

EQUITY RESEARCH

COMPANY FLASH

Company Flash

GFT

Company Update: Business environment is getting tougher



RATING
BUY (UNCHANGED)

TARGET PRICE
4 EUR (UNDER REVIEW)

HIGHLIGHTS

- Customers from the financial sector pulling the brakes
- Sales and operating profit figures slightly below forecast
- Decision to refrain from certain business and a generally difficult environment trigger adjustment of forecasts
- Price target reduced from previously EUR 5 to EUR 4
- Investment rating nevertheless remains a Buy
- Market valuation reflects worst-case scenario

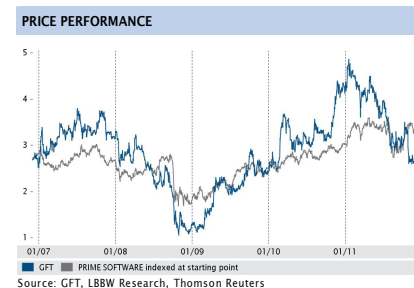
In the third quarter of the current fiscal year, GFT was negatively affected by cautious demand in the financial sector. The sales growth dynamic slowed down, prompting Q3 results moderately lower than in the previous year. Here, the actual figures fell slightly short of our forecasts. Nevertheless, sales in the first nine months were still 16% above the comparable previous year's value, while earnings before tax exceeded the previous year by 3%. Since there seems to be no speedy solution to the current crisis, the management has lowered its outlook for 2011.

Against this backdrop and due to the decision to refrain from low-margin business and the integration of the latest acquisitions, we have updated our sales and earnings forecasts. Based on these (lower) estimates and other parameters that affect the valuation, our new price target is EUR 4, down from EUR 5. As such, the performance we expect comes out to some 50%, which is why our rating remains a Buy.

We believe that the market has based its valuation of the GFT share on an overly pessimistic scenario. According to our EPS estimates, the PER for all three forecast years is far below 10, while the current market capitalisation of about EUR 69m falls 7% short of equity reported as at 30 September 2011. In addition, we expect a dividend yield clearly above 5% and, last but not least, GFT has net liquidity of some EUR 27m at its disposal. This corresponds to a value of EUR 1.00 per share or 38% of the current share price.

+++ Reuters: GFTG +++ Bloomberg: GFT GY +++
 Current Price (XETRA; 11-11-23; 05:36 pm).....2.62 EUR
 CLOSING PRICE (2011-11-29):.....2.62 EUR
 EXPECTED PERFORMANCE:.....52.7%
 MARKET CAPITALIZATION:.....68.97 EUR m
 ENTERPRISE VALUE:.....44.08 EUR m
 NUMBER OF SHARES:.....26.33 m
 FREE FLOAT:.....57.0%
 INDEX (WEIGHT):.....PRIME SOFTWARE (0.08%)
 AVG. DAILY TRADEVOL.:.....23,408
 ISIN:.....DE0005800601
 SECTOR:.....Software

KEY DATA (DEC)	2011E	2012E	2013E
Company figures in m EUR, per share data in EUR			
Sales	270.0	248.2	263.2
EBITDA	11.8	13.6	15.4
EBIT	10.5	12.1	13.8
Net profit	8.4	8.9	10.2
Free cash flow	0.2	12.4	9.4
FCF yield	0.2%	18.0%	13.7%
EPS	0.32	0.34	0.39
Dividend	0.15	0.30	0.20
EV / Sales	0.2	0.2	0.2
EV / EBITDA	3.7	3.2	2.9
EV / EBIT	4.2	3.6	3.2
P / E	8.2	7.7	6.7
P / BV	0.91	0.86	0.87
Dividend yield	5.7%	11.5%	7.6%



UPCOMING EVENTS

Thomas Hofmann, CEFA
 Investment Analyst
 +49 711 127-42775
 Thomas.Hofmann@LBBW.de

Data Overview Financials

GFT

Summary Estimate Changes (EUR m)

P/L statement	2010			2011e			2012e		
	old	new	Δ	old	new	Δ	old	new	Δ
Sales	248.3	248.3	0.0%	280.0	270.0	-3.6%	310.0	248.2	-19.9%
EBITDA	12.2	12.2	0.0%	14.2	11.8	-16.9%	17.0	13.6	-20.0%
EBIT	11.0	11.0	0.0%	12.8	10.5	-18.0%	15.5	12.1	-21.9%
EBT	11.6	11.6	0.0%	13.5	11.1	-17.8%	16.3	12.6	-22.7%
Earnings after tax	8.2	8.2	0.0%	9.6	8.4	-12.5%	11.5	8.9	-22.6%
Net profit	7.8	7.8	0.0%	9.6	8.4	-12.5%	11.5	8.9	-22.6%
Per share (EUR)	old	new	Δ	old	new	Δ	old	new	Δ
EPS	0.30	0.30	0.0%	0.36	0.32	-11.1%	0.44	0.34	-22.7%
Cashflow per Share	0.21	0.21	0.0%	0.51	0.01	-98.0%	0.38	0.47	23.7%
Dividend	0.15	0.15	0.0%	0.18	0.15	-16.7%	0.40	0.30	-25.0%

Source: GFT, LBBW Research

Key Data GFT (EUR m)

