

Date 06/06/2018

Recommendation:

Buy (previous: Buy)

PT: € 155.80 (prev.: € 155.80)

GK Software

Industry: Software

Segment: Prime Standard

ISIN: DE0007571424

Reuters: GKSG

Price (05/06/2018): € 111.00

Market Cap € 210m

EV € 214m

Ø-volume `000€ 180

52W High € 135.50

52W Low € 89.01

Financial Calendar

AGM 2018 21/06/2018

Q2 Report 30/08/2018

Shareholder structure

GK Software Hldg. 49.8%

SAP SE 5.3%

R.Gläß 3.3%

S.Kronmüller 2.3%

Share performance



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GK SOFTWARE SE

Strong growth in core business continues

The increase in revenues in Q1 2018 (+17.7% to € 23.7m) was driven by strong growth in the core GK/Retail business (+22.3%). EBITDA of € 1.34m was a good third higher than in the previous year. Q1 saw the acquisition of a major US customer (6,000 installations) and the migration of a very large existing customer to OmniPOS. On the project side, several country roll-outs and production starts of the cloud solution OmniPOS were the focus. We see GK - also against the background of the very well-filled sales pipeline - on a good way to meet our 2018 expectations (which on the sales side are slightly above the guidance). Measured in terms of DCF and peer valuation, the share has further price potential.

- ✓ **Q1 revenue mix:** While license revenues increased almost eightfold (to € 4.9m (Q1 17: € 0.64m)), service revenues (€ 10.8m) declined by around 10.4%. This was also due to the fact that € 1.53m for customer-specific developments in various projects, which would previously have been booked as service revenues, could now be recorded as software revenues requiring maintenance. Maintenance business grew by 13.9% to € 7.4m.
- ✓ In Q1 2018, the focus in the further development of our own solution was on the topics of cloud computing, industry characteristics for hospitality and petrol, and the representation of country-specific requirements. In addition, another focus was the integration of the artificial intelligence (AI) based solutions of prudsys acquired in 11/2017.
- ✓ After the end of the first quarter, GK was able to license the **"SAP Hybris Mobile Consumer Assistant by GK"** solution to a Global Top50 retailer. The solution, consisting of a consumer app and cloud backend, is to be used in several countries in southern Africa.
- ✓ The strong sales growth in the core business is steady and the sales pipeline is said to be very well filled. Compared to the peer companies, GK is one of the fastest-growing companies and is rather cheap compared to the 2018e EV/sales multiple of 2. Customers who choose the subscription model (instead of the traditional licensing model) for new projects and the priority that GK gives to opening up new markets could temporarily burden profitability - but both pay off in the long term.

Company outlook: By presenting the Q1 figures, GK Software confirmed both the outlook delivered for 2018 (15% sales growth in the core business and over 15% EBIT margin in the core business) and the medium-term forecast, which implies sales of around € 135m in 2020.

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	16.5	12.3	4.32	2.00	25.7
2019 e	122.0	19.4	14.9	5.05	1.75	22.0
2020 e	137.3	22.4	17.6	6.09	1.55	18.2

Source: Company Data, EQUITS

Appendix

Income Statement	2015	2016	2017	2018e	2019e	2020e
Sales	62.602	77.333	90.452	106.750	121.978	137.346
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
Total performance	64.853	79.483	95.649	112.884	128.987	145.237
Cost of material	-8.266	-7.681	-8.530	-9.266	-10.027	-10.731
Gross profit	56.587	71.802	87.119	103.618	118.959	134.507
Personnel expenses	-39.668	-47.669	-57.809	-64.773	-74.232	-83.803
Other operating expenses	-14.742	-16.330	-20.537	-22.305	-25.304	-28.309
EBITDA	2.177	7.803	8.773	16.540	19.423	22.395
Depreciation/amortisation	-3.453	-3.861	-3.780	-4.264	-4.536	-4.771
EBIT	-1.276	3.942	4.993	12.276	14.888	17.623
Financial result	-0.107	-0.491	-0.653	-1.207	-1.110	-1.010
Non operating result before taxes	0.000	0.000	0.000	0.000	0.000	0.000
EBT	-1.383	3.452	4.340	11.070	13.778	16.614
Non operating result after taxes	0.000	0.000	0.000	0.000	0.000	0.000
Taxes	-0.117	-0.626	-0.456	-2.823	-4.134	-4.985
Minority interest	0.000	0.000	0.002	0.052	0.052	0.052
Net result	-1.500	2.826	3.885	8.298	9.696	11.681
Adjustments	0.00	0.00	0.00	0.00	0.00	0.00
Adjusted net result	-1.500	2.826	3.885	8.298	9.696	11.681
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	4.32	5.05	6.09
Adjusted EPS	-0.79	1.50	2.05	4.32	5.05	6.09
Adjusted EPS (diluted)	-0.76	1.41	2.00	4.25	4.96	5.98
DPS	0.00	0.00	0.00	0.00	0.76	1.22

