconsiderable increase in sales in the retail segment, with the EBIT margin expected to significantly exceed the level achieved in 2018.

Key figures - GK Software SE

	Sales	EBITDA	EBIT	EPS (adj.)	EV/Sales	P/E
2017 a	90.5	8.8	5.0	2.05	2.03	46.2
2018 a	106.2	6.8	1.6	0.48	2.01	204.6
2019 e	122.2	17.2	9.2	2.81	1.24	24.4
2020 e	138.8	26.0	17.4	5.85	1.09	11.7
2021 e	155.9	31.0	21.8	7.53	0.97	9.1

Source: Company Data, EQUITS

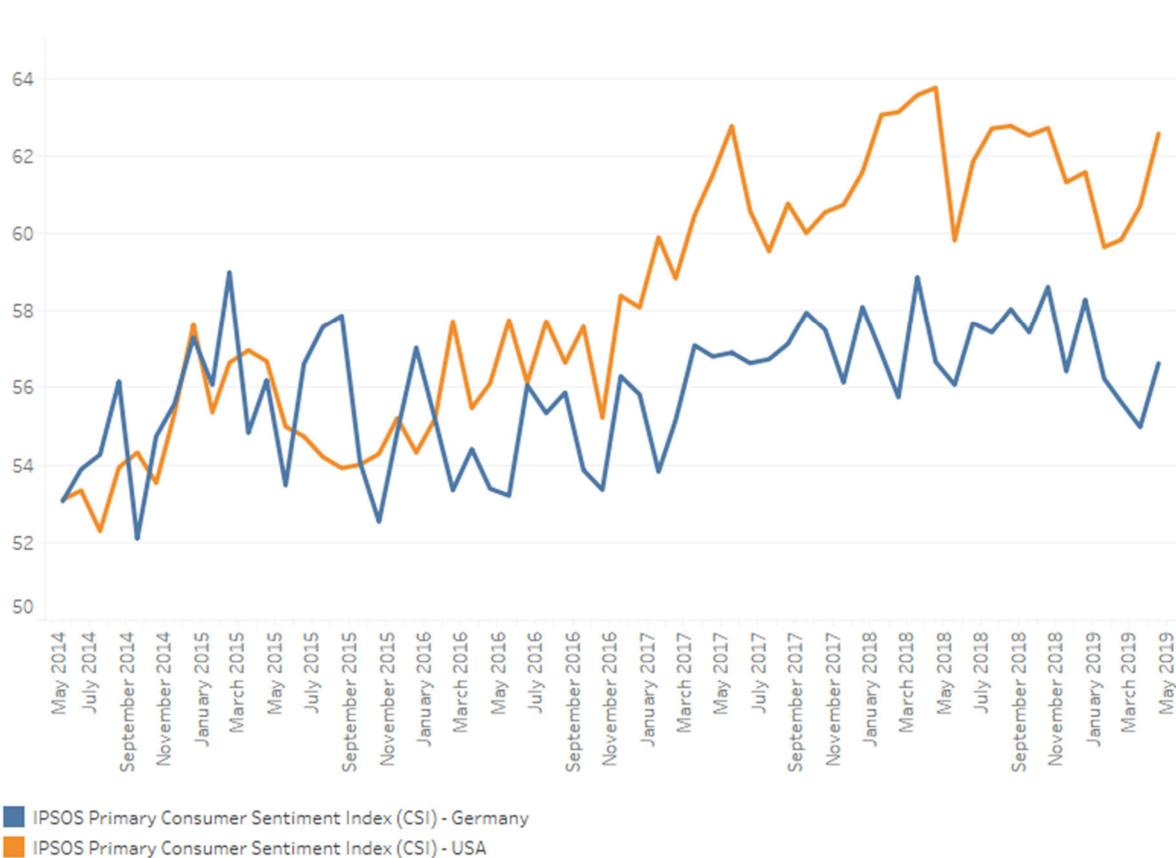
First-time application of IFRS 16 (Leasing) causes depreciation to rise sharply

The first-time application of IFRS 16, which deals with the presentation of leases, contributed substantially to the significant increase in depreciation and amortisation in the first quarter with around € 0.7 million (depreciation of usage rights). In the balance sheet, the items "tangible assets" (assets side) and "other current liabilities" (liabilities side) increased significantly as a result of the first-time application of IFRS 16, which means a balance sheet extension of around € 10 million. We had underestimated the IFRS 16 effect in our previous forecast and now made corresponding adjustments in the income statement and balance sheet.