Profit and Loss Statement (EUR m) (Dec)	2006	2007	2008	2009	2010	2011 E	2012E
Sales	173.7	247.1	242.2	216.8	248.3	270.0	248.2
EBITDA	7.6	13.2	8.0	8.5	12.2	11.8	13.6
EBIT	6.4	11.8	6.4	7.3	11.0	10.5	12.1
EBT	6.7	12.4	6.9	7.9	11.6	11.1	12.6
Net profit	5.1	8.6	6.0	4.7	7.8	8.4	8.9
EPS	0.19	0.33	0.23	0.18	0.30	0.32	0.34
growth yoy							
Sales		42.3 %	-2.0 %	-10.5 %	14.5 %	8.8 %	-8.1 %
EBITDA		42.3 %	-2.0 %	-10.5 %	14.5 %	8.8 %	-8.1 %
EBIT		74.4 %	-39.3 %	6.4 %	43.0 %	-3.4 %	15.3 %
EBT		84.0 %	-45.9 %	14.9 %	50.2 %	-4.7 %	15.2 %
Net profit		85.5 %	-44.0 %	13.5 %	47.0 %	-3.9 %	13.5 %
EPS		68.2 %	-29.9 %	-21.3 %	64.0 %	8.1 %	6.5 %
Margins							
EBITDA	4.4 %	5.4 %	3.3 %	3.9 %	4.9 %	4.4 %	5.5 %
EBIT	3.7 %	4.8 %	2.6 %	3.4 %	4.4 %	3.9 %	4.9 %
EBT	3.8 %	5.0 %	2.9 %	3.6 %	4.7 %	4.1 %	5.1 %
Net profit	2.9 %	3.5 %	2.5 %	2.2 %	3.1 %	3.1 %	3.6 %
Balance Sheet (EUR m)							
Tangible assets	2.4	2.6	2.6	2.2	2.7	3.0	3.3
Goodwill	20.4	20.4	20.4	20.4	20.4	26.4	26.4
Net working capital	10.1	9.7	8.4	0.6	2.9	10.7	6.8
Cash / Cash equivalents	20.2	25.7	33.0	35.5	26.2	23.5	31.2
Equity	49.4	57.7	63.2	65.8	71.3	75.7	79.9
Total financial debt	12.7	8.7	9.6	1.1	1.3	1.3	1.3
Net debt / (Net cash) end of FY	-11.2	-20.0	-25.6	-37.0	-28.2	-25.5	-33.2
Cash flow Statement (EUR m)							
Net profit	5.1	8.6	6.0	4.7	7.8	8.4	8.9
Depreciation	1.2	1.4	1.6	1.2	1.2	1.3	1.5
Changes to working capital	-4.2	0.4	1.3	1.8	-2.4	-7.8	3.9
Operating cash flow	1.5	9.3	9.2	6.6	7.3	1.9	14.3
Investments in fixed assets	-0.9	-1.3	-1.3	-0.6	-1.4	-1.4	-1.5
Free cash flow	-0.1	7.6	7.8	5.8	5.6	0.2	12.4
Dividend payment	n.a.	n.a.	n.a.	-2.6	-2.6	-3.9	-4.7
Changes in liquid funds	-0.4	5.5	7.3	2.5	-10.0	3.9	7.7
Valuation Ratios							
EV / Sales	0.3	0.3	0.0	0.1	0.3	0.2	0.2
EV / EBITDA	7.5	4.8	1.2	3.2	5.6	3.7	3.2
EV / EBIT	8.9	5.4	1.5	3.7	6.2	4.2	3.6
P / E	13.0	9.6	5.7	13.5	14.0	8.2	7.7
P / BV	1.3	1.4	0.5	1.0	1.5	0.9	0.9
Return on equity	10.4 %	14.9 %	9.5 %	9.4 %	11.6 %	11.1 %	11.2 %
Dividend yield	n.a.	n.a.	7.7 %	4.1 %	3.6 %	5.7 %	11.5 %
FCF yield	n.a.	9.1 %	22.9 %	9.0 %	5.2 %	0.2 %	18.0 %
Financial Ratios							
Net debt to EBITDA	-1.5	-1.5	-3.2	-4.3	-2.3	-2.2	-2.4
Gearing	-22.7 %	-34.6 %	-40.5 %	-56.2 %	-39.6 %	-33.6 %	-41.5 %
Interest cover (EBIT/Interest expense)	55.8	90.2	181.5	299.5	193.4	n.a.	n.a.

Source: GFT, LBBW Research

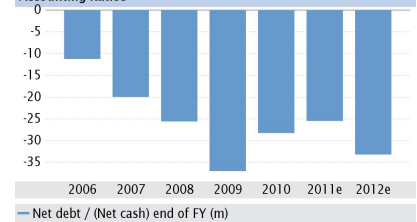
GUIDANCE - GFT TECHNOLOGIES

Management anticipates sales worth EUR 270m and pre-tax profit of EUR 11m in 2011. By 2015, group sales are, also as a result of acquisitions, expected to pass the EUR 0.5bn threshold.

