

Date 31/05/2021

Recommendation:

Buy (previous: Buy)
PT: € 164.50 (prev.: € 162.00)

GK Software SE

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

Price (28/05/2021): € 139.00
Market Cap € 312m
EV € 339m
Ø-volume `000€ 492
52W High € 139.00
52W Low € 56.80

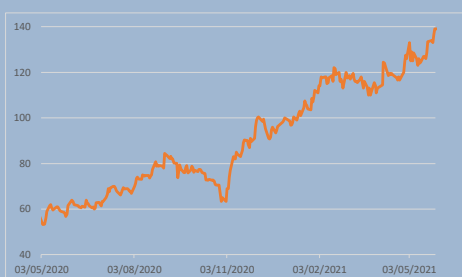
Financial Calendar

AGM 2021 17/06/2021
HY1 2021 26/08/2021
Q3 2021 25/11/2021

Shareholder structure

R.Gläß 24.2%
S.Kronmüller 18.4%
Freefloat 57.4%

Share performance



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GK SOFTWARE SE

Strong EBIT growth in Q1, AWEK microdata sale sharpens operational focus

In Q1 2021, GK Software was able to increase sales to € 30.5 million, which corresponds to an increase of almost 5% compared to the same quarter of the previous year. Profitability improved significantly, with EBIT tripling to € 3.2 million. In addition to good business with existing customers and two new customers acquired, this was again due to the efficiency program. The revenue generated by Deutsche Fiskal (from Q2 21 onwards) will be another key margin driver in the course of the year. The sale of AWEK microdata in May reinforces the focus on CLOUD4RETAIL. The proceeds from the sale in the mid single-digit million range are likely to be associated with a (small) accounting profit. With a 2021 EV/Sales of around 2.6 (peer median: 5.5) and an EV/EBIT of around 21 (peer median: 34), GK Software is more attractively priced than its peers.

- ✓ In Q1, GK was able to acquire one new customer each in Germany and Mexico, the sales pipeline continues to be well filled. Business with existing customers also developed well, so that the CLOUD4RETAIL segment increased its sales by 5.6%. In particular, slightly lower personnel expenses compared to Q1 20 and lower other expenses resulted in a strong increase in the (Group) EBIT margin to 10.5% (Q1 20: 3.7%).
- ✓ From Q2 2021 onwards, Deutsche Fiskal will contribute significantly to revenue. It should be noted that at the statutory start (1.4.2021) parts of the German retailers were still subject to opening restrictions - quarterly achievable sales are therefore likely to slightly exceed the sales reported in Q2 21. We expect Deutsche Fiskal's highly scalable business model to have a clear positive impact on the Group margin.
- ✓ The sale of the wholly owned subsidiary AWEK microdata (midmarket solution euroSUITE; 41 employees) to the Italian Zucchetti Group was motivated by an even stronger, strategic focus on the CLOUD4RETAIL platform. The sale is likely to have resulted in an accounting profit. After the AWEK microdata sale and the final recognition of the capital increase (in Q1 still under "other receivables"), cash holding should exceed € 40 million (€ 18.8 million as of 30.4.21). In our view, a strategic acquisition to better exploit international sales opportunities (e.g. in Asia) has thus come closer.

Medium-term outlook. The medium-term forecast plans to achieve a sales corridor of € 160 million to € 175 million in 2023 - based on the current product world alone (corresponds to average organic growth of 10.8% to 14.2% p.a.). The target **EBIT margin**, which could already be achieved before 2023, is **15%**. The disposal of AWEK microdata does not change the medium-term planning.

Key figures - GK Software SE

	Sales	EBITDA	EBIT	EPS (adj.)	EV/Sales	P/E
2019 a	115.4	12.3	3.4	-1.60	1.44	-44.0
2020 a	117.6	19.1	10.5	3.04	1.43	22.7
2021 e	129.3	25.8	16.2	4.60	2.62	30.2
2022 e	154.0	33.3	22.8	6.81	2.20	20.4
2023 e	174.5	37.4	26.2	7.97	1.94	17.4

Source: Company Data, EQUITS

Retail7 solution covers target group of smaller retailers and hospitality businesses

Business with smaller retailers will not be abandoned as a result of the sale of AWEK microdata (euroSUITE) but will in future be addressed via the young GK subsidiary **Retail7**, whose SaaS/cloud solution for small retailers and the hospitality sector reached market maturity in 2020. GK is thus also pushing ahead with the cloud transformation in relation to smaller customers, where the SaaS approach is well scalable. The good start into the current fiscal year and the already existing product-side alternative to euroSuite have led us to maintain the revenue estimate for 2021, although the revenue contributions of AWEK microdata (deconsolidation as of May 20, 2021) will be absent in the second half of the year.