Sales and EBIT estimates unchanged - Market environment remains good

After Q1 2019, we see no reason to adjust our previous sales and EBIT expectations. The sales pipeline is said to be still very well filled and GK Software is well positioned in important tenders. In our view, the decline in license sales in Q1 is due to the typical volatility of the license business, but not an indication of a more difficult market environment for customers in the retail sector. The consumer climate indicators suggest that the market environment for retail in the important markets of GK Software remains good. The CSI calculated by IPSOS for various countries according to the same methodology (standardized to the value range of 0-100) not only shows a continuous upward trend in the expansive area (>50) over the past five years, especially for the USA (orange).

IPSOS Primary Consumer Sentiment Index (CSI) - 5-year trend



Source: Thomson Reuters/Ipsos

Appendix

Income Statement	2016	2017	2018	2019e	2020e	2021e
Sales	77.333	90.452	106.151	122.239	138.833	155.906
Change in finished goods	0.000	0.000	0.000	0.000	0.000	0.000
Other own costs capitalized	0.382	0.000	0.000	0.000	0.000	0.000
Other operating income	1.769	5.197	3.617	4.165	4.731	5.312
Total performance	79.483	95.649	109.768	126.405	143.564	161.218
Cost of material	-7.681	-8.530	-7.733	-8.364	-8.939	-9.979
Gross profit	71.802	87.119	102.035	118.041	134.625	151.240
Personnel expenses	-47.669	-57.809	-68.791	-77.959	-82.841	-90.904
Other operating expenses	-16.330	-20.537	-26.411	-22.884	-25.808	-29.298
EBITDA	7.803	8.773	6.833	17.198	25.976	31.038
Depreciation/amortisation	-3.861	-3.780	-5.237	-8.030	-8.622	-9.211
EBIT	3.942	4.993	1.596	9.168	17.354	21.827
Financial result	-0.491	-0.653	-1.425	-1.509	-1.421	-1.312
Non operating result before taxes	0.000	0.000	0.000	0.000	0.000	0.000
EBT	3.452	4.340	0.171	7.659	15.934	20.515
Non operating result after taxes	0.000	0.000	0.000	0.000	0.000	0.000
Taxes	-0.626	-0.456	0.752	-2.239	-4.658	-5.997
Minority interest	0.000	0.002	0.002	0.002	0.002	0.002
Net result	2.826	3.885	0.925	5.422	11.278	14.520
Adjustments	0.00	0.00	0.00	0.00	0.00	0.00
Adjusted net result	2.826	3.885	0.925	5.422	11.278	14.520
Average number of shares	1.89	1.90	1.93	1.93	1.93	1.93
Average number of shares (dil.)	2.00	1.95	1.95	1.95	1.95	1.95
EPS	1.50	2.05	0.48	2.81	5.85	7.53
Adjusted EPS	1.50	2.05	0.48	2.81	5.85	7.53
Adjusted EPS (diluted)	1.41	2.00	0.47	2.78	5.77	7.43
DPS	0.00	0.00	0.00	0.42	1.17	1.51

Source: EQUI.TS; company data

Cash Flow Statement	2016	2017	2018	2019e	2020e	2021e
Net cash provided by operating activities	3.699	15.224	-5.670	8.305	14.592	18.272
Net cash used in investing activities	-5.099	-9.278	-15.732	-5.312	-5.811	-6.614
Net cash provided by financing activities	-2.119	19.121	-0.294	-2.000	-2.813	-4.256
Change in cash and securities	-3.519	25.067	-21.696	0.993	5.968	7.403
Cash and secur. at the end of the period	6.017	30.479	11.790	12.783	18.751	26.154

