

January to September 2018

Interim Statement

Summary of Consolidated Results

		30.9.2018	30.9.2017	Change (2017/2018)
Sales	EUR K	74,884	65,927	13.6 %
Operating performance	EUR K	74,868	65,927	13.6 %
Total operating revenue	EUR K	77,211	69,055	11.8 %
EBIT	EUR K	304	4,107	(92.6) %
EBIT margin (on sales)	%	0.4	6.2	—
EBIT margin (on total operating revenue)	%	0.4	5.9	—
EBITDA	EUR K	3,833	6,728	(43.0) %
EBT	EUR K	(745)	3,752	
Net profit / loss for the period	EUR K	(1,107)	2,292	(148.3) %
Earnings per share (weighted)	EUR	(0.54)	1.21	—
Earnings per share (diluted)	EUR	—	1.16	—
Equity ratio	%	35.5	42.5	—
Net debt	EUR K	3,938	1,799	118.9 %
Employees		1,139	975	16.8 %

9M 2018

Turnover rose by 13.6 percent, EBITDA by EUR 3.83 million

Dear shareholders,

We are delighted to present you with GK Software's quarterly report for the first nine months of the 2018 financial year. We are able to report that we have been continuing the growth process of the last few years without any interruption. The Group's turnover once again rose significantly in comparison with the previous year and reached a figure of EUR 74,88 million (9M 2017: EUR 65.93 million). The figure was therefore **13.6 percent** higher than that recorded for the same period in the previous year. In addition, the total operating revenue rose to EUR 77.21 million and exceeded the previous year's figure by 11.8 percent. The Group's **EBITDA** reached a figure of EUR 3,83 million during the first nine months of the year (9M 2017: EUR 6.73 million).

What is enormously significant is that **Forrester Research** has singled out OmniPOS as the world's leading solution. The "Forrester Wave: Point of Service, Q3 2018" report, which is very important for the whole sector, particularly emphasised the product quality, the architecture and the cloud-usability as well as the convincing product strategy and vision of the solution. This assessment further strengthens our outstanding position in this internationally competitive market. This year's edition of the RBR Study on the **global POS market** confirms that this assessment is shared in our market too. It reveals a market share of about 13 percent for GK Software in the field of newly installed POS systems at major retailers between mid-2017 and mid-2018 in the traditional core markets of Western and Eastern Europe and a market share of 10 percent in the MEA region (Middle East & Africa). Measured in terms of the total number of systems that have been installed, the Company has now moved up to position 2 in Western Europe and is the leading player when it comes to new installations. We assume that we will be able to continue improving our market shares with the rollout of further major projects in future and become much more visible in other regions too.

We are continuing to extend our leading position by our efforts in our **product development work**. In addition to making artificial intelligence usable in the retail sector, we are focusing on expanding the ability of our range of solutions to be fully operated in a cloud. By designing and starting to realise a product that will prevent fraud, we are supplementing our portfolio of integrated scenarios by making use of **artificial intelligence** in the personalisation and automated price calculation (dynamic pricing) fields of application. We are currently continuing to extend the mobile consumer solutions developed by **valuephone** GmbH, the company that was taken over this year, in the direction of achieving a "frictionless store" - i.e. all the processes from entering the store to scanning the goods and even the payment transactions are fully mapped on a smartphone. We have also paid significant attention to developing solution options for the **petrol station** and **catering** sectors to ensure that we can tap into more customer business areas. We are expecting the first productive use of these new solutions as early as next year.

The successful introduction of the mobile customer solutions from **valuephone** GmbH was a pleasing development during the first nine months of the year. This solution was introduced at several new customers in the USA and at one existing customer in South Africa during the course of this year. Overall, we were able to attract **eight** new customers to our solutions. Then there have been

three projects with [existing customers](#), two of which have purchased additional solutions from our portfolio (MCA and OpenScale) and one is switching to OmniPOS. It is particularly significant that four of the new customers come from the [USA](#). Two of them are active in the food retail sector and are among the top 20 in the USA in this field. These customers have provided impressive evidence this year that we are in a position to successfully establish our presence in the world's largest retail market. The other customers all come from different countries, like Italy, Norway, Egypt and even Australia for the first time. They demonstrate that our [internationalisation strategy](#) is continuing to function properly and we are gaining momentum here too. This is also backed up by the fact that we have managed to deploy our solutions in other new countries for the first time this year. They include [Japan](#) and recently [India](#), two countries that are particularly interesting for us as part of our medium-term strategy for the Asia-Pacific region.

We are expecting further success stories both through our direct sales and also through our partner sales during the fourth quarter and beyond. Our [sales pipeline](#) continues to be very well filled and we believe that we are in an excellent position in several ongoing tender procedures.

