

Mensch und Maschine Software SE

Software
31 July 2017

Making steady progress

Mensch und Maschine (M+M) saw a revenue decline in H117 (-4.8% y-o-y). Software growth of 9% y-o-y was outweighed by the expected decline in the VAR business resulting from the shift in the Autodesk licensing model. Gross and EBITDA margins increased y-o-y, with a 26% increase in EPS. Management has maintained its outlook for 2017 and beyond.

H117 results

M+M reported a 4.8% year-on-year revenue decline for H117, with 9.1% growth in the Software business offset by a 9.8% decline in the VAR business. The decline in the VAR business was expected, a result of the change in licensing for Autodesk software. The effect of this transition should be played out by the end of 2017; in fact, in Q217 the decline was only 0.6%. Gross and EBITDA margins increased by 4.6 percentage points (pp) and 1.4pp respectively, despite the revenue decline, as Software made up a larger proportion of revenues. This drove EPS 26% higher than a year ago.

Outlook maintained

The company is confident that it will achieve its guidance for 2017. The company outlook is for continued growth in EBITDA and earnings and c 30% annual growth in dividends to FY20. It expects subdued performance in the VAR business in FY17 as all new licence sales will be on a subscription basis, but despite this, expects to add €1.7-2.7m to group EBITDA in FY17 (range €17.5-18.5m). From FY18, it expects growth to normalise and therefore a larger increase in EBITDA (€3-4m). Consensus forecasts reflect this outlook.

Valuation: Reflects earnings growth potential

The stock has gained 51% year-to-date and 27% since we last published in April. Since April, consensus forecasts have increased – revenues are marginally higher, whereas EPS has increased by 3.8% for FY17e and 3.4% for FY18e. On a P/E basis, M+M is currently trading at a premium to its peer group for 2017 but at a small discount for 2018. So far, the Autodesk transition has not had a negative impact on profitability; further evidence that the company is able to grow profitability through this transition should support further upside. To achieve the earnings growth expected by the company in the medium term, it will also be important to maintain strong growth in the Software division. The stock is supported by a dividend yield of more than 3%.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/15	160.4	7.5	0.24	0.25	79.2	1.3
12/16	167.1	11.1	0.40	0.35	47.5	1.8
12/17e	170.4	14.3	0.55	0.46	34.5	2.4
12/18e	187.8	18.1	0.72	0.59	26.4	3.1

Source: Mensch und Maschine, Bloomberg.

Price €19.0
Market cap €308m

Share price graph



Share details

Code MUM
 Listing Deutsche Börse Scale
 Shares in issue* 16.2m
*Net of 0.48m treasury shares
 Last reported net debt at 30 June 2017 €20.1m

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.

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Review of H117 results

Exhibit 1: Results highlights			
€m	H117	H116	y-o-y
Revenues	83.59	87.83	(4.8%)
Gross profit	48.21	46.61	3.4%
EBITDA	9.12	8.33	9.4%
Operating profit	7.75	6.70	15.7%
Net income	4.37	3.48	25.7%
EPS (€)	0.27	0.21	26.4%

Source: Mensch und Maschine

Exhibit 2: Divisional results			
€m	H117	H116	y-o-y
Revenues			
Software	25.2	23.1	9.1%
VAR	58.4	64.7	(9.8%)
Total	83.6	87.8	(4.8%)
Gross profit			
Software	24.5	22.5	9.3%
VAR	23.7	24.2	(2.0%)
Total	48.2	46.6	3.4%
Gross margin			
Software	97.3%	97.2%	0.1%
VAR	40.6%	37.3%	3.2%
Total	57.7%	53.1%	4.6%
EBITDA			
Software	6.4	5.7	11.5%
VAR	2.8	2.6	5.1%
Total	9.1	8.3	9.4%
EBITDA margin			
Software	25.2%	24.7%	0.5%
VAR	4.7%	4.1%	0.7%
Total	10.9%	9.5%	1.4%

Source: Mensch und Maschine

In H117, M+M saw a year-on-year decline in revenues. Group gross margins, EBITDA and operating profit, however, all saw growth year-on-year, resulting in a 26.4% increase in EPS over the year.

While 43% of group revenues came from the resale of Autodesk software, only 18% of gross profit came from this business, which means that 82% of gross profit was generated from proprietary software and services across both divisions.

Software – seeing continued strong demand

The Software division saw strong revenue growth of 9.1% y-o-y, with growth of 11.4% in Q117 and 6.9% in Q217. This business continues to see solid demand for its proprietary solutions and is already achieving target EBITDA margins of 25%.