Source: EQUI.TS; company data

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

Balance Sheet	2016	2017	2018	2019e	2020e	2021e
Long term assets	32.736	39.575	52.799	60.081	57.270	54.672
Intangible assets	23.828	25.359	30.019	28.019	25.919	25.019
Tangible assets	8.902	14.183	22.746	32.028	31.317	29.619
Financial assets	0.007	0.033	0.034	0.034	0.034	0.034
Current assets	33.963	61.424	53.304	59.875	71.597	84.919
Inventories	1.180	0.990	0.486	0.560	0.636	0.714
Accounts Receivables	21.512	22.839	36.319	41.824	47.501	53.342
Other current assets	5.254	7.116	4.709	4.709	4.709	4.709
Cash and securities	6.017	30.479	11.790	12.783	18.751	26.154
Other assets	4.915	5.599	5.079	5.079	5.079	5.079
Total assets	71.615	106.598	111.182	125.035	133.946	144.670
Equity	31.654	38.669	40.256	45.676	56.138	68.400
Reserves	31.654	37.598	39.187	44.544	54.943	67.142
Minorities	0.000	1.071	1.069	1.132	1.195	1.258
Provisions	3.222	3.226	2.789	2.864	2.942	3.024
Liabilities	33.183	59.364	64.484	72.842	71.212	69.593
Interest bearing liabilities	14.763	32.323	34.819	32.819	30.819	28.819
Accounts Payables	2.187	1.835	2.365	2.723	3.093	3.474
Other non-interest bearing liabilities	16.233	25.206	27.300	37.300	37.300	37.300
Other liabilities	3.555	5.340	3.653	3.653	3.653	3.653
Total equity and liabilities	71.615	106.598	111.182	125.035	133.946	144.670

Source: EQUITS; company data

Key Ratios	2016	2017	2018	2019e	2020e	2021e
Ratios for corporate valuation						
EV/Sales	1.28	2.03	2.01	1.24	1.09	0.97
EV/EBITDA	12.67	20.90	31.30	8.80	5.83	4.88
EV/EBIT	25.08	36.72	134.00	16.51	8.72	6.93
P/E reported	31.27	46.22	204.62	24.40	11.73	9.11
P/E clean	31.27	46.22	204.62	24.40	11.73	9.11
PCPS	15.24	23.50	33.23	9.78	6.62	5.56
Price-to-book ratio	2.79	4.78	4.83	2.97	2.41	1.97
Profitability ratios						
EBITDA margin	10.1%	9.7%	6.4%	14.1%	18.7%	19.9%
EBIT margin	5.1%	5.5%	1.5%	7.5%	12.5%	14.0%
Pre tax margin	4.5%	4.8%	0.2%	6.3%	11.5%	13.2%
Net margin	3.7%	4.3%	0.9%	4.4%	8.1%	9.3%
Free-cash-flow-margin	0.7%	n.m.	n.m.	6.7%	10.2%	11.0%
ROE	9.3%	11.0%	2.3%	12.6%	22.1%	23.3%
Productivity ratios						
Sales/employees (in EUR '000)	94.4	94.1	85.8	94.1	101.8	108.8
Personnel expenses/employees (in '000)	58.2	60.2	55.6	60.0	60.7	63.5
Net result/employees (in '000)	3.5	4.0	0.7	4.2	8.3	10.1
Number of employees	819	961	1238	1299	1364	1433
Financial ratios						
Equity ratio	44.2%	36.3%	36.2%	36.5%	41.9%	47.3%
Gearing	126.2%	175.7%	176.2%	173.7%	138.6%	111.5%
Dividend yield	0.0%	0.0%	0.0%	0.6%	1.7%	2.2%
Cash-flow ratio						
Cash-flow per share	3.07	4.02	2.96	7.01	10.36	12.35
Free-Cash-flow per share	0.27	-0.27	-5.46	4.26	7.35	8.92
Other ratios						
Depreciation/Sales	5.0%	4.2%	4.9%	6.6%	6.2%	5.9%
Capex/Sales	6.8%	9.0%	11.3%	2.9%	2.8%	2.8%
Working Capital/Sales	26.5%	24.3%	32.4%	32.4%	32.4%	32.4%
Tax rate	18.1%	10.5%	-439.8%	29.2%	29.2%	29.2%

