

Date 01/09/2020

**Recommendation:**

**Buy** (previous: Buy)

**PT: € 105.00** (prev.: € 87.90)

**GK Software SE**

Industry: Software

Segment: Prime Standard

ISIN: DE0007571424

Reuters: GKSG

**Price (31/08/2020): € 78.80**

Market Cap € 149m

EV € 177m

Ø-volume `000€ 85.4

52W High € 82.40

52W Low € 35.00

**Financial Calendar**

Q3 2020 26/11/2020

FY 2020 28/04/2021

Q1 2021 27/05/2021

**Shareholder structure**

R.Gläß 29.5%

S.Kronmüller 25.6%

Freefloat 44.9%

**Share performance**



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**GK SOFTWARE SE**

**Growth path continued, margins expanded - but uncertainty in the end markets remains**

In the first half-year, GK Software was able to increase its sales by 11.7% to € 56.2 million. The efficiency enhancement program contributed substantially to a significant improvement of EBITDA (H1 20: € 6.24 million; H1 19: € -0.59 million) and EBIT (€ 1.96 million vs. € -5 million). So far, the pandemic has mainly affected new customer business. Nevertheless, GK recorded four new projects in the first six months of the current fiscal year, three of them with new customers. The uncertainty caused by the pandemic is also likely to reduce the willingness to invest in individual retail segments in the second half of the year. We have therefore slightly reduced our sales and profit expectations for 2020 - but also due to possible delays in the expiry of the non-complaint regulation in Germany (fiscalization). The company is superbly positioned for the future issues facing the retail sector. With a 2020 EV/sales of 1.4, the GK share continues to be attractive - especially against the background of the continued improvement in margins and the significant increase in peer valuations.

- ✓ In the second quarter, GK Software also continued its growth course. The Q2 sales increased by 5.5% compared to Q2 19 - despite the limitations caused by Corona. Mainly due to the efficiency enhancement program, the EBIT margin could be raised above 3% (Q2 19: -8.5%), but also the significantly reduced travel expenses (about € 1 million less than in H1 19) temporarily improved the margin.
- ✓ Developments in the North and South America region showed significant improvements in the first half of the year compared with the same period of the previous year. In view of the higher capacity utilization, further positive earnings contributions are expected there.
- ✓ Although 58% of the retailers surveyed in Germany, for example, intend to renew their POS systems within two years according to the EHI study "POS Systems 2020", the continuing pandemic-related uncertainties are likely to slow down new investments by retailers in the second half of 2020. Although the third quarter (July) got off to a successful start at GK, we nevertheless expect sales growth in H2 to weaken slightly compared with the strong H1 and to be more likely to be around 7%. However, this expectation also presupposes another strong year-end business.

**Outlook:** GK stresses that without the effects of the Covid-19 crisis, the medium-term goals would have been achieved in 2020. A well-founded outlook for 2020 remains difficult because of Covid-19. The Company continues to expect a slight increase in sales revenues and a significant improvement in EBIT.

**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	1.41	21.6
2021 e	145.5	29.0	18.9	5.89	1.22	13.4
2022 e	162.1	35.0	24.3	7.83	1.09	10.1

Source: Company Data, EQUITS

## **Trade affected by pandemic in different ways,**

**Trading sectors** performed very differently in the first half of the year. The **food retail sector** in Germany, which was not affected by the closures, increased its sales by 6.6%, while the **textile, shoe and leather goods retail sector** reported a slump of almost 30%. **Department stores** lost 17.7% of their sales. GK Software has customers from all areas of the trade worldwide.

### **...New business still suffers from uncertainty...**

The propensity to invest in the areas negatively affected by the first lockdown is likely to have declined noticeably, given the uncertainty surrounding a renewed flare-up of the pandemic in the second half of the year. **New projects** therefore remain difficult to acquire, even though digitization in particular could help retailers to protect customers, make processes more efficient, and defend revenues against pure online retailers.

### **... digital solutions can be the answer to the pandemic situation**

As an **innovative company** (R&D quota at approx. 17%), GK has digital solutions which generate additional interest due to the current situation (self-scanning and buy-online pickup-in-store). These topics are therefore a core R&D topic in addition to the expansion of the **cloud platform** (cloud4retail) and the further development of the **GK Drive** solution which is already productive in the USA. **Netto** is currently testing the **Scan&Go function developed by GK in Netto's app**, with which customers can scan and pay for goods independently (contactless) with their smartphones. Unlike competing solutions, the app also offers the option of scanning receipts and collection points. According to information from Lebensmittelzeitung, the parent company **EDEKA** is also planning to integrate a Scan&Go system in its own stores.

### **Fiscalization - extension of the non-complaint rule possible**

**German fiscalization**, which is more complex than in other EU countries, among other things because of cryptography requirements, is addressed by the 100% GK subsidiary "**DF Deutsche Fiskal GmbH**" - in exclusive partnership with **Bundesdruckerei**. The **cloud-based solution** has considerable advantages over hardware-based concepts. Due to tight schedules and pressure from affected companies, the tax authorities have been instructed until 30.9.2020 not to object to violations of the legislation in force since the beginning of 2020. As early as spring, 15 of the 16 federal states signaled their willingness to extend the **non-complaint rule** until March 31, 2021 under certain circumstances. For GK, this could mean that the time window in which sales can be generated with the solution in 2020 will be shortened. However, the interest in the solution to date and numerous contracts concluded indicate that the Company's **goals in terms of the solution's targeted market share will be achieved**.