Market environment

The general [situation for the retail sector](#) continues to remain good. The German Retail Federation (HDE: Handelsverband Deutschland), for example, is forecasting that total turnover will reach EUR 523.0 billion in 2018, which corresponds to nominal [growth of 2.0 percent](#). The HDE believes that this will be the case because of the continuing growth in online retailing and the positive mood among retailers.¹ The annual surveys of retailers in relation to their business prospects also support the HDE forecast. According to the latest "e-KIX" survey of retailers in the 1st quarter of 2018, approximately 82 percent of the retailers that were questioned expected their business to remain constant or improve over the coming twelve months.² The German government is also expecting an increase in private and state consumption of 1.6 and 1.4 percent respectively.³ Alongside this, business prospects continue to be good at an international level too. Turnover is expected to increase in [Europe](#) by 2.1 percent⁴ in nominal terms; the National Retail Federation is even forecasting an increase in sales of 4.5 percent in [North America](#)⁵.

Employees

GK Software currently employs 1,139 members of staff (the figure was 975 on 30 September 2018) and therefore represents [an increase of 164](#) over the number at the end of the comparative period in the previous year. 48 of them were added by the acquisition of prudsys AG, which specialises in artificial intelligence, in November 2017 and 27 by the takeover of valuephone GmbH and incorporation in our Group in June 2018.

1 - <https://www.einzelhandel.de/presse/aktuellemeldungen/11145-hde-prognose-handel-2018-mit-zwei-prozent-umsatz-plus>

2 - e-KIX 1st Quarter 2018, p. 3

3 - <https://www.bmwi.de/Redaktion/DE/Dossier/wirtschaftliche-entwicklung.html>

4 - <https://www.gfk.com/de/insights/press-release/stationaerer-einzelhandel-in-europa-waechst-in-2018/>

5 - <https://www.retaildive.com/news/nrf-raises-2018-retail-sales-forecast/529940/>

Segment results

The GK/Retail core business segment is mainly responsible for this growth in turnover; it was possible to increase its sales by 22.7 percent to a figure of EUR 67.05 million in comparison with the previous year. If we examine the make-up of the [turnover according to types of work](#), then even growth was present in all three major types of work in the [GK/Retail business segment](#). If we consider the significant investments in the range of products in this segment, the development of results in this field is extremely satisfactory.

The turnover in the [IT Services](#) segment declined by EUR 3.23 million in comparison with the same period in the previous year, which was mainly due to the loss of a large hardware maintenance order; this weighed on the results in this segment accordingly. Turnover in the [SQRS](#) segment continued to decline according to plan and fell to a figure of EUR 0.39 million. The decision to stop selling the [SQRS solutions](#) in future has not changed.

There was a slight change in the [relationship between the types of turnover](#) to each other during the first nine months of the year in comparison with the previous year. The services (52.2 percent) type of work still accounted for the largest proportion. Maintenance accounted for 27.7 percent during the reporting period, while licences and customised development work together generated 21.2 percent. Other turnover (1.3 percent) and the GK Academy (0.5 percent) only made a minor contribution to total turnover.

The exchange of services between the segments is governed by servicing contracts, which are geared towards the normal segment revenues in their outside markets. Supply contracts are used as the basis for administrative services. The actual costs of the administrative services supplied are calculated according to the estimated time required, based on past experience.

Assets and financial situation

The Group's [assets and financial situation](#) did not change markedly at the end of the 2017 financial year. However, the current assets declined by 15.9 percent to a figure of EUR 52.01 million; by contrast, non-current assets increased by a similar amount of EUR 9.23 million to a figure of EUR 53,95 million; these changes are partly due to the acquisition of valuephone GmbH in June 2018 and the investments to extend our research and innovation campus at the business site in Schöneck. There were no major changes on the liabilities side.

There were no changes in the Company's [opportunities and risks](#).

Financial forecast and outlook

The Management Board at GK Software is standing by its [forecast](#) without making any changes, as expressed in the financial statement for the year 2017 and in the 2018 half-yearly report, assuming that the general economic and political conditions remain as they are.

We are confident that we will be able to maintain our growth in turnover experienced in the past in future years too and we plan to once again increase our turnover compared to 2017 (EUR 90.54 million) by about fifty percent during the three years up to 2020. As far as 2018 is concerned, we

are continuing to assume that we will be able to further increase our turnover in comparison with last year, based on the results that exist and the sales opportunities for the remainder of this financial year. This expectation is based on the sales opportunities that are being processed and on work that has been generated during the past nine months, but could not be entered as turnover; nevertheless, the conditions for this will be available in the fourth quarter. We are standing by the short-term forecast in terms of earnings for the year 2018, but would point out that meeting it will depend on achieving several sales success stories during the current financial year. We are generally maintaining our goal of achieving earnings of approx. 15 percent in our core business and maintaining this level.

