

Date 12/06/2020

**Recommendation:**

**Buy** (previous: Buy)

**PT: € 87.90** (prev.: € 84.00)

**GK Software**

Industry: Software

Segment: Prime Standard

ISIN: DE0007571424

Reuters: GKSG

**Price (11/06/2020): € 60.60**

Market Cap € 115m

EV € 143m

Ø-volume `000€ 109

52W High € 78.20

52W Low € 35.00

**Financial Calendar**

AGM 6/30/2020

H1 2020 8/27/2020

Q3 2020 11/26/2020

**Shareholder structure**

R.Gläß 29.8%

S.Kronmüller 25.8%

Freefloat 44.4%

**Share performance**



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# GK SOFTWARE SE

## Impressive start to the year - despite Covid-19

The final 2019 figures were in line with our expectations - apart from the after-tax result, which was reduced by around € 3 million due to an effect caused by deferred taxes. However, this effect was neither cash-effective nor did it result in tax loss carry-forwards being lost. Operationally, GK Software continues to grow dynamically, as the recently reported Q1 figures show: Sales of about € 29 million (+18.2%) were achieved, EBITDA (€ 3.26 million) and EBIT (€ 1.06 million) improved by almost € 3.9 million each. It has to be emphasized that Q1 is free of effects on the reporting date which could have overstated this positive development. With a 2020 EV/EBITDA of around 6, GK continues to be valued more favourably than most peers; the DCF analysis also implies a clear undervaluation based on our estimates.

- ✓ The **efficiency enhancement program** launched in mid-2019 has already started to take effect in Q4 2019 and also contributed to the significant margin improvement in **Q1 2020**. We assume that savings for the year as a whole could be in the mid single-digit million euro range. With a sales increase of 18.2% in Q1 (the core business GK/Retail grew even more than 30%), GK had a powerful start of the year. The EBIT margin (to the total output) reached 3.6% (after -11.2% in Q1 2019). The development was driven by economies of **scale and cost-cutting effects**. Besides strong demand from existing customers, new customers were acquired in the USA and South Africa.
- ✓ Our estimates for 2020 imply growth of around 13%. Given the more than 18% growth in Q1 - also against the backdrop of the effects of the corona crisis, which are still difficult to grasp - this does not seem too optimistic to us. The expected significant improvement in margins compared with 2019 is primarily the result of the successfully launched **efficiency enhancement program**.
- ✓ The **2019 business year** saw 7 new GK/Retail customers, including 4 from the important US market, 4 new Prudsys customers and the solution for medium-sized retailers (euroSUITE) also recorded 3 new customers. In addition, three existing customers decided to switch to the latest software solution (OmniPOS) in new projects in 2019, and three other existing customers received extensive additional licenses.

**Outlook:** The medium-term forecast (which envisaged sales of around € 135 million in 2020 with a 15% EBIT margin in the core business) would have been achieved in the current year, according to the company's assessment, without the possible negative effects of, for example, travel restrictions in the wake of the Corona crisis. If the situation returns to normal by the end of spring, the negative effects on Q2 and possibly also Q3 could possibly be made up for or significantly weakened.

### 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	130.7	23.8	14.4	4.25	1.09	14.2
2021 e	145.5	28.9	18.9	5.89	0.98	10.3
2022 e	162.1	35.0	24.3	7.83	0.88	7.7

Source: Company Data, EQUITS

## **Complex fiscalization requirements in Germany are an opportunity**

Taking into account the grace period (of nine months), the fiscalisation introduced in Germany on 1.1.2020 will become binding for all retailers from 1 October 2020. Until then, retailers still have the opportunity to find a legally secure solution that meets the complex German requirements for fiscalization of POS systems. The **100%-GK Software subsidiary "DF Deutsche Fiskal GmbH"** is - in cooperation with **Bundesdruckerei**, which provides the certified technical security features and also hosts them in high-security data centres - the first provider to fulfill all components of the certification process. We therefore assume that Deutsche Fiskal will achieve a high market share with its cloud-based solution and that it will do so with a business model which should be highly scalable. In 2020, however, this will only have a positive impact in the final quarter due to the statutory transition period.

