

Mensch und Maschine Software

Software
13 March 2019

Proprietary software drives profit growth

Mensch und Maschine (M+M) reported strong revenue and profit growth in FY18. Its proprietary software business generated another year of growth and expanded operating margins above 23% for the first time. The VAR business saw a rebound in revenues (+17.5%) and, despite a lower gross margin, managed to grow its operating margin 1.6pp y-o-y. The recent increased investment in SOFiSTiK boosts the company's construction software offering and adds high-margin proprietary software revenues.

Revenue and operating margin growth in FY18

M+M reported strong FY18 revenue growth of 15.3%. The Software business continued on its upward trajectory, growing 10.4% in FY18 and at a CAGR of 9.7% since 2013. The VAR business rebounded strongly, up 17.5% in FY18, after an 8.6% decline in FY17 as Autodesk shifted to subscription licensing. This resulted in growth in group EBITDA (+26.1%), group EBIT (+29.2%, reported double-digit EBIT margin for the first time) and EPS (+36.1%). The company has proposed a dividend of €0.65 for the year (+30% y-o-y).

FY19 outlook: Double-digit organic growth boosted by increased stake in SOFiSTiK

Management expects to achieve revenues of €215–220m in FY19 (+16–19% y-o-y), of which we estimate c 5% is from the first-time consolidation of SOFiSTiK. Operating profitability is expected to continue to improve, helped by the growing contribution of proprietary software from the SOFiSTiK deal.

Valuation: Reflects growth and strong execution

The stock has gained 20% over the last 12 months, but continues to trade at a discount to peers on all valuation metrics, although we note that it generates lower margins than the peer group. With the main impact of the Autodesk licensing transition in the past and the VAR business back on a growth trajectory, we see potential for VAR to improve profitability and drive up group margins. In addition, the recent acquisition of a majority stake in SOFiSTiK adds high-margin software revenues. The stock is supported by a dividend yield approaching 3% in FY19e.

Consensus estimates

| Year end | Revenue (€m) | PBT (€m) | EPS (€) | DPS (€) | P/E (x) | Yield (%) |
|----------|--------------|----------|---------|---------|---------|-----------|
| 12/17 | 160.9 | 13.6 | 0.53 | 0.50 | 53.9 | 1.8 |
| 12/18 | 185.4 | 18.2 | 0.71 | 0.65 | 39.9 | 2.3 |
| 12/19e | 218.0 | 24.5 | 0.91 | 0.81 | 31.2 | 2.9 |
| 12/20e | 239.3 | 28.8 | 1.06 | 0.96 | 26.6 | 3.4 |

Source: Analyst estimates as provided on Mensch und Maschine's investor relations site

Price €28.3
Market cap €476m

Share price graph



Share details

| | |
|------------------------------------|----------------------|
| Code | MUM |
| Listing | Deutsche Börse Scale |
| Shares in issue | 16.8m |
| Last reported net debt at end FY18 | €11.2m |

Business description

Mensch und Maschine Software (M+M) sells proprietary and Autodesk CAD/CAM software. It reports across two business lines: M+M Software (30% of FY18 revenues) and VAR (70% of FY18 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 and channel strategy.
- Management owns more than 50% of the company.

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FY18 results review

| Exhibit 1: FY18 results highlights | | | |
|------------------------------------|--------|--------|--------|
| €m | FY17 | FY18 | y-o-y |
| Revenues | 160.85 | 185.40 | 15.3% |
| Gross profit | 94.82 | 103.91 | 9.6% |
| EBITDA | 18.04 | 22.75 | 26.1% |
| Operating profit | 15.21 | 19.66 | 29.2% |
| Net income after minority interest | 8.55 | 11.69 | 36.7% |
| EPS (€) | 0.525 | 0.715 | 36.1% |
| DPS (€) | 0.50 | 0.65 | 30.0% |
| Net debt | 16.32 | 11.22 | -31.2% |