We are also maintaining our provisos, as in the past, that expenditure for tapping into new markets, the postponement of fairly large customer projects or a deterioration in the overall economic situation could impair the fulfilment of this goal.

Schöneck, 26 November 2018

The Management Board



Rainer Gläss
Chief Executive Officer



André Hergert
Chief Financial Officer and Head of Human Resources

Consolidated balance sheet on 30 September 2018

Assets

T.01	EUR K	30.9.2018 (not audited)	31.12.2017 (audited)
	Property, plant and equipment	21,185	14,183
	Intangible assets	27,529	25,359
	Financial assets	34	33
	Active deferred taxes	5,204	5,149
	Total non-current assets	53,952	44,724
	Goods	663	798
	Auxiliary materials and supplies	229	192
	Initial payments made	156	54
	Trade accounts receivable	19,576	17,711
	Trade accounts receivable from ongoing work	6,500	5,129
	Income tax claims	1,003	450
	Accounts receivable with associated firms	0	0
	Other accounts receivable and assets	8,162	7,062
	Cash and cash equivalents	15,719	30,478
	Total current assets	52,008	61,874
	Balance sheet total	105,960	106,598

Liabilities

T.02	EUR K	30.9.2018 (not audited)	31.12.2017 (audited)
	Subscribed capital	1,925	1,903
	Capital reserves	21,269	20,488
	Retained earnings	31	31
	Other reserves (OCI from introducing IAS 19 2011, IAS 21)	(1,401)	(704)
	Profit brought forward	15,881	11,998
	Shortfall for period minorities interests	(1,031)	3,882
	Equity attributable to GK Software SE stockholders	36,674	37,598
	Equity attributable to noncontrolling interest	994	1,071
	Total equity	37,668	38,669
	Provisions for pensions	2,001	1,880
	Non-current bank liabilities	7,154	8,867
	Convertible bond	13,771	13,149
	Deferred government grants	873	910
	Deferred tax liabilities	4,328	4,851
	Total non-current liabilities	28,127	29,657
	Current provisions	1,127	1,346
	Current bank liabilities	12,503	10,307
	Liabilities from trade payables	846	1,835
	Initial payments received	779	858
	Income tax liabilities	402	488
	Other current liabilities	24,508	23,438
	Total current liabilities	40,165	38,272
	Balance sheet total	105,960	106,598

Consolidated profit and loss statement and other results from 1 January to 30 September 2018

Consolidated profit and loss statement

T.03	EUR K	9M 2018	9M 2017	2017
Ongoing business operations				
	Turnover revenues	74,884	65,927	90,452
	Change in inventories of finished and unfinished products	(16)	—	—
	Own work capitalised	—	—	—
	Other operating revenues	2,356	3,128	5,197
	Turnover and other revenues	77,224	69,055	95,649
	Materials expenditure	(5,970)	(5,758)	(8,530)
	Personnel expenditure	(50,068)	(42,044)	(57,809)
	Depreciation and amortisation	(3,529)	(2,622)	(3,780)
	Other operating expenditure	(17,353)	(14,525)	(20,537)
	Total operating expenses	(76,920)	(64,949)	(90,656)
	Operating results	304	4,106	4,993
	Financial income	113	36	133
	Financial expenditure	(1,161)	(391)	(786)
	Financial results	(1,048)	(355)	(653)
	Income tax results	(744)	3,751	4,340
	Income taxes	(363)	(1,460)	(456)
	Consolidated surplus/ shortfall for the period	(1,107)	2,291	3,884
	of which attributable to noncontrolling interest	(75)	—	2
	of which attributable to GK Software SE stockholders	(1,032)	2,291	3,882
Other results after income taxes				
	Items, which will be reclassified in the consolidated profit and loss statement in future under certain conditions			
	Differences in exchange rates from recalculating foreign business operations	(720)	(476)	87
	Items, which will not be reclassified in the consolidated profit and loss statement in future			
	Actuarial gains/ losses from defined benefit pension plans	24	(116)	61
	Overall results	(1,803)	1,699	4,032
	of which attributable to noncontrolling interest	(75)	—	2
	of which attributable to GK Software SE stockholders	(1,728)	1,699	4,030
	Earnings per share (EUR/ share) from the consolidated surplus/ shortfall - undiluted	(0.54)	1.21	2.05
	Earnings per share (EUR/ share) from the consolidated surplus/ shortfall - diluted	0.00	1.15	2.00