Source: EQUI.TS; company data

Cash Flow Statement	2015	2016	2017	2018e	2019e	2020e
Net cash provided by operating activities	2.196	3.699	15.224	8.637	10.572	12.762
Net cash used in investing activities	-18.583	-5.099	-9.278	-5.129	-3.361	-3.706
Net cash provided by financing activities	12.574	-2.119	19.121	-2.000	-2.000	-3.454
Change in cash and securities	-3.813	-3.519	25.067	1.508	5.211	5.602
Cash and secur. at the end of the period	7.377	6.017	30.479	31.987	37.198	42.800

Source: EQUI.TS; company data

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

Balance Sheet	2015	2016	2017	2018e	2019e	2020e
Long term assets	30.944	32.736	39.575	40.441	39.266	38.201
Intangible assets	25.190	23.828	25.359	23.409	21.609	20.109
Tangible assets	5.753	8.902	14.183	16.999	17.624	18.058
Financial assets	0.002	0.007	0.033	0.033	0.033	0.033
Current assets	33.074	33.963	61.424	67.226	76.449	86.100
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	31.987	37.198	42.800
Other assets	3.742	4.915	5.599	5.599	5.599	5.599
Total assets	67.760	71.615	106.598	113.266	121.313	129.899
Equity	28.967	31.654	38.669	46.915	56.559	66.734
Reserves	28.967	31.654	37.598	45.831	55.462	65.623
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
Liabilities	32.085	33.183	59.364	57.695	56.004	54.316
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
Total equity and liabilities	67.760	71.615	106.598	113.266	121.313	129.899

Source: EQUITS; company data

Key Ratios	2015	2016	2017	2018e	2019e	2020e
Ratios for corporate valuation						
EV/Sales	1.19	1.28	2.03	2.00	1.75	1.55
EV/EBITDA	34.17	12.67	20.90	12.91	10.99	9.53
EV/EBIT	-58.32	25.08	36.72	17.39	14.34	12.12
P/E reported	-43.72	31.27	46.22	25.67	21.97	18.24
P/E clean	-43.72	31.27	46.22	25.67	21.97	18.24
PCPS	24.45	15.24	23.50	16.84	14.87	12.87
Price-to-book ratio	2.26	2.79	4.78	4.65	3.84	3.25
Profitability ratios						
EBITDA margin	3.5%	10.1%	9.7%	15.5%	15.9%	16.3%
EBIT margin	-2.0%	5.1%	5.5%	11.5%	12.2%	12.8%
Pre tax margin	-2.2%	4.5%	4.8%	10.4%	11.3%	12.1%
Net margin	-2.4%	3.7%	4.3%	7.8%	7.9%	8.5%
Free-cash-flow-margin	n.m.	0.7%	n.m.	7.0%	9.0%	9.4%
ROE	-5.0%	9.3%	11.0%	19.3%	18.6%	18.9%
Productivity ratios						
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	62.3	68.0	73.2
Net result/employees (in '000)	-2.0	3.5	4.0	8.0	8.9	10.2
Number of employees	739	819	961	1039	1091	1146
Financial ratios						
Equity ratio	42.7%	44.2%	36.3%	41.4%	46.6%	51.4%
Gearing	133.9%	126.2%	175.7%	141.4%	114.5%	94.7%
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.7%	1.1%
Cash-flow ratio						
Cash-flow per share	1.42	3.07	4.02	6.59	7.47	8.62
Free-Cash-flow per share	-8.45	0.27	-0.27	3.92	5.71	6.69
Other ratios						
Depreciation/Sales	5.5%	5.0%	4.2%	4.0%	3.7%	3.5%
Capex/Sales	29.8%	6.8%	9.0%	4.8%	2.8%	2.7%
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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Reference pursuant to section 4 subsection 4 point 4 FinAnV:

Company	Analyst		Rating	Price Target
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
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

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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,

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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.

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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:

(06/06/2018)

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

(Closing price on 05/06/2018)

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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