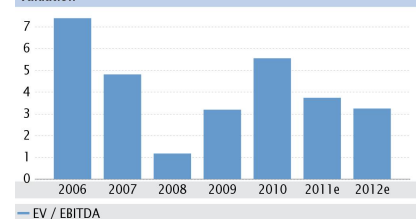
Key Figures



Accounting Ratios



Valuation



Source: GFT, LBBW Research

RESEARCH TEAM

Stefan Borscheid, CFA, Investment Analyst
+49 711 127-76791, stefan.borscheid@lbbw.de

Thomas Hofmann, CEFA, Investment Analyst
+49 711 127-42775, thomas.hofmann@lbbw.de

Mirko Maier, Investment Analyst
+49 711 127-73264, mirko.maier@lbbw.de

Ralph Szymczak, Investment Analyst
+49 711 127-70558, ralph.szymczak@lbbw.de

Investment Case

Summary

GFT

Despite the difficult times, the financial sector as GFT's largest customer group is still facing constantly rising regulatory requirements, which can also be met by applying new IT systems. The current weakness in demand is therefore expected to be of a temporary nature. The Resourcing segment is benefitting from the increasing shortage of IT specialists, but is reacting more strongly to economic fluctuations. In our view, the current market valuation of GFT reflects a worst-case scenario, which we do not consider realistic. Despite our lowered forecasts, we believe a value of EUR 4 per share appropriate (previously EUR 5), prompting us to reaffirm our Buy recommendation.

Earnings summary: Due to the weakness in demand from the financial sector, the decision to refrain from concluding low-margin business in the Resourcing segment, and the latest acquisitions, our updated sales and earnings estimates are lower than before. The decrease comes out to about 20%. However, we are still optimistic that GFT will be able to at least keep its net profit stable in 2012 despite the difficult market environment. In a more normal market environment, the company should return to double-digit earnings growth in 2013. In concrete terms we expect EPS of EUR 0.32 in 2011, which should grow to EUR 0.34 in 2012 and finally to EUR 0.39 in 2013.

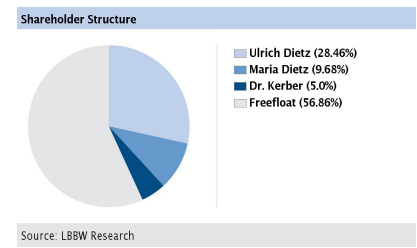
Valuation summary: Based on the revised parameters for the valuation (sales and earnings forecasts, WACC), we have determined a fair value of EUR 4.40 using our DCF model. Seeing that GFT's most important customer group is facing a difficult environment at present, we have applied a discount of 10%, which leads to our new price target of EUR 4.

Risks: GFT would not be able to escape the effects of a further escalation of the euro crisis and a potential subsequent recession. In such a case, we would have to at least take another look at our forecasts with a critical eye. Nevertheless, due to the sales structure and the solid balance sheet ratios, GFT should be able to survive even such a scenario without too much damage.

Company description

GFT Technologies operates in the fields of IT services and IT-specific personnel services. Most customers come from the financial sector (66% sales share). Germany is the most important market by far (55%), followed by the UK (14%) and France (12%). GFT is able to compete with the industry giants due to its off-shore and near-shore capacities. Sales in 2010 amounted to EUR 248m, while net income came out to EUR 7.8m or EUR 0.30 per share. Shareholders received a dividend of EUR 0.15. With an equity ratio of more than 50% and net liquidity of EUR 37m (both figures as of year-end 2010), GFT has a very solid balance sheet. Co-founder Ulrich Dietz and his wife are the major shareholders with a combined share of just under 40%.

PROS	
+	IT sector less cyclical
+	Financial sector with high IT demand
+	Attractive valuation
+	Solid balance sheet
+	Loss-making segment sold
CONS	
-	Recruiting demand with time lag
-	Low client diversification



Business Update

Key Topics

GFT

Growth dynamic slows down in Q3/11

At EUR 66m, sales exceeded the previous year's comparable value by about 3% in the third quarter. Compared to the growth rates of more than 20% in the first half of the year, the dynamic has thus slowed down considerably. Considering the sales proceeds resulting from the takeover of Asymo AG amounting to EUR 2.5m, GFT even suffered a slight sales decline in Q3. However, sales still rose by 16% in the first nine months of the current fiscal year. The company thus missed our sales forecast by about EUR 10m. This deviation was due mainly to the performance in the field of Third Party Management. Here, quarterly sales of EUR 9.3m fell short of the previous year's figure by 11%, while growth had still been well in the double-digits in H1. However, this decline is owed to the decision to refrain from certain business with extremely low margins, which is why the effect on the earnings situation is only moderate. The second segment of Resourcing (Resource Management) was in turn able to nearly maintain the dynamic seen in H1. The constantly strong demand for freelance IT specialists in the industrial sector had a favourable influence here. The Services segment, however, was adversely affected by the low propensity to invest in the financial sector. While demand in corporate and investment banking dropped noticeably, core banking solutions, outsourcing services and long-term projects generated stable sales. On balance, the sales decline in this segment amounted to 6.4% yoy.

Q3 earnings decline

Particularly the weak demand in the financial sector had a negative effect on GFT's earnings situation in the third quarter of the current fiscal year. The Services segment, which is focused on customers from this sector, posted a 23% decline in pre-tax profit in Q3 to EUR 2.84m. The company was not able to counter this drop in demand in terms of personnel, which is why capacity utilisation was low. The pre-tax margin thus fell from 12.4% to 10.1%. Adjusted for the earnings contribution from the Asymo acquisition (EUR 0.5m after tax), the decrease is even more pronounced. In the Resourcing segment, in turn, the weak sales performance of the TPM business with its extremely low margins had hardly any effect on earnings, meaning that the sharp increase in the earnings contribution from Resource Management (EBT +44% yoy) had the correspondingly positive impact on the segment result. On balance, however, the decline in the Services segment was not fully offset. Group earnings before tax came out to EUR 3.5m in Q3, down 15% from Q3/10. We had anticipated a decline to EUR 3.8m. In cumulated terms, pre-tax profit after nine months totalled EUR 9.05m, which is still moderately higher than the respective previous year's value (EUR 8.76m). Thanks to a positive effect with regard to the tax burden that led to a tax rate of a mere 11.4% (previous year: 23.6%), Q3 net income of EUR 3.13m (EUR 0.12 per share) remained at the previous year's level (EUR 3.03m). In the first nine months, net income thus rose by nearly 7% to EUR 6.8m. Here, one positive aspect was that losses from discontinued business operations no longer accrued. In sum, net income slightly exceeded our expectations.