Consolidated cash flow statement on 30 September 2018

Cash flows from operating business

T.04	EUR K	9M 2018	9M 2017
Cash flows from operating business			
	Surplus/ shortfall for period	(1,107)	2,292
	Share option scheme (non-cash expenditure)	257	164
	Income taxes affecting results	363	1,460
	Interest expenditure affecting results	1,425	391
	Interest income/ expenses affecting results	(113)	(36)
	Profit/ loss from the sale or disposal of property, plant and equipment	(4)	(5)
	Reversals of deferred public sector subsidies	(37)	(31)
	Write-downs recognised for receivables	161	—
	Write-ups recognised for receivables	(70)	—
	Depreciation and amortisation	3,529	2,621
	Actuarial gains/ losses	24	(116)
	Net foreign currency losses/gains	(1,282)	1,229
	Net profits from financial tools assessed at their fair value	321	(753)
	Other non-cash revenues and expenditure	(1)	0
	Cash flow from operating business	3,466	7,216
Changes in net current assets			
	Changes in trade accounts receivable and other receivables	(2,945)	(3,510)
	Changes in inventories	(4)	(428)
	Changes in trade accounts payable and other liabilities	(1,296)	8,255
	Changes in initial payments received	(78)	1,025
	Changes in provisions	(124)	(70)
	Interest paid	(433)	(357)
	Income taxes paid	(531)	(923)
	Net inflow of funds from operating activities	(1,945)	11,208
	Amount carried forward	(1,945)	11,208

Cash flows from investment and financing activities, loans and cash and cash equivalents

T.05	EUR K	9M 2018	9M 2017
	Amount carried forward		
	Net inflow of funds from operating activities	(1,945)	11,208
	Cash flow from investment activities		
	Payments for property, plant and equipment and non-current assets	(9,696)	(5,957)
	Proceeds from disposals of fixed assets	4	5
	Investment subsidies used	—	—
	Incoming payments as part of the company acquisition	(4,243)	—
	Disbursement as part of the company acquisition	—	—
	Interest payments received	92	57
	Disbursed loans	—	—
	Proceeds from the repayment of loans	0	711
	Net cash outflow for investment activities	(13,843)	(5,184)
	Cash flow from financing activities		
	Taking out equity	545	—
	Taking out loans	531	4,564
	Repayment instalments for loans of loans	(3,588)	(2,055)
	Issue of convertible bond	—	—
	Net inflow (previous year: net outflow) in cash from financing activities	(2,512)	2,509
	Net outflow of cash and cash equivalents	(18,300)	8,533
	Cash and cash equivalents at the beginning of the financial year	27,958	2,812
	Cash and cash equivalents at the end of the financial year	9,594	11,387
	Impact of changes in exchange rates on cash and cash equivalents	(64)	42
	Limited available funds	—	—

Summary of cash and cash equivalents

T.06	EUR K	9M 2018	9M 2017
	Liquid assets	15,719	17,720
	Utilisation of current account credit/ credit card/ exchange rate	(6,125)	(6,333)
	Cash and cash equivalents at the end of the financial year	9,594	11,387

Financial Calendar

26 April 2019

Annual report as of 31 December 2018

30 May 2019

Interim statement as of 31 March 2019

20 June 2019

Annual shareholders' meeting 2019 in Schöneck/V.

29 August 2019

Interim report as of 30 June 2019

November 2019

Analyst conference in Frankfurt/M.

26 November 2019

Interim statement as of 30 September 2019

Imprint/Notes

Imprint

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Notes

Note to the statement

This interim statement is the English translation of the original German version. In case of deviations between these two the German version prevails. This interim statement can be downloaded in both languages at <https://investor.gk-software.com>.

Note regarding the rounding of figures

Due to the commercial rounding of figures and percentages small deviations may occur.

Disclaimer

This interim statement includes statements concerning the future, which are subject to risks and uncertainties. They are estimations of the Board of Management of GK Software SE and reflect their current views with regard to future events. Such expressions concerning forecasts can be recognised with terms such as "expect", "estimate", "intend", "can", "will" and similar terms relating to the Company. Factors, which can have an effect or influence are, for example (without all being included): the development of the retail and IT market, competitive influences including price changes, regulatory measures and risks with the integration of newly acquired companies and participations. Should these or other risks and uncertainty factors take effect or should the assumptions underlying the forecasts prove to be incorrect, the results of GK Software SE could vary from those, which are expressed or implied in these forecasts. The Company assumes no obligation to update such expressions or forecasts.

