

Mensch und Maschine

Software
16 March 2022

Long-term growth targets unveiled

Mensch und Maschine (M+M) saw business revert to pre-COVID trading patterns and a return to revenue growth in FY21. This translated to EPS growth of 13.1% and a dividend per share increase of 20%. The strategy of organic revenue growth combined with careful cost control supports management's targets for a doubling in EPS over the next four to five years.

FY21: Another year of double-digit earnings growth

M+M reported robust results for FY21, with revenue growth of 9.1% y-o-y, EBIT growth of 11.8% and EPS growth of 13.1% y-o-y. We note that this follows a year when revenue declined 0.8% but EPS grew 12.5%. Trading has reverted to pre-COVID seasonality and both divisions reported growth. The Software division grew revenue 11.3% y-o-y (8.5% organic) and achieved an EBIT margin of 25.4% (up 0.1pp y-o-y). The VAR division grew revenue 8.1% y-o-y and expanded the EBIT margin by 0.3pp to 7.3%. Net debt reduced from €14.6m at the end of FY20 to €3.4m by the end of FY21 and, excluding leases, M+M had net cash of €8.2m at year-end. Founder and 45%-shareholder Adi Drotleff has stepped back from the CEO role but remains as managing director and chair of the supervisory board.

Outlook: Steady, profitable growth

The company has maintained its guidance for FY22, introduced guidance for FY23 and set targets for a doubling in revenue by FY28/29 and EPS by FY25/26. This implies a CAGR of 14.7–18.7% for EPS over this timeframe. Consensus forecasts are within the guidance range for FY22 and FY23.

Valuation: Reflects track record

The stock trades at a discount to peers on EV-based valuation metrics and at a small premium on a P/E basis. The stock is supported by a dividend yield approaching 3%, which is at the top end of its peer group. With strong performance through the pandemic (EPS growth in FY20 despite a small revenue decline) and the goal of doubling EPS by FY25/26, in our view the valuation reflects the company's track record of profitable growth.

Price €54.3
Market cap €921m

Share price graph



Share details

Code MUM
 Listing Deutsche Börse Scale
 Shares in issue 17.0m
 Net cash* at end FY21 €8.2m
 *Excludes leases

Business description

Mensch und Maschine Software (M+M) sells proprietary and Autodesk CAD/CAM software. It reports across two business lines: M+M Software (FY21: 32% of revenues, 62% of EBIT) and VAR (FY21: 68% of revenues, 38% of EBIT). The company has operations in Europe, the United States and Asia-Pacific.

Bull

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

Bear

- Reliant on Autodesk's technology development and channel strategy.
- Management owns more than 50% of the company.
- Large exposure to DACH economies.

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Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/20	244.0	29.8	1.12	1.00	48.7	1.8
12/21	266.2	33.8	1.26	1.20	43.1	2.2
12/22e	294.8	39.5	1.46	1.40	37.2	2.6
12/23e	327.7	48.3	1.75	1.60	31.0	2.9

Source: Mensch und Maschine investor relations pages (as at 13 March)

Review of FY21 results

Mensch und Maschine (M+M) reported a robust set of results for FY21. The company reported revenue growth of 9.1% y-o-y and, due to good cost control, this translated to operating profit growth of 11.8% and EPS growth of 13.1%. The company moved from a net debt position (before finance leases) to a net cash position by the end of the year and increased the dividend per share by 20% y-o-y. The company noted that seasonality in FY21 was more like FY19, reverting to pre-COVID patterns of trading.

Exhibit 1: FY21 results highlights			
€m	FY21	FY20	y-o-y
Revenues	266.2	244.0	9.1%
Gross profit	138.4	128.0	8.2%
EBITDA	44.4	40.3	10.2%
Operating profit	34.7	31.0	11.8%
Net income after minority interest	21.3	18.7	13.9%
EPS (€)	1.26	1.12	13.1%
Net cash (excluding leases)/(net debt)	8.2	(3.2)	N/A
Dividend per share (€)	1.2	1.0	20.0%
Gross margin	52.0%	52.4%	-0.4%
EBITDA margin	16.7%	16.5%	0.2%
Operating margin	13.0%	12.7%	0.3%

Source: M+M

Divisional performance

The **Software** division grew revenue 11.3% y-o-y, after 0.7% growth in FY20. Compared to FY19, revenue was 12.1% higher. EBIT grew 11.6% y-o-y and the EBIT margin expanded by 0.1pp to 25.4%. The company noted that it acquired a Dutch OPEN MIND reseller at the start of FY21 for €2.6m. The acquired business contributed revenue of €2.16m and PBT of €0.62m, which implies divisional organic revenue growth of 8.5% y-o-y and EBIT growth of c 8.3% y-o-y in FY21.

The **VAR** division grew revenue 8.1% y-o-y after a 1.5% decline in FY20; growth versus FY19 was 6.5%. EBIT grew 12.1% y-o-y resulting in margin expansion of 0.3pp to 7.3%.

