

Date 01/12/2020

Recommendation:

Buy (previous: Buy)

PT: € 117.00 (prev.: € 116.00)

GK Software SE

Industry: Software

Segment: Prime Standard

ISIN: DE0007571424

Reuters: GKSG

Price (30/11/2020): € 91.00

Market Cap € 172m

EV € 201m

Ø-volume `000€ 126

52W High € 91.00

52W Low € 35.00

Financial Calendar

FY 2020 28/04/2021

Q1 2021 27/05/2021

AGM 2021 17/06/2021

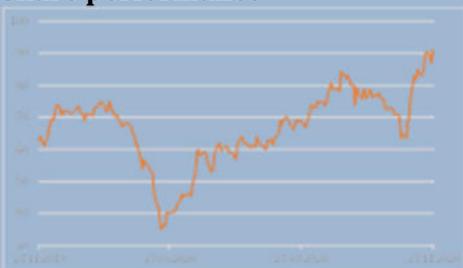
Shareholder structure

R.Gläß 29.4%

S.Kronmüller 25.5%

Freefloat 45.1%

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



EQUITS GmbH

Am Schieferstein 3

D-60435 Frankfurt

GK SOFTWARE SE

Efficiency program leads to significant margin expansion, good prospects also in the medium term

Especially in Q3 (quarterly EBIT margin: 12.4%), GK Software was able to clearly **expand its own profitability** and thus achieved the fifth quarter in a row with positive EBIT. This is mainly due to the successfully implemented **efficiency program**, to a lesser extent the corona-related lower travel expenses strengthened the reported profitability. While the pandemic affected the retail sector in different ways, **new customer acquisition was more difficult overall** - conversely, the topics of **digitization** and **omnichannel retailing** received a positive boost. Despite the significant price increase in recent weeks, the GK share remains attractive with a 2020 EV/turnover multiple of around 1.6 (especially in a peer comparison). The medium-term prospects have further improved.

- ✓ We are maintaining our estimates for the 2020 financial year **unchanged**. We implicitly expect a **strong final quarter**, with sales growth of around 15% compared to Q4 2019, and an EBIT margin of 17% (Q4 2019: 20.9%). A key factor in achieving our estimate is the extent to which **existing sales opportunities** can be realized this year given the current contact and travel restrictions.
- ✓ In the **core segment GK/Retail**, sales revenues could be increased to € 80.26 million (+8.9%) after 9 months. The sales in the business segment **IT Services** decreased as planned to € 5 million (-17%).
- ✓ The **standard platform licenses** accounted for revenues of € 5.27 million and include subscription revenues of € 2.14 million. The latter, like maintenance revenues (€ 16.1 million), are recurring and contractually secured. The revenues from the maintenance-based platform extensions (€ 16.3 million) and the smart extensions (€ 33.7 million) are of a recurring nature. Overall, more than 80% of the Group's revenues can be planned reliably.
- ✓ Many listed (non-food) trading groups have benefited greatly from the first vaccine announcements. The capital market is thus anticipating the foreseeable end of the pandemic measures. We assume that this will also increase the **investment propensity** of retailers who were severely affected by the corona measures.

Company outlook: Based on the course of the year to date, existing sales opportunities and developments in the Deutsche Fiskal division, the Company is looking positively to the final quarter of 2020 and the year 2021.

Key figures - GK Software SE						
	Sales	EBITDA	EBIT	EPS (adj.)	EV/Sales	P/E
2018 a	106.2	6.8	1.6	0.48	2.01	204.6
2019 a	115.4	12.3	3.4	-1.55	1.44	-44.0
2020 e	126.2	21.9	12.6	3.65	1.59	25.0
2021 e	145.5	29.0	18.9	5.89	1.38	15.4
2022 e	162.1	35.0	24.3	7.83	1.24	11.6

Source: Company Data, EQUITS

Good prospects also in the medium term

In the medium term, GK Software profits from various **company-specific** and **external factors**. The **project pipeline** is still well filled and the **efficiency program** develops its effects **sustainably**. Moreover, in 2021, significant sales contributions of the 100% subsidiary **Deutsche Fiskal** will be achieved for the first time. The company had already announced in early November that the market share achieved could exceed its own expectations.

