

Date 21/06/2016

Recommendation:

Buy (previous: Buy)

PT: € 54.35 (previous: € 54.35)

GK Software

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

Price (20/06/2016): € 44.92

Market Cap € 85 Mio.

EV € 94 Mio.

Ø-volume `000€ (100 days) 62.6

52W High € 45.85

52W Low € 28.90

Financial Calendar

Q2 report 30/08/2016

Q3 report 29/11/2016

Shareholder structure

GK Software Hldg. 49.8%

SAP AG 5.3%

R.Gläß 3.3%

S.Kronmüller 2.3%

Share performance



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GK SOFTWARE AG

Growth in sales of just under 20% in Q1

GK Software experienced growth in sales of 18.9% in the first quarter of 2016. Due to the composition of the sales mix (comprising lower licensing sales), EBIT amounted to € -1.47 million, which represents a decrease as compared to the equivalent period of the previous year (€ -0.88 million). Some recovery is expected in Q2 in relation to licensing revenues. The company has confirmed the outlook presented by it in its annual report, while nevertheless conceding the possibility of a slightly negative result in terms of its EBIT for the year as a whole, as a result of its prioritisation of growth in non-European target markets over short-term improvements in the reported margin. Having now seen the reported Q1 figures, we are adhering to our estimations, which forecast, among other things, growth in sales of 14%. We still consider the GK share to be favourably priced, in terms of equity/sales ratio and positioning.

- ✓ The two major sales items, "maintenance" (€ 5.02 million; + 5.9%) and "services" (€ 6.56 million; + 4.2%), have experienced moderate growth, while the high-margin licensing business has underperformed to a considerable degree as compared to the previous year (however, it is expected to recover somewhat in Q2). The Hardware Sales/Staging segment ended the quarter well ahead of the equivalent period of the previous year (€ 2.66 million as compared to € 0.26 million in Q1 of 2015), primarily as a result of the sale of primed hardware (in connection with service contracts). GK Academy, which provides training to the employees of partners of the company, virtually doubled its sales (to € 66k).
- ✓ GK is currently grappling with the fundamental, strategic issue of whether growth options (in its target markets) should be accorded higher priority than short-time margin-related considerations. We consider its decision to exploit the opportunities currently arising with a view to further developing its target markets (an approach which may well entail the incurrence of considerable costs) to be the correct choice from a long term perspective. However, the (apparently) persistently low margins could have an adverse effect on the share price, and we would advise investors to use any such setbacks to increase share positions.

Outlook for the company: GK Software confirmed its previously projected outlook, involving, among other goals, the realisation of not insignificant growth in 2016, with the company aiming to increase its annual sales to more than € 90 million by 2018. Its target EBIT margin for the medium term is 15%, although it is conceivable that the result for the current year could be in a slightly negative amount. The company furthermore point out that its growth over the coming years will not necessarily be linear in nature.

Key figures - GK Software AG

	Sales	EBITDA	EBIT	EPS (adj.)	EV/Sales	P/E
2014 a	44.6	0.0	-3.0	-0.99	1.61	-42.4
2015 a	62.6	2.2	-1.3	-0.79	1.19	-43.7
2016 e	71.2	7.4	2.5	0.95	1.32	47.4
2017 e	85.2	12.8	7.0	2.71	1.10	16.6
2018 e	96.2	18.5	11.9	4.58	0.97	9.8

Source: Company Data, EQUITS GmbH

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Income Statement	2013	2014	2015	2016e	2017e	2018e
Sales	42.458	44.634	62.602	71.235	85.160	96.247
Change in finished goods	0.000	0.000	0.000	0.000	0.000	0.000
Other own costs capitalized	0.376	0.512	0.525	0.597	0.714	0.807
Other operating income	2.451	2.188	1.726	1.964	2.348	2.654
Total performance	45.285	47.333	64.853	73.796	88.222	99.708
Cost of material	-4.082	-5.151	-8.266	-8.271	-9.359	-9.648
Gross profit	41.202	42.182	56.587	65.525	78.863	90.059
Personnel expenses	-25.605	-28.749	-39.668	-41.551	-46.905	-50.582
Other operating expenses	-12.258	-13.397	-14.742	-16.592	-19.152	-20.962
EBITDA	3.340	0.037	2.177	7.383	12.806	18.515
Depreciation/amortisation	-2.295	-3.052	-3.453	-4.871	-5.822	-6.580
EBIT	1.045	-3.015	-1.276	2.512	6.984	11.935
Financial result	-0.113	0.028	-0.107	0.031	0.276	0.348
Non operating result before taxes	0.000	0.000	0.000	0.000	0.000	0.000
EBT	0.932	-2.987	-1.383	2.542	7.260	12.283
Non operating result after taxes	0.000	0.000	0.000	0.000	0.000	0.000
Taxes	-0.331	1.117	-0.117	-0.751	-2.143	-3.627
Minority interest	0.000	0.000	0.000	0.000	0.000	0.000
Net result	0.601	-1.870	-1.500	1.792	5.116	8.657
Adjustments	0.00	0.00	0.00	0.00	0.00	0.00
Adjusted net result	0.601	-1.870	-1.500	1.792	5.116	8.657
Average number of shares	1.79	1.89	1.89	1.89	1.89	1.89
EPS	0.34	-0.99	-0.79	0.95	2.71	4.58
Adjusted EPS	0.34	-0.99	-0.79	0.95	2.71	4.58
DPS	0.25	0.00	0.00	0.00	0.60	1.01