Appendix

Income Statement (in EURm)	2018	2019	2020	2021e	2022e	2023e
Sales	106.151	115.448	117.560	129.295	154.046	174.540
Change in finished goods	0.000	0.000	0.000	0.000	0.000	0.000
Other own costs capitalized	0.000	0.000	0.831	0.914	1.089	1.234
Other operating income	3.617	3.837	4.070	4.476	5.333	6.043
Total performance	109.768	119.285	122.461	134.685	160.468	181.817
Cost of material	-7.733	-6.229	-9.436	-10.318	-12.390	-14.478
Gross profit	102.035	113.056	113.025	124.367	148.078	167.338
Personnel expenses	-68.791	-78.134	-75.640	-79.032	-91.130	-102.775
Other operating expenses	-26.411	-22.666	-18.307	-19.526	-23.651	-27.183
EBITDA	6.833	12.256	19.078	25.809	33.297	37.380
Depreciation/amortisation	-5.237	-8.826	-8.543	-9.647	-10.498	-11.199
EBIT	1.596	3.430	10.535	16.161	22.799	26.181
Financial result	-1.425	-2.197	-1.445	-1.008	-0.416	0.000
Non operating result before taxes	0.000	0.000	0.000	0.000	0.000	0.000
EBT	0.171	1.233	9.090	15.154	22.383	26.181
Non operating result after taxes	0.000	0.000	0.000	0.000	0.000	0.000
Taxes	0.752	-4.372	-2.824	-4.708	-6.954	-8.134
Minority interest	0.002	0.002	-0.055	-0.055	-0.055	-0.055
Net result	0.925	-3.137	6.211	10.391	15.375	17.992
Adjustments	0.00	0.00	0.00	0.00	0.00	0.00
Adjusted net result	0.925	-3.137	6.211	10.391	15.375	17.992
Average number of shares	1.93	2.02	2.05	2.26	2.26	2.26
Average number of shares (dil.)	1.95	2.06	2.18	2.36	2.36	2.36
EPS	0.48	-1.60	3.04	4.60	6.81	7.97
Adjusted EPS	0.48	-1.60	3.04	4.60	6.81	7.97
Adjusted EPS (diluted)	0.47	-1.60	3.00	4.41	6.52	7.63
DPS	0.00	0.00	0.00	0.00	0.00	0.00

Source: EQUI.TS; company data

Cash Flow Statement (in EURm)	2018	2019	2020	2021e	2022e	2023e
Net cash provided by operating activities	-5.670	-0.214	17.715	16.875	19.001	23.541
Net cash used in investing activities	-15.732	-3.591	-2.974	-4.335	-4.646	-4.880
Net cash provided by financing activities	-0.294	-0.118	-11.287	13.500	-2.000	-2.000
Change in cash and securities	-21.696	-3.923	3.454	26.040	12.355	16.661
Cash and secur. at the end of the period	11.790	8.086	9.425	35.465	47.820	64.481

Source: EQUI.TS; company data

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

Balance Sheet (in EURm)	2018	2019	2020	2021e	2022e	2023e
Long term assets	52.799	59.908	56.104	50.791	44.940	38.621
Intangible assets	30.019	27.607	25.412	23.212	19.812	16.412
Tangible assets	16.936	16.988	14.675	12.765	11.261	9.471
Usage rights (IFRS 16)	0.000	8.914	9.246	8.043	7.095	5.967
Financial assets	5.844	6.399	6.771	6.771	6.771	6.771
Current assets	53.304	52.748	53.214	82.962	103.137	126.272
Inventories	0.486	0.416	0.173	0.190	0.227	0.257
Trade Accounts Receivables	26.030	22.240	23.382	25.716	30.639	34.715
Trade Accounts Rec. from ongoing work	10.289	16.020	13.587	14.943	17.804	20.172
Other current assets	4.709	5.986	6.647	6.647	6.647	6.647
Cash and securities	11.790	8.086	9.425	35.465	47.820	64.481
Other assets	5.079	1.533	1.358	1.358	1.358	1.358
Total assets	111.182	114.189	110.676	135.111	149.434	166.252
Equity	40.256	42.329	48.697	77.643	93.072	111.120
Reserves	39.187	41.261	47.971	76.862	92.171	110.099
Minorities	1.069	1.068	0.726	0.781	0.901	1.021
Provisions	2.789	4.183	3.480	3.611	3.748	3.892
Liabilities	64.484	64.805	54.955	50.313	49.070	47.696
Interest bearing liabilities	34.819	33.820	33.202	28.202	26.202	24.202
Leasehold liabilities	0.000	8.868	9.311	8.043	7.095	5.967
Accounts Payables	2.365	2.484	3.591	3.949	4.706	5.332
Initial payments received	1.509	3.547	3.589	4.005	4.405	4.405
Other non-interest bearing liabilities	25.791	16.086	5.262	6.114	6.661	7.790
Other liabilities	3.653	2.872	3.544	3.544	3.544	3.544
Total equity and liabilities	111.182	114.189	110.676	135.111	149.434	166.252