In general, the Corona crisis is considered a **digitization accelerator**. At GK Software, this has been reflected especially in the interest in the topics **Click&Collect**, **mobile payment** and **self-scanning**, which are not only convenient for the customer, but also safer with regard to the risk of infection. Finally, **the overcoming of the pandemic situation** (by vaccination protection) should also increase the investment propensity of the retail groups, from the segments particularly affected by the crisis.

Appendix

Income Statement (in EURm)	2017	2018	2019	2020e	2021e	2022e
Sales	90.452	106.151	115.448	126.173	145.495	162.066
Change in finished goods	0.000	0.000	0.000	0.000	0.000	0.000
Other own costs capitalized	0.000	0.000	0.000	0.000	0.000	0.000
Other operating income	5.197	3.617	3.837	4.193	4.836	5.386
Total performance	95.649	109.768	119.285	130.366	150.331	167.452
Cost of material	-8.530	-7.733	-6.229	-8.048	-9.220	-10.210
Gross profit	87.119	102.035	113.056	122.319	141.111	157.242
Personnel expenses	-57.809	-68.791	-78.134	-77.834	-86.498	-93.309
Other operating expenses	-20.537	-26.411	-22.666	-22.540	-25.658	-28.967
EBITDA	8.773	6.833	12.256	21.945	28.954	34.966
Depreciation/amortisation	-3.780	-5.237	-8.826	-9.328	-10.040	-10.656
EBIT	4.993	1.596	3.430	12.617	18.914	24.310
Financial result	-0.653	-1.425	-2.197	-2.103	-1.915	-1.726
Non operating result before taxes	0.000	0.000	0.000	0.000	0.000	0.000
EBT	4.340	0.171	1.233	10.515	16.999	22.584
Non operating result after taxes	0.000	0.000	0.000	0.000	0.000	0.000
Taxes	-0.456	0.752	-4.372	-3.110	-5.029	-6.681
Minority interest	0.002	0.002	0.002	0.002	0.002	0.002
Net result	3.885	0.925	-3.137	7.406	11.972	15.905
Adjustments	0.00	0.00	0.00	0.00	0.00	0.00
Adjusted net result	3.885	0.925	-3.137	7.406	11.972	15.905
Average number of shares	1.90	1.93	2.02	2.03	2.03	2.03
Average number of shares (dil.)	1.95	1.95	2.06	2.06	2.06	2.06
EPS	2.05	0.48	-1.55	3.65	5.89	7.83
Adjusted EPS	2.05	0.48	-1.55	3.65	5.89	7.83
Adjusted EPS (diluted)	2.00	0.47	-1.52	3.59	5.80	7.71
DPS	0.00	0.00	0.00	0.73	1.18	1.57

Source: EQUI.TS; company data

Cash Flow Statement (in EURm)	2017	2018	2019	2020e	2021e	2022e
Net cash provided by operating activities	15.224	-5.670	-0.214	13.503	16.092	21.510
Net cash used in investing activities	-9.278	-15.732	-3.591	-5.881	-6.891	-7.336
Net cash provided by financing activities	19.121	-0.294	-0.118	-2.000	-3.481	-4.394
Change in cash and securities	25.067	-21.696	-3.923	5.622	5.720	9.780
Cash and secur. at the end of the period	30.479	11.790	8.086	13.708	19.427	29.207