Source: EQUI.TS; company data

Cash Flow Statement	2013	2014	2015	2016e	2017e	2018e
Net cash provided by operating activities	1.829	-0.394	2.196	4.159	6.860	12.008
Net cash used in investing activities	-0.951	-1.569	-18.583	-2.716	-3.547	-4.308
Net cash provided by financing activities	2.483	-1.606	12.574	-2.000	-2.000	-3.126
Change in cash and securities	3.361	-3.569	-3.813	-0.557	1.314	4.574
Cash and secur. at the end of the period	13.742	10.173	7.377	6.820	8.134	12.708

Source: EQUI.TS; company data

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Balance Sheet	2013	2014	2015	2016e	2017e	2018e
Long term assets	14.718	13.445	30.944	28.789	26.513	24.242
Intangible assets	9.922	8.474	25.190	23.897	22.604	21.311
Tangible assets	4.794	4.970	5.753	4.891	3.908	2.929
Financial assets	0.002	0.002	0.002	0.002	0.002	0.002
Current assets	32.351	28.270	33.074	35.379	41.309	49.559
Inventories	1.043	1.159	1.655	1.883	2.251	2.544
Accounts Receivables	13.754	12.375	19.100	21.733	25.982	29.364
Other current assets	3.812	4.563	4.943	4.943	4.943	4.943
Cash and securities	13.742	10.173	7.377	6.820	8.134	12.708
Other assets	0.753	2.957	3.742	3.742	3.742	3.742
Total assets	47.821	44.673	67.760	67.910	71.565	77.543
Equity	33.156	30.555	28.967	30.758	35.874	43.405
Reserves	33.156	30.555	28.967	30.758	35.874	43.405
Minorities	0.000	0.000	0.000	0.000	0.000	0.000
Provisions	2.540	3.321	4.081	4.151	4.224	4.301
Liabilities	10.196	8.600	32.085	30.373	28.838	27.209
Interest bearing liabilities	2.290	1.132	14.723	12.723	10.723	8.723
Accounts Payables	1.421	1.634	2.091	2.380	2.845	3.215
Other non-interest bearing liabilities	6.485	5.835	15.271	15.271	15.271	15.271
Other liabilities	1.928	2.196	2.628	2.628	2.628	2.628
Total equity and liabilities	47.821	44.673	67.760	67.910	71.565	77.543

Source: EQUI.TS; company data

Key Ratios	2013	2014	2015	2016e	2017e	2018e
Ratios for corporate valuation						
EV/Sales	1.08	1.61	1.19	1.32	1.10	0.97
EV/EBITDA	13.67	1969.16	34.17	12.69	7.32	5.06
EV/EBIT	43.68	-23.84	-58.32	37.31	13.42	7.85
P/E reported	93.50	-42.38	-43.72	47.39	16.59	9.81
P/E clean	93.50	-42.38	-43.72	47.39	16.59	9.81
PCPS	48.20	41.00	24.45	12.61	7.71	5.54
Price-to-book ratio	1.70	2.59	2.26	2.76	2.37	1.96
Profitability ratios						
EBITDA margin	7.9%	0.1%	3.5%	10.4%	15.0%	19.2%
EBIT margin	2.5%	-6.8%	-2.0%	3.5%	8.2%	12.4%
Pre tax margin	2.2%	-6.7%	-2.2%	3.6%	8.5%	12.8%
Net margin	1.4%	-4.2%	-2.4%	2.5%	6.0%	9.0%
Free-cash-flow-margin	n.m.	0.3%	n.m.	5.6%	8.8%	11.4%
ROE	2.0%	-5.9%	-5.0%	6.0%	15.4%	21.8%
Productivity ratios						
Sales/employees (in EUR '000)	76.9	70.9	74.3	80.5	91.7	98.7
Personnel expenses/employees (in '000)	46.4	45.7	47.1	47.0	50.5	51.9
Net result/employees (in '000)	1.1	-3.0	-1.8	2.0	5.5	8.9
Number of employees	552	629	842	885	929	975
Financial ratios						
Equity ratio	69.3%	68.4%	42.7%	45.3%	50.1%	56.0%
Gearing	44.2%	46.2%	133.9%	120.8%	99.5%	78.6%
Dividend yield	0.8%	0.0%	0.0%	0.0%	1.3%	2.2%
Cash-flow ratio						
Cash-flow per share	0.65	1.02	1.42	3.56	5.83	8.10
Free-Cash-flow per share	-0.02	0.08	-8.45	2.13	3.95	5.82
Other ratios						
Depreciation/Sales	5.4%	6.8%	5.5%	6.8%	6.8%	6.8%
Capex/Sales	2.8%	4.0%	29.8%	3.8%	4.2%	4.5%
Working Capital/Sales	31.5%	26.7%	29.8%	29.8%	29.8%	29.8%
Tax rate	35.5%	37.4%	-8.5%	29.5%	29.5%	29.5%

Source EQUI.TS

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

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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	15/06/2015	Buy	€ 46.00
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

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:

(21/06/2016)

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

(Closing price on 20/06/2016)

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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7. the author receives payments from the issuer,
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