Takeovers prevent sales decline in Q3

Flagging demand for IT services weighing on earnings

Business Update

Key Topics

GFT

Slight improvement in operating cash flow

The operating cash flow, which at GFT is normally negative in the first three quarters, improved considerably at EUR -0.4m compared to the last year (EUR -1.8m). Considering the outflow from investments in property, plant and equipment and non-current intangible assets, the free cash flow improved from EUR -2.9m to EUR -1.4m. The outflow for acquisitions (Asymo and G2 Systems) in the amount of EUR 6.4m was financed by the sale of financial assets in nearly the same amount. Including EUR 4m paid for dividends, liquid funds (cash and cash equivalents + financial assets) fell from EUR 37.7m as at 30 September 2010 to EUR 28.2m. There are no liabilities to banks to offset these liquid funds, meaning that net liquidity still amounts to more than EUR 1 per share, even after the acquisitions. Due to the increased balance sheet total, the equity ratio dropped to about 58%. As such, GFT still features good balance sheet ratios.

Net liquidity of more than EUR 1 per share despite acquisitions

Overview of quarterly figures (EUR m)

	Q3			9 months		
	2010	2011	Δ yoy	2010	2011	Δ yoy
Resourcing						
Sales	34.1	37.9	11%	92.6	121.4	31%
EBT	0.7	1.0	47%	1.5	2.7	73%
Margin	2.0%	2.6%		1.7%	2.2%	
Services						
Sales	29.9	28.0	-6%	86.1	86.3	0%
EBT	3.7	2.8	-23%	7.7	7.4	-4%
Margin	12.4%	10.1%		8.9%	8.6%	
Group						
Sales	64.1	66.1	3%	178.7	207.9	16%
EBITDA	4.2	3.8	-11%	9.1	9.5	4%
Margin	6.5%	5.7%		5.1%	4.6%	
EBIT	3.9	3.4	-12%	8.3	8.5	3%
Margin	6.1%	5.2%		4.6%	4.1%	
EBT	4.1	3.5	-14%	8.8	9.1	3%
Margin	6.4%	5.3%		4.9%	4.4%	
Net profit	3.0	3.1	3%	6.3	6.8	7%
Margin	4.7%	4.7%		3.5%	3.3%	
EPS (EUR)	0.12	0.12		0.24	0.26	

Source: GFT, LBBW Research

Financials

Earnings Outlook

GFT

Guidance lowered moderately

The two business segments Services and Resourcing will react differently to the upcoming economic deterioration due to their different business models and customer structures, but the group's overall business performance will be negatively affected.

The strong demand for freelance IT specialists in the field of Resource Management should keep up thanks to lastingly pleasing demand from the industrial sector. In the field of Third Party Management, however, the additional reduction in sales with one major customer is expected to weigh on sales. This measure will cost this business field approximately EUR 50m in 2012, although the low margins in the TPM business should keep the effect on earnings at bay.

The lower propensity on the part of the financial sector to make investments, which was already felt in Q3, should continue to affect the sales performance in the Services segment in Q4/11 and result in a noticeable decline in capacity utilisation. Neither the Resourcing segment nor the acquisitions are expected to compensate for this. Therefore, the management lowered the sales guidance for 2011 from previously EUR 275m to EUR 270m, while the forecast for pre-tax profit was reduced from EUR 13m to EUR 11m.

In contrast to its decision to revise the short-term forecasts, the management has made extremely optimistic statements regarding the medium-term business development. The company has targeted sales worth EUR 500m in the fiscal year of 2015. This corresponds to average annual growth of 16.7% based on the sales figure of EUR 270m anticipated in 2011. In addition to organic growth, the company plans to reach this target by making further acquisitions.

Earnings estimates adjusted

The following factors made it necessary for us to revise our sales and earnings forecasts for GFT Technologies AG:

- Sales and earnings figures in the third quarter of 2011 slightly missed our estimates.
- The management moderately lowered its outlook for the current fiscal year.
- The comprehensive reduction of TPM business with a major customer reduces the sales basis significantly, without having a noticeable effect on earnings.
- The latest acquisitions are having a positive effect on the sales margin.

TPM business losing significance**Banks expected to continue showing only restrained demand in the short term**

Financials

Earnings Outlook

GFT

Estimates for 2011 are based on the guidance

We have based our estimates for the current fiscal year and Q4/2011 on the management's guidance. While we had previously anticipated sales of EUR 280m and pre-tax profit of EUR 13.5m, our updated forecasts now come out to EUR 270m (sales) and EUR 11.1m (pre-tax profit). Given the lower than previously expected tax rate (24.3%, down from 29%), our new estimate for net profit of EUR 8.4m is not as far down from our previous estimate of EUR 9.6m. As such, our EPS forecast is now EUR 0.32 rather than EUR 0.36 as before. As GFT still plans to rely on acquisitions for medium-term growth and the economic uncertainty is not expected to die down before the next annual meeting, we believe the management will refrain from lifting the dividend as we had previously expected (LBBWe: EUR 0.15, following EUR 0.18).

