

Date 08/06/2017
Recommendation: Hold
PT: € 84.70

(previous: Hold)
(previous: € 80.40)



EQUITS GmbH
Am Schieferstein 1
D-60435 Frankfurt

GK Software

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

Price (07/06/2017): € 94.64
Market Cap € 179 Mio.
EV € 174 Mio.
Ø-volume '000€ (100 days) 160
52W High € 96.00
52W Low € 42.00

Financial Calendar

AGM 22/06/2017
Q2 report 30/08/2017

Shareholder structure

GK Software Hldg.	49.8%
SAP AG	5.3%
R.Gläß	3.3%
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

GK SOFTWARE AG

Successful start to the year

GK Software recorded a 30.3% increase in sales (to EUR 20.1 million) in the first quarter of 2017 and a significant increase in earnings, this time mainly driven by the service business. More good news is also that there have been **five further roll-outs** of the new **OmniPOS** solution in Europe and the USA. The sales pipeline continues to be very well filled and the company is well positioned in several ongoing tenders. It seems possible that GK Software may exceed our latest sales expectations for 2017. The licensing business, which is typically strong end-of-year business, has a particularly high impact on earnings and we are therefore leaving our estimates unchanged for the time being. After the recent steep increase in the share price (>+50% since 01/01/2017), it is currently trading above our share price target, which has also increased as a result of peer group effects.

- ✓ The clearly disproportionate rise in **service business (+85%)** compared to the number of employees (+15%) is due to various factors. The main impact on sales growth and margins was caused by **more efficient internal processes** and **more market-oriented pricing of services** (especially for new customers). In addition, **milestone payments** (for example, according to roll-outs) were a factor as well. We think that the **increased profitability** has a long-lasting impact, but sales growth comparisons on a quarterly basis for IT services can remain volatile.
- ✓ **Maintenance revenues** (Q1 17: EUR 6.5 million; **+30%**) are closely correlated with the installed base. **Licensing revenues**, however, were down EUR 0.65 million in Q1 compared to the same period of the previous year (EUR 1.16 million), but this is only marginally significant since Q1 is historically a weak quarter in the licensing business. Individual licensing agreements have a strong influence on the EBIT. The introduction of the new **cloud solution OmniPOS** has helped expedite roll-outs.

Outlook: The **retail environment** remains positive and the German Trade Association (Handelsverband Deutschland - HDE) is forecasting a 2% increase in sales, driven by consumer sentiment, low unemployment and increasing incomes. GK Software expects a substantial increase in sales in the core segment of GK/Retail for 2017 and if there is further positive development, it is also believed that the medium-term sales target (approx. EUR 93.9 million) will be reached ahead of schedule. The EBIT margin is expected to exceed the previous year's figure of 5.1%, although postponements of projects and entry into new target markets, which GK affords high priority, may entail significant costs, which will have an impact on profitability.

Key figures - GK Software AG

	Sales	EBITDA	EBIT	EPS (adj.)	EV/Sales	P/E
2015 a	62.6	2.2	-1.3	-0.79	1.19	-43.7
2016 a	77.3	7.8	3.9	1.50	1.28	31.3
2017 e	88.5	11.3	7.3	2.52	1.96	37.6
2018 e	97.2	16.3	12.2	4.37	1.79	21.7
2019 e	107.1	18.0	13.7	5.00	1.62	18.9