Source EQUITS

DISCLAIMER

Note regarding MiFID II: This research report has been prepared by order of the issuer based on a contractual agreement and is being compensated for by the issuer. The research report has simultaneously been made publicly available to all interested persons. Hence, the receipt of this research report is to be regarded as a permitted insignificant non-monetary benefit according to § 64 para 7 sentence 2 No. 1 and 2 of the German Securities Trading Act (WpHG).

A. Disclosures according to § 85 WpHG and Regulation (EU) No. 596/2014 (MAR) and the Commission Delegated Regulation (EU) No. 958/2016 and the Commission Delegated Regulation (EU) No. 565/2017:

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

Company responsible for the publication: EQUI.TS GmbH

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

EQUI.TS GmbH is subject to regulation through the Federal Financial Supervisory Authority (BaFin).

Notice regarding previous publications regarding the issuer within the last 12 months:

Company	Analyst		Rating	Price Target
GK SOFTWARE AG	D.Grossjohann/T.Schießle	07/05/2018	Buy	€ 155.80
GK SOFTWARE AG	D.Grossjohann/T.Schießle	06/06/2018	Buy	€ 155.80
GK SOFTWARE AG	D.Grossjohann/T.Schießle	05/09/2018	Buy	€ 146.00
GK SOFTWARE AG	D.Grossjohann/T.Schießle	03/12/2018	Buy	€ 123.00
GK SOFTWARE AG	D.Grossjohann/T.Schießle	05/02/2019	Buy	€ 103.00
GK SOFTWARE AG	D.Grossjohann/T.Schießle	07/05/2019	Buy	€ 114.50

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 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:

(04/06/2019)

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

(Closing price on 03/06/2019)

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.

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.

B. General disclosures/liability arrangement:

1. This document was prepared by EQUI.TS GmbH exclusively for information purposes.
2. This publication, if sold in the UK, may only be made available to those persons who, in the meaning of the Financial Services Act 1986 are authorised and exempt, or persons as defined in section 9 (3) of the Financial Services Act 1986 (Investment Advertisement) (Exemptions) Decree 1988 (amended version) and must not be transmitted directly or indirectly to other persons or groups of persons.
3. Neither this document nor any copy of it may be taken into, transferred to or distributed within the United States of America or its territories and possessions. The distribution of this document in Canada, Japan or other jurisdictions may be restricted by law, and persons who come into possession of this publication should find out about any such restrictions and respect them. Any failure to respect these restrictions may represent a breach of the US, Canadian or Japanese securities laws or laws governing another jurisdiction.
4. By accepting this document you accept all disclaimers of liability and the restrictions cited above.
5. **This document is neither a recommendation nor an offer nor application of an offer for the purchase, sale or subscription of any security or investment. It is by no means meant to provide investment advice.**
6. This document, prepared by EQUI.TS GmbH, is based on information from sources (publicly available information and tax rates at the time of publication, which can, however, change), which, according to EQUI.TS GmbH, are dependable, yet not actually available for independent verification. Despite diligent verification, EQUI.TS GmbH cannot provide a guarantee, assurance or warranty for completeness and correctness; responsibility and liability is therefore excluded insofar as there is no intent or gross negligence on the part of EQUI.TS GmbH. All statements and opinions are exclusively those of EQUI.TS GmbH and can be changed without prior notice. Any error-caused misstatements of the document can be corrected by EQUI.TS GmbH, without EQUI.TS GmbH being held responsible for damages as a result of these misstatements.
7. This document is a translation of the legally binding German original version of June 4th, 2019.