2012 to show decline in sales, but increase in earnings

In 2012, particularly the termination of business with a major customer in the field of Third Party Management (TPM) will have a negative effect on sales in the Resourcing segment. According to the management, this will cost the company a sales contribution of EUR 50m. In our assessment, sales in this field should thus plummet from EUR 66m in 2011 (LBBWe) to a mere EUR 18m. Thanks to stable demand for IT experts from the industrial sector, the second field of Resource Management should, however, manage to generate organic growth in the mid-single-digit percentage range to EUR 95m in 2012. Since the discontinued TPM business is believed to feature an EBT margin well under 1% and Resource Management should generate a margin of nearly 4%, the segment result should show a slight rise in EBT despite the considerable 28% drop in sales (LBBWe: EUR 3.9m, up from EUR 3.7m).

Restrained demand in the financial sector should also continue to weigh on the Services segment in 2012. Here, however, one needs to consider that some ¾ of the business volume is related to the customers' core applications and therefore cannot be easily postponed or cancelled. Together with the expectation of a moderate recovery in H2 2012, the Services segment should manage to show a stable sales performance on a like-for-like basis. We believe the pre-tax margin will give in by about 1 percentage point to 6.5%. In sum, the two acquisitions, Asymo and G2, are expected to contribute about EUR 25m to group sales in 2012 with an EBT margin of about 12.5%. On the whole, the Services segment should thus generate sales of EUR 135m and pre-tax profit of EUR 10.1m. Given an assumed tax rate of 29%, earnings per share should thus climb to EUR 0.34 in 2012 – 10 cents less than we had previously anticipated.

Dividend yield for 2011e: > 5%**Resourcing shows stable performance****Takeovers cushion margin decline****Moderate EPS increase expected in 2012**

Financials

Earnings Outlook

GFT

Normalisation of economic environment will lead to earnings hike

In 2013, the margin in the Services segment should improve again in the wake of normalising demand from the financial sector and, together with the takeovers from 2011, provide for a segment margin (EBT) of some 8%. Based on the sales figure of EUR 145m that we anticipate in 2013, segment EBT should thus reach EUR 11.6m. Due to the expansion of activities to include the resourcing of engineers, the Resourcing segment should manage to post a further moderate rise in sales and earnings in 2013. On balance, we anticipate group sales of EUR 263m in 2013 and earnings per share of EUR 0.39.

Sales and earnings forecast - key data (EUR m)*

	2009	2010	2011e	2012e	2013e
Segments					
Resourcing					
TPM					
Sales	64.1	66.5	66.0	18.0	18.0
Δ yoy	-18.1%	3.7%	-0.7%	-72.7%	0.0%
EBT	0.3	0.4	0.4	0.1	0.1
Margin	0.5%	0.6%	0.6%	0.5%	0.5%
RM					
Sales	61.3	65.3	90.0	95.0	100.0
Δ yoy	-9.0%	6.5%	37.8%	5.6%	5.3%
EBT	2.4	2.6	3.2	3.8	4.0
Margin	3.9%	4.0%	3.6%	4.0%	4.0%
Services					
Sales	91.4	116.5	113.8	135.0	145.0
Δ yoy	0.0%	27.5%	-2.3%	18.6%	7.4%
EBT	6.2	9.4	8.8	10.1	11.6
Margin	6.8%	8.1%	7.7%	7.5%	8.0%
Group					
Sales	216.8	248.3	270.0	248.2	263.2
Δ ggü. Vj.	-10.5%	14.5%	8.7%	-8.1%	6.0%
EBITDA	8.5	12.1	11.8	13.6	15.4
Margin	3.9%	4.9%	4.4%	5.5%	5.9%
EBIT	7.3	10.9	10.5	12.1	13.8
Margin	3.4%	4.4%	3.9%	4.9%	5.2%
EBT	7.9	11.6	11.1	12.6	14.4
Margin	3.6%	4.7%	4.1%	5.1%	5.5%
Net profit	4.7	7.8	8.4	8.9	10.2
Margin	2.2%	3.1%	3.1%	3.6%	3.9%
EPS (EUR)	0.18	0.30	0.32	0.34	0.39
Dividende (EUR)	0.10	0.15	0.15	0.30	0.20

Source: GFT, LBBW Research, * Deviations between segment and group information attributable to consolidation effects and discontinued business operations

The table above shows that GFT even managed to generate earnings in both segments in the extremely difficult year of 2009. Therefore, we do not expect the margins to drop dramatically in 2012, also given the latest acquisitions.

Valuation

Fair Value Calculations

GFT

Based on our discounted cash flow model, we have calculated a fair value of EUR 4.40 for the share. However, since uncertainty is extremely high given the large share of sales from customers in the financial sector (66%), we have applied a discount of 10%. At the same time, this (rounded) figure serves as our new price target of EUR 4 for the GFT share (previously EUR 5).

We have used a three-stage DCF model. In the first three years (phase I) we have come up with concrete estimates for the development of the annual cash flows. In phase II (years 4 to 9) we have adjusted the current growth assumptions to match the development of the so-called perpetual growth rate (phase III), when we no longer expect above-average sales and earnings growth.