Source: EQU1.TS; company data

Key Ratios	2018	2019	2020	2021e	2022e	2023e
Ratios for corporate valuation						
EV/Sales	2.01	1.44	1.43	2.62	2.20	1.94
EV/EBITDA	31.30	13.59	8.80	13.14	10.19	9.08
EV/EBIT	134.00	48.57	15.94	20.99	14.88	12.96
P/E reported	204.62	-44.02	22.68	30.21	20.42	17.45
P/E clean	204.62	-44.02	22.68	30.21	20.42	17.45
PCPS	33.23	22.00	9.96	15.57	12.07	10.70
Price-to-book ratio	4.83	3.35	2.94	4.08	3.41	2.85
Profitability ratios						
EBITDA margin	6.4%	10.6%	16.2%	20.0%	21.6%	21.4%
EBIT margin	1.5%	3.0%	9.0%	12.5%	14.8%	15.0%
Pre tax margin	0.2%	1.1%	7.7%	11.7%	14.5%	15.0%
Net margin	0.9%	-2.7%	5.3%	8.0%	10.0%	10.3%
Free-cash-flow-margin	n.m.	2.3%	9.7%	8.4%	13.9%	14.0%
ROE	2.3%	-7.6%	13.8%	16.5%	18.1%	17.7%
Productivity ratios						
Sales/employees (in EUR '000)	92.3	92.6	106.5	113.7	131.5	144.7
Personnel expenses/employees (in '000)	59.8	62.7	68.5	69.5	77.8	85.2
Net result/employees (in '000)	0.8	-2.5	5.6	9.1	13.1	14.9
Number of employees	1150	1247	1104	1137	1171	1206
Financial ratios						
Equity ratio	36.2%	37.1%	44.0%	57.5%	62.3%	66.8%
Gearing	176.2%	169.8%	127.3%	74.0%	60.6%	49.6%
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cash-flow ratio						
Cash-flow per share	2.96	3.10	6.90	8.93	11.52	12.99
Free-Cash-flow per share	-5.46	1.30	5.59	4.80	9.46	10.83
Other ratios						
Depreciation/Sales	4.9%	7.6%	7.3%	7.5%	6.8%	6.4%
Capex/Sales	11.3%	3.2%	2.3%	1.6%	1.5%	1.5%
Working Capital/Sales	32.4%	31.3%	28.5%	28.5%	28.5%	28.5%
Tax rate	-439.8%	354.6%	31.1%	31.1%	31.1%	31.1%

Source EQUI.TS

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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	12/06/2020	Buy	€ 87.90
GK SOFTWARE AG	D.Grossjohann/T.Schießle	01/09/2020	Buy	€ 105.00
GK SOFTWARE AG	D.Grossjohann/T.Schießle	27/10/2020	Buy	€ 105.00
GK SOFTWARE AG	D.Grossjohann/T.Schießle	10/11/2020	Buy	€ 116.00
GK SOFTWARE AG	D.Grossjohann/T.Schießle	01/12/2020	Buy	€ 117.00
GK SOFTWARE AG	D.Grossjohann/T.Schießle	01/02/2021	Hold	€ 122.00
GK SOFTWARE AG	D.Grossjohann/T.Schießle	24/03/2021	Buy	€ 134.00
GK SOFTWARE AG	D.Grossjohann/T.Schießle	31/03/2021	Buy	€ 133.50
GK SOFTWARE AG	D.Grossjohann/T.Schießle	04/05/2021	Buy	€ 162.00

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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:**

(31/05/2021; 11:30 am CET)

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

(Closing price on 28/05/2021, XETRA)

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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