

Date 04/09/2019

Recommendation:

Buy (previous: Buy)

PT: € 106.50 (prev.: € 114.50)

GK Software

Industry: Software

Segment: Prime Standard

ISIN: DE0007571424

Reuters: GKSG

Price (03/09/2019): € 56.00

Market Cap € 106m

EV € 123m

Ø-volume `000€ 107

52W High € 106.50

52W Low € 53.60

Financial Calendar

Q3 2019 26/11/2019

FY 2019 29/04/2020

Q1 2020 28/05/2020

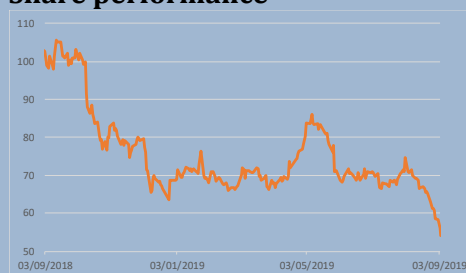
Shareholder structure

Freefloat 49.3%

R.Gläß 24.9%

S.Kronmüller 25.9%

Share performance



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GK SOFTWARE SE

Forecast confirmed, EBIT margin in first half-year still weak

In the first half-year GK Software achieved a 2.5% sales increase to € 50.3 million. The sales in the core business GK/Retail increased by 5.8%. The disproportionate increase in personnel expenses (18.7%) and a 7.5% decline in high-margin but volatile license revenues resulted in an EBIT margin of -9.9% in HY1 (HY1 18: 0.1%). Due to the strong pipeline and future sales opportunities, the Company maintains its guidance for 2019 as well as its medium-term outlook. We leave our estimates, which imply HY2 sales of approximately 72 million (+26% vs. HY2 18), unchanged. We are aware that the acquisition of major new customer projects is particularly necessary in order to achieve our earnings targets. In our view, GK Software remains favourable from a fundamental point of view, even if the price target is declining due to peer group and dilution effects.

- ✓ In the first half-year GK Software acquired nine new customers, six of them in Q2. License revenues increased significantly in Q2 (€ 7.46 million vs. € 2.38 million in Q1), but HY1 as a whole fell short of the prior-year period. We assume that this will reverse in HY2, in particular due to the typically strong final quarter.
- ✓ With Pro FIT, an internal efficiency improvement program has been launched, which is expected to become visible in earnings in 2019. Other expenses were already reduced by 12.4% in HY1. The previously dynamic growth in the number of employees is likely to weaken in the future, which should improve cost ratios. The efficiency of the North American organization has already improved significantly as a result of the measures introduced previously and is now close to its targets.
- ✓ The capital market is currently looking closely at the quarterly results (also at GK) and is rewarding long-term strategic growth targets only to a limited extent. Decisive positive impulses for the GK share price could therefore be provided in the short term by reports of major license deals in HY2 (Q4). We see the central value driver of the GK share in the successful internationalization and the growing number of existing customers, which opens up sustainable scaling potentials for the company (product world, employee capacity utilization).

Company outlook: The outlook for 2019 has been confirmed and envisages a not inconsiderable increase in retail sales, with the EBIT margin expected to significantly exceed the level achieved in 2018. The medium-term forecast continues to assume sales of around € 135 million in 2020 with a 15% EBIT margin in the core business.

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	2.69	1.00	20.8
2020 e	138.8	26.0	17.4	5.59	0.88	10.0
2021 e	155.9	31.0	21.8	7.20	0.79	7.8

Source: Company Data, EQUITS

Cash capital increase brings approx. € 5 million in liquid funds for future investments

On August 19th and 20th, 80,000 new shares (with dividend rights as of January 1st, 2019) were subscribed at € 64.00, the number of shares increased accordingly to 2,020,800 shares. The gross inflow amounted to € 5.12 million. The capital increase resulted in a slight dilution. This also resulted in the shareholding of the strategic partner SAP, which has held 100,000 GK shares since the end of 2013, being reduced below the 5% mark. The funds raised through the capital increase are to be used primarily for the new Retail Excellence Center, but also for further developments at DF Deutsche Fiskal, the expansion of the AIR (Artificial Intelligence for Retail) platform, and a product version of the petrol station solution specifically for the petroleum industry.

Hand in hand with SAP

The cooperation with SAP continues to intensify: The number of joint customer projects climbed to over 70, and GK's AI-based Dynamic Pricing solution has been on the SAP price list since the end of April 2019. The new Retail Excellence Center will be a joint R&D unit of the two partners SAP and GK Software in order to develop joint solutions especially for the future of retail and thereby documents the close cooperation of both companies.

New projects - International sales successes

The sales successes recorded in the first half of the year are broadly diversified, both in terms of the region and the retail segment. In the world's largest retail market, the USA, four new customers were acquired - including two food retailers with a total of around 330 stores, one (state-owned) alcohol retailer (370 stores) and a paint manufacturer and dealer from the southwest of the USA. Colombia's second largest food retailer (800 stores) also opted for OmniPOS - as a subscription-based cloud project. One chocolate manufacturer/dealer (400 stores worldwide) has also been a GK Software customer since 2019. In Northern Germany, a non-food department store (15 locations) was acquired as an (AWEK) customer. The Dynamic Pricing module, which was recently added to the SAP price list, has already been demonstrated to several interested parties and the company is currently active in several sales situations here. Further AI-based solutions tailored to the retail sector (based on the AIR platform) are to follow, for example on the topics of personalization and fraud detection.