## **Covid-19 with still little influence**

In the first quarter, the Covid 19 pandemic had only a very limited impact on the operational development of GK Software. Also in Q2 the capacity utilization in the project business remains high. The crisis leads to the fact that sales are becoming more digital, which reduces the travel expense budgets. The digitization in the retail sector is now more strongly pushed by the retailer side than before, also because many problems in the course of the crisis can be solved digitally. This is positive for topics already served by GK like: Click&Collect, self-scanning and mobile payment. With the **Getmygoods app**, a Click&Collect offer was recently created for retailers that can be implemented quickly.

## **Innovative and in close partnership with SAP**

With 16% (of sales), GK Software shows a high R&D ratio. Of the € 18 million spent on R&D in 2019 to secure the company's technological leadership position, € 17 million were spent on product development alone. With **"SAP Dynamic Pricing by GK"**, the first AI solution developed by GK was placed on the SAP price list in 2019. The partnership, which has now proven itself in more than 70 joint projects with SAP, will be further strengthened with the establishment of the joint **Center of Excellence for Retail**.

## **Deferred taxes lead to lower reported net income in 2019 - loss carryforwards remain unchanged**

**The formally high tax rate in 2019** is due to effects from deferred taxes. In fact, only € 1.37 million of the reported income taxes in the amount of € 4.37 million (P&L) actually flowed out, whereas € 3 million are explained by the fact that GK Software SE has a three-year loss history in the individual financial statements according to commercial law. This prevents the further capitalization of deferred taxes, but it neither led to an outflow of funds nor did it have an impact on the tax-deductible losses carried forward (these can be further offset against future profits). In our forecast, we have assumed a "normal" tax rate of just under 30% for subsequent years (which should be rather conservative in view of existing loss carryforwards).

## **Significant margin improvement expected in 2020 despite corona crisis**

While the uncertainties in the course of the corona crisis have reduced the margin expectations of many companies, this effect will probably be more than compensated at GK Software in 2020 by the efficiency increase program already introduced in the middle of 2019 (decided in July 2019, after a weak first half-year): Improvements of the operating result already had an effect in Q4 2019, some measures, however, will not unfold their effect until 2020. Already in 2019, it was

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possible to reduce the other operating expenses by about € 3.75 million - however, this also includes IFRS 16 related effects (e.g. rental costs in the amount of € 1.6 million were included in the depreciations according to IFRS 16). Travel costs, which could be reduced by € 1.8 million in 2019, are expected to decrease further in 2020 - due to contact closures etc. - in 2020. We assume that the savings in 2020 could be in the mid single-digit million euro range. These savings will be particularly visible in the items "Personnel expenses" and "Other expenses".

## 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>130.673</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	4.343	4.836	5.386
<b>Total performance</b>	<b>95.649</b>	<b>109.768</b>	<b>119.285</b>	<b>135.016</b>	<b>150.331</b>	<b>167.452</b>
Cost of material	-8.530	-7.733	-6.229	-7.490	-8.280	-9.163
<b>Gross profit</b>	<b>87.119</b>	<b>102.035</b>	<b>113.056</b>	<b>127.525</b>	<b>142.051</b>	<b>158.289</b>
Personnel expenses	-57.809	-68.791	-78.134	-80.285	-87.354	-94.262
Other operating expenses	-20.537	-26.411	-22.666	-23.423	-25.747	-29.065
<b>EBITDA</b>	<b>8.773</b>	<b>6.833</b>	<b>12.256</b>	<b>23.817</b>	<b>28.950</b>	<b>34.961</b>
Depreciation/amortisation	-3.780	-5.237	-8.826	-9.443	-10.036	-10.651
<b>EBIT</b>	<b>4.993</b>	<b>1.596</b>	<b>3.430</b>	<b>14.374</b>	<b>18.914</b>	<b>24.310</b>
Financial result	-0.653	-1.425	-2.197	-2.103	-1.914	-1.727
Non operating result before taxes	0.000	0.000	0.000	0.000	0.000	0.000
EBT	4.340	0.171	1.233	12.271	17.000	22.583
Non operating result after taxes	0.000	0.000	0.000	0.000	0.000	0.000
Taxes	-0.456	0.752	-4.372	-3.630	-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>8.643</b>	<b>11.973</b>	<b>15.904</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>8.643</b>	<b>11.973</b>	<b>15.904</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	4.25	5.89	7.83
Adjusted EPS	2.05	0.48	-1.55	4.25	5.89	7.83
Adjusted EPS (diluted)	2.00	0.47	-1.52	4.19	5.80	7.71
DPS	0.00	0.00	0.00	0.85	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	13.444	17.499	21.505
Net cash used in investing activities	-9.278	-15.732	-3.591	-6.023	-6.891	-7.336
Net cash provided by financing activities	19.121	-0.294	-0.118	-2.000	-3.729	-4.395
Change in cash and securities	25.067	-21.696	-3.923	5.420	6.880	9.774
Cash and secur. at the end of the period	30.479	11.790	8.086	13.506	20.386	30.160