Exhibit 2: Divisional performance							
€m	FY21	FY20	y-o-y		FY21	FY20	y-o-y
Revenue				<u>EBIT</u>			
Software	84.2	75.6	11.3%	Software	21.4	19.1	11.6%
VAR	182.0	168.4	8.1%	VAR	13.3	11.9	12.1%
Total	266.2	244.0	9.1%	Total	34.7	31.0	11.8%
Gross profit				<u>EBIT margin</u>			
Software	76.1	68.8	10.6%	Software	25.4%	25.3%	0.1%
VAR	62.3	59.1	5.4%	VAR	7.3%	7.1%	0.3%
Total	138.4	128.0	8.2%	Total	13.0%	12.7%	0.3%
Gross margin							
Software	90.5%	91.1%	-0.6%				
VAR	34.2%	35.1%	-0.9%				
Total	52.0%	52.4%	-0.4%				

Source: M+M

While 55% of gross profit was generated by the Software division and 45% by the VAR division, the company also provided further detail on how gross profit was distributed by vertical:

- 55% from manufacturing: this includes the Software division's hyperMILL CAM software (c 40%) and the VAR division's digitisation and training based on eXs, customX and PDM booster for a variety of manufacturing applications.
- 35% from architecture/construction/engineering (AEC): this includes the Software division's DATAflor software for gardening/landscaping/earthworks and SOFISTiK software for civil engineering, bridge, tunnel and building design, as well as the VAR division's BIM booster solution

and BIM Ready training for structural and civil engineering, building services and facilities management.

- 10% hybrid manufacturing and AEC: this includes MapEdit, eXs and customX solutions.

Management change

Adi Drotleff, founder of M+M and 45% shareholder, has stepped back from the CEO role with effect from the start of the year. This formalises his transition from the operational side of the business to a more strategic role. He continues to hold the role of managing director and chairman of the supervisory board. The company will be managed by the COO Christoph Aschenbrenner and CFO Markus Pech.

Outlook and estimates

The company outlined its targets in the short and longer term. The expectations for FY22 are unchanged; for FY23, the company has introduced targets for 20–30c growth in EPS and 15–25c growth in DPS. Management also expects to double revenue by FY28/29 and to double EPS more quickly, by FY25/26. This implies a revenue CAGR of 8.2–9.4% and an EPS CAGR of 14.7–18.7% within those timeframes.

Exhibit 3: Management guidance				
	FY22	FY23	FY25/26	FY28/29
Revenue	Growth 8-12% pa			>€500m
Gross profit	Growth 8-12% pa			
EBIT	Growth 14-20% pa			
EPS	+18–24c	+20–30c	>250c	
Dividend per share (DPS)	+15–20c	+15–25c		

Source: M+M

Prior to the full FY21 results being announced, consensus forecasts were in line with current company guidance.

Exhibit 4: Consensus forecasts			
€m		FY22e	FY23e
Revenues		294.8	327.7
Revenue growth		10.8%	11.2%
EBITDA		50.4	59.4
EBITDA margin		17.1%	18.1%
EBIT		40.3	48.9
EBIT margin		13.7%	14.9%
EPS (€)		1.46	1.75
DPS (€)		1.40	1.60

Source: Company investor relations pages, as at 13 March (prior to publication of FY21 results)

Valuation

The stock is essentially flat over the last 12 months, having reached a peak of €68.5 in September before the market started shifting from growth to value stocks and the war in Ukraine further weighed on share prices. The shares trade at a discount to peers on EV-based valuation metrics and at a small premium on a P/E basis, in our view reflecting the fact that the company's operating margins are at the lower end of its peer group due to the VAR side of the business. The stock is supported by a dividend yield approaching 3%, which is at the top end of its peer group.

Exhibit 5: Peer valuation metrics

Company	Quoted	Share	Market	EV (m)	EV/Sales (x)		EV/EBIT (x)		P/E (x)		Div yield		EBIT margin	
	ccy	price	cap (m)		CY	NY	CY	NY	CY	NY	CY	NY	CY	NY
MENSCH UND MASCHINE*	EUR	54.3	921	913	3.1	2.8	22.6	18.7	37.2	31.0	2.6%	2.9%	13.7%	14.9%
AVEVA GROUP	GBP	2529	7,626	8,260	6.8	6.2	22.7	20.4	24.2	22.0	1.5%	1.6%	30.0%	30.6%
CENIT	EUR	11.5	96	79	0.5	0.5	9.7	8.8	20.3	14.9	3.9%	4.4%	5.0%	5.2%
NEMETSCHEK	EUR	73.6	8,558	8,471	11.2	10.0	45.9	39.3	59.2	51.0	0.5%	0.5%	24.5%	25.6%
AUTODESK	USD	192.3	42,303	43,167	8.5	7.4	23.4	19.4	28.4	23.5	0.0%	0.0%	36.2%	38.1%
DASSAULT SYSTEMES	EUR	41.6	55,807	56,335	10.5	9.5	34.4	30.9	42.3	38.5	0.4%	0.5%	30.5%	30.8%
HEXAGON	SEK	124.6	325,088	32,899	6.7	6.2	22.9	20.8	27.7	25.1	1.0%	1.2%	29.2%	29.8%
PTC	USD	103.9	12,156	13,300	6.9	6.2	19.2	17.5	24.0	20.6	0.0%	0.0%	36.0%	35.4%
Average					7.3	6.6	25.5	22.4	32.9	28.7	1.1%	1.2%	27.3%	27.9%
Median					6.9	6.2	22.9	20.4	27.7	23.5	0.5%	0.5%	30.0%	30.6%

Source: Refinitiv (as at 14 March). Note: *M+M forecasts are on a reported basis, whereas peer forecasts may contain adjustments for items such as share-based payments and exceptional items that result in higher EBIT margins and EPS.

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