Compared to our last analysis, the weighted average cost of capital (WACC) rose from 11.5% to 11.9%. Together with our lowered estimates, this has resulted in a reduction in the fair value by about 10% to EUR 4.40.

Since companies from the financial sector in particular are currently operating in an extremely difficult market environment and these companies make up GFT's largest customer group with a share of 66%, the trend for the next few quarters is fraught with an increased level of uncertainty. At the moment, no one can reliably forecast when the financial sector will return to normal investment patterns. We have accounted for these circumstances by applying a 10% discount on the fair value of the GFT share, which thus amounts to EUR 4 (rounded) and at the same time serves as our price target (previously EUR 5).

The current market valuation of GFT (about EUR 69m) is about 7% below equity as at 30 September 2011. In our assessment, this would only be justified if the company were expected to start posting losses. However, given GFT's stable business model, the realistic growth prospects (organically and via acquisitions), and the high share of IT services pertaining to core banking activities, we believe such a scenario is highly unlikely.

Fair value including discount comes out to EUR 4

EQUITY RESEARCH

COMPANY FLASH

Valuation

DCF Model

GFT

ASSUMPTIONS		STEADY STATE	
Risk-free interest rate	1.8 %	Steady state year	2019
Market premium	7.2 %	Terminal value growth	1.0 %
Beta	1.4	EBIT margin	4.5 %
Cost of equity	11.9 %	Depreciation&Amortization ratio	0.6 %
Cost of debt	3.4 %	CAPEX ratio	0.6 %
Equity ratio (target)	100.0 %	Net working capital ratio	1.3 %
WACC (in %)	11.9 %	CAGR sales 2010 - 2019	3.4 %

FREE CASHFLOW (EUR m)	2010	2011e	2012e	2013e	2014e	2015e	2016e	2017e	2018e	2019e
Sales	248.3	270.0	248.2	263.2	279.0	295.7	310.5	322.9	332.6	336.0
Growth yoy		8.8 %	-8.1 %	6.0 %	6.0 %	6.0 %	5.0 %	4.0 %	3.0 %	1.0 %
EBIT before Goodwill	11.0	10.5	12.1	13.8	13.9	14.2	14.6	14.5	15.0	15.1
EBIT margin	4.4 %	3.9 %	4.9 %	5.2 %	5.0 %	4.8 %	4.7 %	4.5 %	4.5 %	4.5 %
- Cash taxes on EBIT	3.2	2.6	3.5	4.0	4.2	4.3	4.4	4.4	4.5	4.5
Tax rate	28.6 %	24.3 %	29.0 %	29.0 %	30.0 %	30.0 %	30.0 %	30.0 %	30.0 %	30.0 %
= NOPAT	7.9	7.9	8.6	9.8	9.8	9.9	10.2	10.2	10.5	10.6
+ Depreciation&Amortization	1.2	1.3	1.5	1.6	1.5	1.8	1.9	1.9	2.0	2.0
in % of sales	0.5 %	0.5 %	0.6 %	0.6 %	0.6 %	0.6 %	0.6 %	0.6 %	0.6 %	0.6 %
- CAPEX	1.7	1.8	1.9	1.7	2.0	2.1	2.2	2.3	2.0	2.0
in % of sales	0.7 %	0.6 %	0.8 %	0.6 %	0.7 %	0.7 %	0.7 %	0.7 %	0.6 %	0.6 %
NWC	2.9	10.7	6.8	7.5	3.6	3.8	4.0	4.2	4.3	4.4
in % of sales	1.2 %	4.0 %	2.7 %	2.9 %	1.3 %	1.3 %	1.3 %	1.3 %	1.3 %	1.3 %
delta NWC		7.8	-3.9	0.7	-3.9	0.2	0.2	0.2	0.1	0.0
Provisions	1.0	1.0	1.0	1.0	0.8	0.9	0.9	1.0	1.0	0.8
in % of sales	0.4 %	0.4 %	0.4 %	0.4 %	0.3 %	0.3 %	0.3 %	0.3 %	0.3 %	0.3 %
delta provisions		0.0	0.0	0.0	-0.1	0.1	0.0	0.0	0.0	-0.2
FCF to firm	5.1	-0.3	12.1	9.0	13.1	9.5	9.8	9.7	10.4	10.4
in % of sales	2.0 %	-0.1 %	4.9 %	3.4 %	4.7 %	3.2 %	3.1 %	3.0 %	3.1 %	3.1 %
Discounted free cashflow	n.a.	-0.3	10.7	7.1	9.2	6.0	5.5	4.9	4.7	4.2

VALUE PER SHARE (EUR m)	
Discounted free cashflow estimated years	47.8
+ Discounted terminal value	42.9
= Enterprise value	90.7
Terminal value in % of enterprise value	47.3 %
- Net debt	-25.0
- Minorities	0.0
- Pension funds	0.5
+ Peripheral assets	0.0
+ Others	0.4
= Market capitalisation	115.6
/ Number of shares (m)	26.33
= Value per share (EUR)	4.39