VAR – gross margin improvement despite revenue decline

The VAR business saw a 9.8% y-o-y decline in H117, with a 16.0% decline in Q117 and a much smaller 0.6% decline in Q217. The VAR business performance reflects the timing of the changes to Autodesk licensing. With single solution licensing shifting to subscription-only from February 2016 and product suite licensing making the transition from August 2016, Q1 revenues reflect the drop-off in perpetual licences, whereas the Q2 comparison is on a like-for-like basis. We would expect to see a similar, albeit less pronounced, pattern in H2, as Q316 revenues were higher than Q416 revenues. VAR gross margins increased by 3.2pp despite the revenue decline. VAR EBITDA

margins increased marginally year-on-year, with margins of 5.7% in Q117 and 3.5% in Q217. The division is making steady progress towards its 10% margin target.

Looking at the split of VAR revenues between pure reselling of subscription licences versus proprietary software and services provided by M+M, we estimate that reselling revenues generated a gross margin of 23.6% compared to 68.1% for proprietary software and services.

Outlook unchanged

The company's outlook for FY17-20 is unchanged (see Exhibit 3). Based on reported H117 results, the company looks on track to meet its FY17 expectations.

Outlook	FY17e	FY18e	FY19e	FY20e
Gross profit	€98-99m	c €110m		
EBITDA	€17.5-18.5m	c €22m		Equal contribution from both divisions
Net income	€8.5-9.3m	c €11.5m	€13.5-14.5m	
EPS	€0.52-0.57	c €0.70	€0.83-0.90	c €1.00
Dividend	€0.45-0.50	c €0.60	€0.70-0.75	

Source: Mensch und Maschine

Valuation

Consensus forecasts have increased since we last wrote in April – revenues have increased marginally, whereas EPS has increased by 3.8% for FY17e and 3.4% for FY18e. The stock has gained 51% year-to-date and 27% since we last published.

Peer valuation

In the table below, we compare M+M's valuation to a group of peers that includes European software companies operating in the CAD/CAM/PLM space, as well as larger international companies operating in this market. With a lower EBITDA margin than the peer group average, M+M is trading below the peer group on an EV/sales basis. On a P/E basis, it is trading at a premium to the group for 2017 but at a small discount for 2018. We note that M+M's dividend yield is at the top end of the peer group.

Exhibit 4: Peer group multiples

Company	Quoted ccy	Share price	Market cap (m)	EV (rep ccy m)	EV/sales (x)		EV/EBITDA (x)		P/E (x)		Div yield		EBITDA margin	
					CY	NY	CY	NY	CY	NY	CY	NY	CY	NY
MENSCH UND MASCHINE SOFTWARE	€	19.00	308	330	1.9	1.8	18.1	15.0	34.5	26.4	2.4%	3.1%	10.8%	11.8%
AVEVA GROUP	£	2,049	1,301	1,180	5.3	5.1	19.1	18.2	28.3	26.8	2.1%	2.3%	27.7%	27.8%
CENIT	€	23.2	194	152	1.0	0.9	11.1	8.9	25.5	20.0	4.4%	4.5%	8.9%	9.7%
IGE + XAO	€	99.0	141	112	3.9	3.7	13.5	12.6	23.3	21.7	1.4%	1.5%	28.7%	29.5%
NEMETSCHEK	€	64.7	2,492	2,494	6.2	5.4	23.7	20.4	38.8	33.6	1.1%	1.2%	26.2%	26.7%
RIB SOFTWARE	€	14.8	695	537	4.9	4.4	15.5	13.7	38.7	42.7	1.3%	1.4%	31.9%	32.0%
AUTODESK	US\$	112.3	24,741	24,157	11.8	9.4	-433.2	51.8	-199.0	100.9	0.0%	0.0%	-2.7%	18.2%
DASSAULT SYSTEMES	€	82.6	21,446	19,631	6.0	5.6	17.0	15.5	30.8	27.8	0.7%	0.8%	35.3%	35.9%
HEXAGON AB-B	SEK	395.3	142,483	16,198	4.7	4.4	15.5	13.4	23.3	20.5	1.3%	1.5%	30.3%	33.0%
PTC	US\$	55.7	6,439	6,840	5.9	5.6	24.4	22.7	46.4	37.3	0.0%	0.0%	24.0%	24.6%
Average					5.5	4.9	-32.6	19.7	31.9	28.8	1.4%	1.5%	23.4%	26.4%
Median					5.3	5.1	15.5	15.5	28.3	27.8	1.3%	1.4%	27.7%	27.8%

Source: Bloomberg (as at 26 July 2017)

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