### **Smart Stores - AI in retail**

A joint whitepaper by **EHI and Microsoft** on the subject of "**Smart Stores**" has shown that **AI** is perceived by retailers as a very relevant topic. 69% of retailers already use AI in one form or another or are planning to use it. The AIR platform (Artificial Intelligence in Retail) launched by GK last year addresses this market and covers topics of special interest to the retail trade. Especially the solutions for Dynamic Pricing and personalization based on it are developing very positively - currently 18 projects or proof-of-concepts are realized on the AIR platform.

## Appendix

<b>Income Statement (in EURm)</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020e</b>	<b>2021e</b>	<b>2022e</b>
<b>Sales</b>	<b>90.452</b>	<b>106.151</b>	<b>115.448</b>	<b>126.173</b>	<b>145.495</b>	<b>162.066</b>
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
<b>Total performance</b>	<b>95.649</b>	<b>109.768</b>	<b>119.285</b>	<b>130.366</b>	<b>150.331</b>	<b>167.452</b>
Cost of material	-8.530	-7.733	-6.229	-8.048	-9.220	-10.210
<b>Gross profit</b>	<b>87.119</b>	<b>102.035</b>	<b>113.056</b>	<b>122.319</b>	<b>141.111</b>	<b>157.242</b>
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
<b>EBITDA</b>	<b>8.773</b>	<b>6.833</b>	<b>12.256</b>	<b>21.945</b>	<b>28.954</b>	<b>34.966</b>
Depreciation/amortisation	-3.780	-5.237	-8.826	-9.328	-10.040	-10.656
<b>EBIT</b>	<b>4.993</b>	<b>1.596</b>	<b>3.430</b>	<b>12.617</b>	<b>18.914</b>	<b>24.310</b>
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
<b>Net result</b>	<b>3.885</b>	<b>0.925</b>	<b>-3.137</b>	<b>7.406</b>	<b>11.972</b>	<b>15.905</b>
Adjustments	0.00	0.00	0.00	0.00	0.00	0.00
<b>Adjusted net result</b>	<b>3.885</b>	<b>0.925</b>	<b>-3.137</b>	<b>7.406</b>	<b>11.972</b>	<b>15.905</b>
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

<b>Cash Flow Statement (in EURm)</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020e</b>	<b>2021e</b>	<b>2022e</b>
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 -

<b>Balance Sheet (in EURm)</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020e</b>	<b>2021e</b>	<b>2022e</b>
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
<b>Current assets</b>	<b>61.424</b>	<b>53.304</b>	<b>52.748</b>	<b>61.962</b>	<b>74.155</b>	<b>89.486</b>
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
<b>Total assets</b>	<b>106.598</b>	<b>111.182</b>	<b>114.189</b>	<b>119.957</b>	<b>129.001</b>	<b>141.011</b>
<b>Equity</b>	<b>38.669</b>	<b>40.256</b>	<b>42.329</b>	<b>49.733</b>	<b>60.222</b>	<b>73.731</b>
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
<b>Liabilities</b>	<b>59.364</b>	<b>64.484</b>	<b>64.805</b>	<b>63.036</b>	<b>61.452</b>	<b>59.808</b>
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
<b>Total equity and liabilities</b>	<b>106.598</b>	<b>111.182</b>	<b>114.189</b>	<b>119.957</b>	<b>129.001</b>	<b>141.011</b>

Source: EQU1.TS; company data

Key Ratios	2017	2018	2019	2020e	2021e	2022e
<b>Ratios for corporate valuation</b>						
EV/Sales	2.03	2.01	1.44	1.41	1.22	1.09
EV/EBITDA	20.90	31.30	13.59	8.09	6.13	5.07
EV/EBIT	36.72	134.00	48.57	14.06	9.38	7.30
P/E reported	46.22	204.62	-44.02	21.61	13.37	10.06
P/E clean	46.22	204.62	-44.02	21.61	13.37	10.06
PCPS	23.50	33.23	22.00	9.49	7.23	5.99
Price-to-book ratio	4.78	4.83	3.35	3.29	2.71	2.21
<b>Profitability ratios</b>						
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%
<b>Productivity ratios</b>						
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
<b>Financial ratios</b>						
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%	0.9%	1.5%	2.0%
<b>Cash-flow ratio</b>						
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
<b>Other ratios</b>						
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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<b>Company</b>	<b>Analyst</b>		<b>Rating</b>	<b>Price Target</b>
GK SOFTWARE AG	D.Grossjohann/T.Schießle	04/06/2019	Buy	€ 114.50
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
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3. **Date of initial/original publication of the financial analysis:**

**(01/09/2020; 9:00 am)**

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

**(Closing price on 31/08/2020)**

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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