DF Deutsche Fiskal - Opportunity for significant revenues from 2020, upfront costs

DF Deutsche Fiskal GmbH, a wholly-owned subsidiary of GK Software SE, addresses the mapping of legal fiscalization requirements affecting the entire German retail sector from 2020 onwards with a convenient cloud solution. Compared to hardware-based solutions, the DF solution provided jointly with Bundesdruckerei offers decisive advantages: existing hardware (e.g. cash registers) can continue to be used independently of the manufacturer. In addition, the solution can be used immediately, whereas a hardware solution would require more time to change over and cash register manufacturers would soon reach their capacity limits. In view of the high German requirements, retailers also run the risk that (smaller) suppliers will not be able to provide a certified solution within the specified time limits. The interest in DF's SaaS solution on the market is correspondingly high. We assume that dealers will have to agree on their future solution by the end of September 2019. On the cost side, DF's activities will have a negative impact in 2019, while the potential of the solution is likely to be reflected in the results from 2020.

Management Board contracts extended until mid 2024

In June 2019, the Supervisory Board of GK Software AG extended the contracts of the CEO and founder Rainer Gläß and the long-time CFO André Hergert for a further five years. The contract extension is to be seen as a sign of continuity in a phase of continued growth.

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	-1.492	-1.388	-1.279
Non operating result before taxes	0.000	0.000	0.000	0.000	0.000	0.000
EBT	3.452	4.340	0.171	7.676	15.966	20.548
Non operating result after taxes	0.000	0.000	0.000	0.000	0.000	0.000
Taxes	-0.626	-0.456	0.752	-2.244	-4.668	-6.007
Minority interest	0.000	0.002	0.002	0.002	0.002	0.002
Net result	2.826	3.885	0.925	5.434	11.301	14.543
Adjustments	0.00	0.00	0.00	0.00	0.00	0.00
Adjusted net result	2.826	3.885	0.925	5.434	11.301	14.543
Average number of shares	1.89	1.90	1.93	2.02	2.02	2.02
Average number of shares (dil.)	2.00	1.95	1.95	2.06	2.06	2.06
EPS	1.50	2.05	0.48	2.69	5.59	7.20
Adjusted EPS	1.50	2.05	0.48	2.69	5.59	7.20
Adjusted EPS (diluted)	1.41	2.00	0.47	2.63	5.48	7.05
DPS	0.00	0.00	0.00	0.40	1.12	1.44

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	8.317	14.615	18.295
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	3.000	-2.815	-4.260
Change in cash and securities	-3.519	25.067	-21.696	6.005	5.990	7.421
Cash and secur. at the end of the period	6.017	30.479	11.790	17.795	23.784	31.206

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	22.578	22.077	20.880
Usage rights (IFRS 16)	0.000	0.000	0.000	9.450	9.240	8.739
Financial assets	0.007	0.033	0.034	0.034	0.034	0.034
Current assets	33.963	61.424	53.304	64.887	76.630	89.971
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	17.795	23.784	31.206
Other assets	4.915	5.599	5.079	5.079	5.079	5.079
Total assets	71.615	106.598	111.182	130.047	138.979	149.722
Equity	31.654	38.669	40.256	50.688	61.171	73.452
Reserves	31.654	37.598	39.187	49.556	59.976	72.194
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
Leasehold liabilities	0.000	0.000	0.000	9.742	9.742	9.742
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	27.558	27.558	27.558
Other liabilities	3.555	5.340	3.653	3.653	3.653	3.653
Total equity and liabilities	71.615	106.598	111.182	130.047	138.979	149.722

Source: EQUI.TS; company data

Key Ratios	2016	2017	2018	2019e	2020e	2021e
Ratios for corporate valuation						
EV/Sales	1.28	2.03	2.01	1.00	0.88	0.79
EV/EBITDA	12.67	20.90	31.30	7.12	4.72	3.95
EV/EBIT	25.08	36.72	134.00	13.36	7.06	5.61
P/E reported	31.27	46.22	204.62	20.83	10.01	7.78
P/E clean	31.27	46.22	204.62	20.83	10.01	7.78
PCPS	15.24	23.50	33.23	8.36	5.66	4.75
Price-to-book ratio	2.79	4.78	4.83	2.28	1.89	1.57
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%	11.9%	20.2%	21.6%
Productivity ratios						
Sales/employees (in EUR '000)	94.4	94.1	85.8	94.1	104.8	114.2
Personnel expenses/employees (in '000)	58.2	60.2	55.6	60.0	62.5	66.6
Net result/employees (in '000)	3.5	4.0	0.7	4.2	8.5	10.7
Number of employees	819	961	1238	1299	1325	1365
Financial ratios						
Equity ratio	44.2%	36.3%	36.2%	39.0%	44.0%	49.1%
Gearing	126.2%	175.7%	176.2%	156.6%	127.2%	103.8%
Dividend yield	0.0%	0.0%	0.0%	0.7%	2.0%	2.6%
Cash-flow ratio						
Cash-flow per share	3.07	4.02	2.96	6.70	9.90	11.80
Free-Cash-flow per share	0.27	-0.27	-5.46	4.07	7.02	8.52
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

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Company responsible for the publication: EQUI.TS GmbH

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

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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
GK SOFTWARE AG	D.Grossjohann/T.Schießle	04/06/2019	Buy	€ 114.50

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

(04/09/2019)

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

(Closing price on 03/09/2019)

5. Updates:

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