Source: Company Data, EQUI.TS

Appendix

Income Statement	2014	2015	2016	2017e	2018e	2019e
Sales	44.634	62.602	77.333	88.525	97.245	107.125
Change in finished goods	0.000	0.000	0.000	0.000	0.000	0.000
Other own costs capitalized	0.512	0.525	0.382	0.437	0.480	0.529
Other operating income	2.188	1.726	1.769	2.025	2.224	2.450
Total performance	47.333	64.853	79.483	90.987	99.949	110.104
Cost of material	-5.151	-8.266	-7.681	-8.624	-8.673	-9.194
Gross profit	42.182	56.587	71.802	82.362	91.276	100.910
Personnel expenses	-28.749	-39.668	-47.669	-52.119	-55.070	-61.168
Other operating expenses	-13.397	-14.742	-16.330	-18.991	-19.929	-21.771
EBITDA	0.037	2.177	7.803	11.251	16.277	17.970
Depreciation/amortisation	-3.052	-3.453	-3.861	-3.992	-4.121	-4.258
EBIT	-3.015	-1.276	3.942	7.259	12.156	13.712
Financial result	0.028	-0.107	-0.491	-0.467	-0.356	-0.207
Non operating result before taxes	0.000	0.000	0.000	0.000	0.000	0.000
EBT	-2.987	-1.383	3.452	6.793	11.801	13.505
Non operating result after taxes	0.000	0.000	0.000	0.000	0.000	0.000
Taxes	1.117	-0.117	-0.626	-2.038	-3.540	-4.052
Minority interest	0.000	0.000	0.000	0.000	0.000	0.000
Net result	-1.870	-1.500	2.826	4.755	8.260	9.453
Adjustments	0.00	0.00	0.00	0.00	0.00	0.00
Adjusted net result	-1.870	-1.500	2.826	4.755	8.260	9.453
Average number of shares	1.89	1.89	1.89	1.89	1.89	1.89
EPS	-0.99	-0.79	1.50	2.52	4.37	5.00
Adjusted EPS	-0.99	-0.79	1.50	2.52	4.37	5.00
DPS	0.00	0.00	0.00	0.55	0.94	1.12

Source: EQUI.TS; company data

Cash Flow Statement	2014	2015	2016	2017e	2018e	2019e
Net cash provided by operating activities	-0.394	2.196	3.699	5.864	10.158	11.185
Net cash used in investing activities	-1.569	-18.583	-5.099	-4.161	-4.571	-4.258
Net cash provided by financing activities	-1.606	12.574	-2.119	-2.000	-3.046	-3.784
Change in cash and securities	-3.569	-3.813	-3.519	-0.297	2.540	3.143
Cash and secur. at the end of the period	10.173	7.377	6.017	5.720	8.261	11.404

Source: EQUI.TS; company data

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

Balance Sheet	2014	2015	2016	2017e	2018e	2019e
Long term assets	13.445	30.944	32.736	32.905	33.356	33.355
Intangible assets	8.474	25.190	23.828	22.435	21.142	19.649
Tangible assets	4.970	5.753	8.902	10.464	12.207	13.700
Financial assets	0.002	0.002	0.007	0.007	0.007	0.007
Current assets	28.270	33.074	33.963	36.950	42.049	48.092
Inventories	1.159	1.655	1.180	1.351	1.484	1.635
Accounts Receivables	12.375	19.100	21.512	24.625	27.051	29.800
Other current assets	4.563	4.943	5.254	5.254	5.254	5.254
Cash and securities	10.173	7.377	6.017	5.720	8.261	11.404
Other assets	2.957	3.742	4.915	4.915	4.915	4.915
Total assets	44.673	67.760	71.615	74.771	80.321	86.363
Equity	30.555	28.967	31.654	36.409	43.623	51.292
Reserves	30.555	28.967	31.654	36.409	43.623	51.292
Minorities	0.000	0.000	0.000	0.000	0.000	0.000
Provisions	3.321	4.081	3.222	3.307	3.396	3.489
Liabilities	8.600	32.085	33.183	31.500	29.746	28.026
Interest bearing liabilities	1.132	14.723	14.763	12.763	10.763	8.763
Accounts Payables	1.634	2.091	2.187	2.504	2.750	3.030
Other non-interest bearing liabilities	5.835	15.271	16.233	16.233	16.233	16.233
Other liabilities	2.196	2.628	3.555	3.555	3.555	3.555
Total equity and liabilities	44.673	67.760	71.615	74.771	80.321	86.363