Source: GFT, LBBW Research

EQUITY RESEARCH

COMPANY FLASH

Appendix

Financials: Profit and Loss Statement

GFT

PROFIT AND LOSS STATEMENT (EUR m)	2009	2010	2011E	2012E	2013E	CAGR 09-13E
Sales	216.8	248.3	270.0	248.2	263.2	
Growth yoy		14.5 %	8.8 %	-8.1 %	6.0 %	4.97 %
Work performed by the enterprise and capitalised	0.0	0.0	0.0	0.0	0.0	
Total operating performance	216.8	248.3	270.0	248.2	263.2	
Growth yoy		14.5 %	8.8 %	-8.1 %	6.0 %	4.97 %
Material expenses	-130.4	-142.1	-158.0	-128.0	-135.0	
Gross Yield	86.4	106.2	112.0	120.2	128.2	
Growth yoy		23.0 %	5.5 %	7.3 %	6.7 %	10.38 %
Personnel expenses	-62.5	-76.5	-81.0	-87.0	-92.0	
Other operating income	2.0	3.5	3.8	4.0	4.0	
Other operating expenses	-17.25	-21.04	-23.00	-23.60	-24.80	
EBITDA	8.54	12.22	11.80	13.60	15.40	
Growth yoy		43.0 %	-3.4 %	15.3 %	13.2 %	15.87 %
Depreciation and Amortisation	-1.2	-1.2	-1.3	-1.5	-1.6	
EBIT	7.34	11.02	10.50	12.10	13.80	
Growth yoy		50.2 %	-4.7 %	15.2 %	14.0 %	17.11 %
Financial result	0.5	0.5	0.6	0.5	0.6	
EBT	7.86	11.55	11.10	12.60	14.40	
Growth yoy		47.0 %	-3.9 %	13.5 %	14.3 %	16.35 %
Taxes on income	-1.67	-3.30	-2.70	-3.65	-4.18	
Income Tax rate	21.3 %	28.6 %	24.3 %	29.0 %	29.0 %	
Earnings after tax	6.19	8.25	8.40	8.95	10.22	
Growth yoy		33.3 %	1.9 %	6.5 %	14.3 %	13.39 %
Minorities	n.a.	n.a.	n.a.	n.a.	n.a.	
Net profit	4.74	7.77	8.40	8.95	10.22	
Growth yoy		64.0 %	8.1 %	6.5 %	14.3 %	21.18 %
Average number of shares	26.3	26.3	26.3	26.3	26.3	
Earnings per share	0.18	0.30	0.32	0.34	0.39	
Dividend	0.10	0.15	0.15	0.30	0.20	

Source: GFT, LBBW Research

Appendix

Financials: Balance Sheet

GFT

BALANCE SHEET (EUR m)	2009	2010	2011E	2012E	2013E
Total assets	113.4	128.6	128.3	133.5	137.7
Tangible assets	2.2	2.7	3.0	3.3	3.4
Goodwill	20.4	20.4	26.4	26.4	26.4
Other intangible assets	0.4	0.4	0.6	0.7	0.7
Investments in associates	0.0	0.0	0.0	0.0	0.0
Deferred tax assets	5.8	4.9	4.9	4.9	4.9
Financial assets	0.3	13.1	6.1	6.1	6.1
Other fixed assets	0.7	0.6	0.6	0.6	0.6
Fixed assets	29.8	42.2	41.6	42.0	42.1
Cash	35.5	26.2	23.5	31.2	30.1
Trade receivables and other receivables	41.8	54.8	58.0	55.0	60.0
Other current financial assets	2.6	3.3	3.3	3.3	3.3
Other receivables and current assets	1.7	2.1	1.9	2.0	2.2
Current assets	83.6	86.4	86.7	91.5	95.6
Total liabilities	113.4	128.6	128.3	133.5	137.7
Share capital	26.3	26.3	26.3	26.3	26.3
Reserves	50.7	52.4	52.4	52.4	52.4
Retained earnings	-11.0	-7.5	-3.1	1.1	0.8
Other changes in equity	-0.3	0.1	0.1	0.1	0.1
Equity	65.8	71.3	75.7	79.9	79.6
Long-term pension provisions	0.5	0.7	0.7	0.7	0.7
Deferred tax liabilities	0.6	0.5	0.5	0.5	0.5
Other provisions	0.9	1.0	1.0	1.0	1.0
Non-current liabilities	1.9	2.1	2.1	2.1	2.1
Trade payables and other payables	23.3	27.9	23.0	22.0	26.0
Other financial liabilities	1.1	1.3	1.3	1.3	1.3
Short-term provisions	13.6	18.2	19.2	20.7	20.7
Other current liabilities	6.1	7.9	7.0	7.5	8.0
Current liabilities	45.7	55.2	50.5	51.5	56.0