Source: EQUI.TS; company data

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<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	56.488	53.344	50.028
Intangible assets	25.359	30.019	27.607	25.507	24.607	23.707
Tangible assets	14.183	16.936	16.988	16.122	14.650	13.066
Usage rights (IFRS 16)	0.000	0.000	8.914	8.460	7.687	6.856
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>63.269</b>	<b>75.114</b>	<b>90.439</b>
Inventories	0.990	0.486	0.416	0.471	0.524	0.584
Accounts Receivables	22.839	36.319	38.260	43.306	48.218	53.709
Other current assets	7.116	4.709	5.986	5.986	5.986	5.986
Cash and securities	30.479	11.790	8.086	13.506	20.386	30.160
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>121.290</b>	<b>129.991</b>	<b>142.001</b>
<b>Equity</b>	<b>38.669</b>	<b>40.256</b>	<b>42.329</b>	<b>50.970</b>	<b>61.212</b>	<b>74.720</b>
Reserves	37.598	39.187	41.261	49.904	60.083	73.528
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>63.133</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	8.914	8.460	7.687	6.856
Accounts Payables	1.835	2.365	2.484	2.812	3.131	3.487
Other non-interest bearing liabilities	25.206	27.300	19.587	20.041	20.814	21.645
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>121.290</b>	<b>129.991</b>	<b>142.001</b>

Source: EQUI.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	1.09	0.98	0.88
EV/EBITDA	20.90	31.30	13.59	6.01	4.94	4.09
EV/EBIT	36.72	134.00	48.57	9.95	7.56	5.88
P/E reported	46.22	204.62	-44.02	14.24	10.28	7.74
P/E clean	46.22	204.62	-44.02	14.24	10.28	7.74
PCPS	23.50	33.23	22.00	6.76	5.56	4.61
Price-to-book ratio	4.78	4.83	3.35	2.47	2.05	1.67
<b>Profitability ratios</b>						
EBITDA margin	9.7%	6.4%	10.6%	18.2%	19.9%	21.6%
EBIT margin	5.5%	1.5%	3.0%	11.0%	13.0%	15.0%
Pre tax margin	4.8%	0.2%	1.1%	9.4%	11.7%	13.9%
Net margin	4.3%	0.9%	-2.7%	6.6%	8.2%	9.8%
Free-cash-flow-margin	n.m.	n.m.	2.3%	9.3%	10.5%	11.9%
ROE	11.0%	2.3%	-7.6%	18.5%	21.3%	23.4%
<b>Productivity ratios</b>						
Sales/employees (in EUR '000)	89.5	92.3	92.6	110.3	119.2	129.0
Personnel expenses/employees (in '000)	57.2	59.8	62.7	67.8	71.6	75.0
Net result/employees (in '000)	3.8	0.8	-2.5	7.3	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%	42.0%	47.1%	52.6%
Gearing	175.7%	176.2%	169.8%	138.0%	112.4%	90.0%
Dividend yield	0.0%	0.0%	0.0%	1.4%	1.9%	2.6%
<b>Cash-flow ratio</b>						
Cash-flow per share	4.02	2.96	3.10	8.97	10.90	13.14
Free-Cash-flow per share	-0.27	-5.46	1.30	6.00	7.51	9.53
<b>Other ratios</b>						
Depreciation/Sales	4.2%	4.9%	7.6%	7.2%	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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<b>Company</b>	<b>Analyst</b>		<b>Rating</b>	<b>Price Target</b>
GK SOFTWARE AG	D.Grossjohann/T.Schießle	05/02/2019	Buy	€ 103.00
GK SOFTWARE AG	D.Grossjohann/T.Schießle	07/05/2019	Buy	€ 114.50
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:**

**(12/06/2020; 9:00 am)**

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

**(Closing price on 11/06/2020)**

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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