Source: EQUI.TS; company data

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

Balance Sheet (in EURm)	2017	2018	2019	2020e	2021e	2022e
Long term assets	39.575	52.799	59.908	56.461	53.312	49.992
Intangible assets	25.359	30.019	27.607	25.507	24.607	23.707
Tangible assets	14.183	16.936	16.988	16.105	14.630	13.042
Usage rights (IFRS 16)	0.000	0.000	8.914	8.451	7.676	6.844
Financial assets	0.033	5.844	6.399	6.399	6.399	6.399
Current assets	61.424	53.304	52.748	61.962	74.155	89.486
Inventories	0.990	0.486	0.416	0.455	0.524	0.584
Trade Accounts Receivables	17.710	26.030	22.240	24.306	28.028	31.220
Trade Accounts Rec. from ongoing work	5.129	10.289	16.020	17.508	20.189	22.489
Other current assets	7.116	4.709	5.986	5.986	5.986	5.986
Cash and securities	30.479	11.790	8.086	13.708	19.427	29.207
Other assets	5.599	5.079	1.533	1.533	1.533	1.533
Total assets	106.598	111.182	114.189	119.957	129.001	141.011
Equity	38.669	40.256	42.329	49.733	60.222	73.731
Reserves	37.598	39.187	41.261	48.667	59.093	72.539
Minorities	1.071	1.069	1.068	1.066	1.129	1.192
Provisions	3.226	2.789	4.183	4.316	4.455	4.601
Liabilities	59.364	64.484	64.805	63.036	61.452	59.808
Interest bearing liabilities	32.323	34.819	33.820	31.820	29.820	27.820
Leasehold liabilities	0.000	0.000	8.868	8.451	7.676	6.844
Accounts Payables	1.835	2.365	2.484	2.715	3.131	3.487
Initial payments received	0.858	1.509	3.547	5.656	6.285	6.913
Other non-interest bearing liabilities	24.348	25.791	16.086	14.394	14.540	14.744
Other liabilities	5.340	3.653	2.872	2.872	2.872	2.872
Total equity and liabilities	106.598	111.182	114.189	119.957	129.001	141.011

Source: EQU1.TS; company data

Key Ratios	2017	2018	2019	2020e	2021e	2022e
Ratios for corporate valuation						
EV/Sales	2.03	2.01	1.44	1.59	1.38	1.24
EV/EBITDA	20.90	31.30	13.59	9.14	6.92	5.73
EV/EBIT	36.72	134.00	48.57	15.89	10.60	8.25
P/E reported	46.22	204.62	-44.02	24.96	15.44	11.62
P/E clean	46.22	204.62	-44.02	24.96	15.44	11.62
PCPS	23.50	33.23	22.00	10.96	8.35	6.92
Price-to-book ratio	4.78	4.83	3.35	3.80	3.13	2.55
Profitability ratios						
EBITDA margin	9.7%	6.4%	10.6%	17.4%	19.9%	21.6%
EBIT margin	5.5%	1.5%	3.0%	10.0%	13.0%	15.0%
Pre tax margin	4.8%	0.2%	1.1%	8.3%	11.7%	13.9%
Net margin	4.3%	0.9%	-2.7%	5.9%	8.2%	9.8%
Free-cash-flow-margin	n.m.	n.m.	2.3%	8.7%	10.5%	12.0%
ROE	11.0%	2.3%	-7.6%	16.1%	21.8%	23.7%
Productivity ratios						
Sales/employees (in EUR '000)	89.5	92.3	92.6	106.5	119.2	129.0
Personnel expenses/employees (in '000)	57.2	59.8	62.7	65.7	70.9	74.2
Net result/employees (in '000)	3.8	0.8	-2.5	6.3	9.8	12.7
Number of employees	1011	1150	1247	1185	1220	1257
Financial ratios						
Equity ratio	36.3%	36.2%	37.1%	41.5%	46.7%	52.3%
Gearing	175.7%	176.2%	169.8%	141.2%	114.2%	91.3%
Dividend yield	0.0%	0.0%	0.0%	0.8%	1.3%	1.7%
Cash-flow ratio						
Cash-flow per share	4.02	2.96	3.10	8.30	10.90	13.15
Free-Cash-flow per share	-0.27	-5.46	1.30	5.41	7.51	9.54
Other ratios						
Depreciation/Sales	4.2%	4.9%	7.6%	7.4%	6.9%	6.6%
Capex/Sales	9.0%	11.3%	3.2%	3.2%	3.2%	3.1%
Working Capital/Sales	24.3%	32.4%	31.3%	31.3%	31.3%	31.3%
Tax rate	10.5%	-439.8%	354.6%	29.6%	29.6%	29.6%

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	04/09/2019	Buy	€ 106.50
GK SOFTWARE AG	D.Grossjohann/T.Schießle	04/12/2019	Buy	€ 105.00
GK SOFTWARE AG	D.Grossjohann/T.Schießle	24/04/2020	Buy	€ 84.00
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

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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, 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.

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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:**

(01/12/2020; 9:00 am)

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

(Closing price on 30/11/2020)

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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