Source: GFT, LBBW Research

EQUITY RESEARCH

COMPANY FLASH

Appendix

Financials: Cash Flow Statement

GFT

CASH FLOW STATEMENT (EUR m)	2009	2010	2011E	2012E	2013E
Earnings after tax	6.2	8.2	8.4	8.9	10.2
Depreciation	1.2	1.2	1.3	1.5	1.6
Changes in long-term provisions	-0.4	0.3	0.0	0.0	0.0
Changes to working capital	1.8	-2.4	-7.8	3.9	-0.7
Other changes operating cashflow	-2.2	0.0	0.0	0.0	0.0
Operating cash flow	6.6	7.3	1.9	14.3	11.1
Growth yoy		11.6 %	-73.8 %	647.0 %	-22.5 %
Cash outflows for investments in tangible and intangible assets	-0.8	-1.7	-1.8	-1.9	-1.7
Cash inflows from disposal of tangible and intangible assets	8.3	1.6	0.0	0.0	n.a.
Other changes in investment cash flow	-7.5	-1.1	0.0	0.0	n.a.
Cash flow from investments	-0.7	-14.6	5.3	-1.9	-1.7
Growth yoy		n.m.	n.m.	-136.2 %	n.m.
Cash outflow / inflow from capital measures	0.0	0.0	0.0	0.0	0.0
Dividend payment	-2.6	-2.6	-3.9	-4.7	-10.5
Changes to financial debt	-8.5	0.2	0.0	0.0	0.0
Other changes to financial cash flow	8.5	-0.2	0.0	0.0	n.a.
Cash flow from financing	-2.6	-2.6	-3.9	-4.7	-10.5
Growth yoy		n.m.	n.m.	n.m.	n.m.
Changes in liquid funds	2.5	-10.0	3.9	7.7	-1.1
Liquid funds at the beginning of the period	33.0	35.5	25.5	29.5	37.2
Liquid funds at the end of the period	35.5	25.5	29.5	37.2	36.1
Free cash flow	5.8	5.6	0.2	12.4	9.4
Cash earnings per Share	0.22	0.34	0.37	0.40	0.45

Source: GFT, LBBW Research

Appendix-1

1/2

Analyst's Certification

All of the views expressed in this research report accurately reflect the research analyst's personal views regarding the Subject Company. No part of analyst compensation was, is or will be, directly or indirectly related to the specific recommendations or views expressed in this research report.

Disclosures

Please Note

Important Disclosures Required by Regulators

- 1) LBBW or an associated enterprise of LBBW supports the company in the market by entering buy or sell orders.
- 2) LBBW or an associated enterprise of LBBW has made an agreement on the production of financial analyses relating to the issuer or its financial instruments.
- 3) LBBW together with its affiliates is making a market in the company's securities.

Please Note

This research report and the information contained in this research report must not be distributed or reproduced, in whole or in part, in any form without the prior consent of Landesbank Baden-Württemberg ("LBBW") and only in accordance with the applicable laws in the relevant jurisdiction. Persons who gain access to this information must inform themselves about such applicable laws and have to comply with them.

This research report and the information contained therein is furnished and has been prepared solely for information purposes. It is not intended to be an inducement to engage in investment activity. It is furnished for your private information with the express understanding, which recipient acknowledges, that it is not an offer, recommendation or solicitation to buy, hold or sell, an invitation to subscribe for or purchase, or a means by which any security may be offered or sold.

LBBW does not accept any liability for the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions or the result obtained from the use of such information. The information in this report has been obtained from sources believed to be reliable. LBBW can not verify such information, however, and because of the possibility of human or mechanical error by the sources, LBBW or others, no representation is made that the information contained in this report is accurate in all material respects or complete. The statements contained herein are statements of our non-binding opinion, not statement of fact or recommendations to buy hold or sell any securities. Changes to assumptions may have a material impact on any performance detailed. Historic information on performance is not indicative of future performance. LBBW may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and LBBW is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report.

Nothing in this report constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. This report is intended only for and directed to persons sufficiently expert to understand the risks involved, namely market professionals. This publication does not replace personal consultancy. Prior to taking any investment decision you should contact your independent investment adviser for further and more up-to-date information on specific investment opportunities and for individual investment advice, regarding the appropriateness of investing in any securities or investment strategies discussed in this report.

Any security referred to herein may involve a high degree of risk, which may include principal, interest rate, index, currency, credit, political, liquidity, time value, commodity and market risk and is not suitable for all investors. The securities may experience sudden and large falls in their value causing losses equal to the original investment when that investment is realized. Any transaction entered into is in reliance only upon your judgment as to both financial, suitability and risk criteria. LBBW does not hold itself out to be an advisor in these circumstances, nor does any of its staff have the authority to do so.

United Kingdom

This document is issued in the United Kingdom by LBBW, London Branch. LBBW is authorised by the Bundesanstalt für Finanzdienstleistungsaufsicht (the "BaFin").

This document and the information contained in it constitutes a financial promotion for the purposes of the Financial Services and Markets Act 2000 and the rules of the Financial Services Authority (the "FSA"). To the extent that this document is issued in the United Kingdom, it is directed exclusively at persons who are professional clients or eligible counterparties for the purposes of the FSA's Handbook of Rules and Guidance. The products and investment services to which this document relate are only available to the persons referred to above and other persons should not act or rely on it. Moreover, any investment or service to which this document relates is not intended for retail clients and will not be made available to retail clients.

This document is impartial investment research. This document has no regard to the specific investment objectives, financial need or situation or needs of any specific recipient

Appendix-1 2/2

and the investments discussed in this document may not be suitable for all recipients.

LBBW, London Branch has effective organisational and administrative arrangements set up for the prevention and avoidance of conflicts of interest with respect to research recommendations, including information barriers. A copy of LBBW's investment research and conflict of interest policy is available on request from www.lbbw.de/lbbwde/1000005283-en.html

LBBW Research Rating-Systematics (absolute share rating system)

Rating definitions:

Buy:	Based on a time horizon of up to 12 months, we recommend that investors buy the stock.
Sell:	Based on a time horizon of up to 12 months, we recommend that investors sell the stock.
Hold:	We take a neutral view on the stock and, based on a time horizon of up to 12 months, do not recommend either a Buy or Sell.
Under review:	The rating is currently updated.
Suspended:	The evaluation of the company is currently not feasible.

Percentage of companies within this rating category

Buy:	54,1%
Sell:	5,7%
Hold:	38,8%
Under review:	0,5%
Suspended:	1,0%

