

# Mensch und Maschine Software SE

**Software**
**14 November 2017**

## Proprietary software driving growth

Mensch und Maschine Software provides CAD/CAM software to the industrial and construction sectors to support the digitisation of their design, manufacture and build processes. The company has enjoyed strong growth over recent years, with revenues and EBITDA growing at CAGR 8.8% and 101% in 2012-2016. The ongoing transition to accommodate Autodesk's shift to a subscription-based model is nearing completion, which should see VAR return to growth in FY18. This is coupled with continued strength in the high margin proprietary software division, which grew 8% y-o-y in 9M17. The shares trade in line with peers on a consensus FY18e P/E basis.

### Q317 results confirm margin improvement

For the nine months to 30 September (9M17) M+M reported improving gross and EBITDA margins, despite a 9.5% y-o-y fall in total revenues. This was due to the 8% higher contribution from the Software division (at 97% gross margin), which more than offset the anticipated 16% fall in VAR revenues (42% gross margin). Net income and EPS both improved 22% to €5.3m and €0.33, respectively.

### Operating update: transition nears completion

Management has reiterated its FY17 guidance of €17.5-18.5m EBITDA (€15.8m in FY16), 52-57c EPS and a dividend of 45-50c. VAR performance is likely to be subdued in the short term as Autodesk completes its transition from perpetual licensing to a subscription based model. This will reduce upfront revenues, but over time should provide a recurring revenue stream for M+M. Management expects this division to return to growth from Q417. Continued investment in R&D for the proprietary software division (€7.1m in H117) should aid further top-line expansion for the segment.

### Valuation: Factoring in guidance

The shares have continued their strong run, having gained c 70% over the past 12 months. Consensus is looking for 2% and 10% revenue growth for FY17 and FY18. M+M currently trades at a modest premium to peers on a consensus 2017e P/E basis (c 40x vs c 35x). However, for 2018, the shares trade in line with peers. This is despite a current dividend yield of 2.2% versus the peer average of 1.3%. Evidence of continuing strong growth in sales of proprietary software could support further upside.

**Price** €21.5  
**Market cap** €348m

#### Share price graph



#### Share details

Code MUM  
 Listing Scale  
 Shares in issue\* 16.2m  
\*Net of 0.48m treasury shares

#### Business description

Mensch und Maschine Software (M+M) sells proprietary and Autodesk CAD/CAM software. It reports across two business lines: M+M Software (28% of FY16 revenues) and VAR (72% of FY16 revenues). The company has operations in Europe, the US and Asia-Pacific.

#### Bull

- Largest European Autodesk value-added reseller.
- High-margin, internally developed software.
- Loyal workforce.

#### Bear

- Reliant on Autodesk's technology development.
- Management owns more than 50% of the company.
- Change in Autodesk's licensing model to subscription model.

#### Analyst

Katherine Thompson +44 (0)20 3077 5730  
[tech@edisongroup.com](mailto:tech@edisongroup.com)

#### Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/15	160.4	7.5	0.24	0.25	89.6	1.2
12/16	167.1	11.1	0.40	0.35	53.8	1.6
12/17e	171.0	14.5	0.56	0.48	38.4	2.2
12/18e	188.5	19.4	0.73	0.60	29.5	2.8

Source: Mensch und Maschine, Bloomberg.

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