Source: EQUI.TS; company data

Key Ratios	2014	2015	2016	2017e	2018e	2019e
Ratios for corporate valuation						
EV/Sales	1.61	1.19	1.28	1.96	1.79	1.62
EV/EBITDA	1969.16	34.17	12.67	15.44	10.68	9.67
EV/EBIT	-23.84	-58.32	25.08	23.94	14.30	12.67
P/E reported	-42.38	-43.72	31.27	37.62	21.65	18.92
P/E clean	-42.38	-43.72	31.27	37.62	21.65	18.92
PCPS	41.00	24.45	15.24	20.25	14.34	12.96
Price-to-book ratio	2.59	2.26	2.79	4.91	4.10	3.49
Profitability ratios						
EBITDA margin	0.1%	3.5%	10.1%	12.7%	16.7%	16.8%
EBIT margin	-6.8%	-2.0%	5.1%	8.2%	12.5%	12.8%
Pre tax margin	-6.7%	-2.2%	4.5%	7.7%	12.1%	12.6%
Net margin	-4.2%	-2.4%	3.7%	5.4%	8.5%	8.8%
Free-cash-flow-margin	0.3%	n.m.	0.7%	5.3%	8.1%	8.9%
ROE	-5.9%	-5.0%	9.3%	14.0%	20.6%	19.9%
Productivity ratios						
Sales/employees (in EUR '000)	78.0	84.7	84.9	90.0	94.1	98.8
Personnel expenses/employees (in '000)	50.3	53.7	52.3	53.0	53.3	56.4
Net result/employees (in '000)	-3.3	-2.0	3.1	4.8	8.0	8.7
Number of employees	572	739	911	984	1033	1085
Financial ratios						
Equity ratio	68.4%	42.7%	44.2%	48.7%	54.3%	59.4%
Gearing	46.2%	133.9%	126.2%	105.4%	84.1%	68.4%
Dividend yield	0.0%	0.0%	0.0%	0.6%	1.0%	1.2%
Cash-flow ratio						
Cash-flow per share	1.02	1.42	3.07	4.67	6.60	7.30
Free-Cash-flow per share	0.08	-8.45	0.27	2.47	4.18	5.05
Other ratios						
Depreciation/Sales	6.8%	5.5%	5.0%	4.5%	4.2%	4.0%
Capex/Sales	4.0%	29.8%	6.8%	4.7%	4.7%	4.0%
Working Capital/Sales	26.7%	29.8%	26.5%	26.5%	26.5%	26.5%
Tax rate	37.4%	-8.5%	18.1%	30.0%	30.0%	30.0%

Source EQUI.TS

DISCLAIMER

A. Disclosures in accordance with § 34 b WpHG (German Securities Trading Act), Finanzanalyseverordnung (FinAnV) (Ordinance on the Analysis of Financial Instruments):

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).

Reference pursuant to section 4 subsection 4 point 4 FinAnV:

Company	Analyst		Rating	Price Target
GK SOFTWARE AG	D.Grossjohann/T.Schießle	09/09/2015	Buy	€ 45.00
GK SOFTWARE AG	D.Grossjohann/T.Schießle	04/12/2015	Buy	€ 46.80
GK SOFTWARE AG	D.Grossjohann/T.Schießle	07/03/2016	Buy	€ 45.20
GK SOFTWARE AG	D.Grossjohann/T.Schießle	17/05/2016	Buy	€ 54.35
GK SOFTWARE AG	D.Grossjohann/T.Schießle	21/06/2016	Buy	€ 54.35
GK SOFTWARE AG	D.Grossjohann/T.Schießle	12/09/2016	Buy	€ 59.60
GK SOFTWARE AG	D.Grossjohann/T.Schießle	05/12/2016	Hold	€ 61.10
GK SOFTWARE AG	D.Grossjohann/T.Schießle	12/04/2017	Hold	€ 68.40
GK SOFTWARE AG	D.Grossjohann/T.Schießle	22/05/2017	Hold	€ 80.40

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:

(08/06/2017)

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

(Closing price on 07/06/2017)

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 8, 2017.