Source: Mensch und Maschine

| Exhibit 2: Divisional performance | | | |
|-----------------------------------|--------------|--------------|--------------|
| €m | FY17 | FY18 | y-o-y |
| Revenues | | | |
| Software | 50.5 | 55.7 | 10.4% |
| VAR | 110.4 | 129.7 | 17.5% |
| Total | 160.9 | 185.4 | 15.3% |
| Gross profit | | | |
| Software | 48.9 | 54.4 | 11.1% |
| VAR | 45.9 | 49.5 | 8.0% |
| Total | 94.8 | 103.9 | 9.6% |
| Gross margin | | | |
| Software | 97.0% | 97.5% | 0.6% |
| VAR | 41.6% | 38.2% | -3.4% |
| Total | 59.0% | 56.0% | -2.9% |
| EBITDA | | | |
| Software | 12.7 | 14.7 | 15.6% |
| VAR | 5.3 | 8.1 | 51.0% |
| Total | 18.0 | 22.7 | 26.1% |
| EBITDA margin | | | |
| Software | 25.2% | 26.3% | 1.2% |
| VAR | 4.8% | 6.2% | 1.4% |
| Total | 11.2% | 12.3% | 1.1% |
| EBIT | | | |
| Software | 11.5 | 13.2 | 15.3% |
| VAR | 3.8 | 6.5 | 71.5% |
| Total | 15.2 | 19.7 | 29.2% |
| EBIT margin | | | |
| Software | 22.7% | 23.7% | 1.0% |
| VAR | 3.4% | 5.0% | 1.6% |
| Total | 9.5% | 10.6% | 1.1% |

Source: Mensch und Maschine

M+M reported revenue growth of 15.3% for FY18, with 10.4% growth from the Software division (FY17 +9.1%) and 17.5% growth in the VAR division. This marked a recovery in fortunes for the VAR business, which declined 8.6% in FY17 as Autodesk switched over to a subscription licensing model. In fact, VAR revenues in FY18 exceeded the previous peak revenues of €120.8m reported in FY16.

Gross profit grew at a slower rate: while Software gross margin was slightly higher year-on-year, VAR margins fell below 40% as the proportion of Autodesk reselling increased. The company noted that the VAR business generated €17.7m gross profit from reselling Autodesk licences (+10.6% y-o-y) and €31.9m from proprietary software and services (+6.7% y-o-y) and we assume the gross margin associated with reselling Autodesk licences is significantly lower than for proprietary software and services.

EBITDA increased 26.1% y-o-y, with growth of 15.6% for the Software business and 51% for the VAR business. Operating costs increased more slowly in the VAR business than in the Software business, with personnel costs up 4.2% and 10.4% respectively, and other operating expenses down 0.9% and up 7.4% respectively. Lower net financial costs and a lower effective tax rate y-o-y

resulted in an increase in EPS of 36.1% y-o-y. Net debt reduced further in the year, with net debt/EBITDA of 0.5x at year-end.

SOFiSTiK acquisition

On 13 December last year, M+M announced it was increasing its stake in SOFiSTiK from 13.3% to 51% on 1 January 2019. SOFiSTiK provides software for the structural analysis and reinforcement of bridge, tunnel and construction design. It was founded more than 30 years ago and its software has been used in thousands of projects including BMW Welt in Munich, the newest Bosphorus bridge in Istanbul and the Brasilia National Stadium. M+M originally invested in the business in 1999; taking a majority stake in the business gives the company access to well-established building information modelling software. The founder and management team of SOFiSTiK will remain with the business and hold the remaining 49% of the company.

The business has been consolidated from the date the stake was increased. The 13.3% stake was revalued at year-end to reflect the price being paid to acquire the 37.7% stake, resulting in a valuation of the entire business of €31.9m. M+M paid for the increased stake through the issue of an estimated 0.47m shares (based on the year-end share price of €25.4), equating to dilution of 2.8% of the 16.683m shares outstanding at year-end. Management quoted a valuation metric of c 3x sales, which implies the business has annual revenues of c €10m. Management also commented that profitability was similar to the M+M Software business and expects the acquisition to be earnings accretive.

Outlook and consensus forecasts

Management has issued new guidance for FY19 and FY20, taking into account the recent acquisition as well as the impact of implementing IFRS16 for the first time in FY19. This moves the focus of profitability from EBITDA to EBIT. Management noted that the capitalisation of leases from the beginning of FY19 is likely to result in c €7.9m additions to tangible fixed assets and financial liabilities and will increase EBITDA by €3–4m, although it will not have a material impact on EBIT.

Based on our assumption that SOFiSTiK will add c €10m in revenues in FY19, this implies organic revenue growth of 10.6–13.3% in FY19, compared to 15.2% growth in FY18. The EBIT range implies a group EBIT margin of 11.1–11.8%, compared to 10.6% in FY18. We note that Autodesk reported 25% revenue growth (all organic) in FY19 (y/e 31 January 2019) and consensus forecasts are for revenue growth of 27.8% in FY20 and 21.5% in FY21; while some of this growth is driven by acquisitions, the return to organic growth is promising for M+M.

| Exhibit 3: Management outlook | | | | | |
|-------------------------------|-------------|-----------------------------|-------|-----------------------------|----------|
| | FY19e | | FY20e | | |
| | old | new | old | new | |
| Sales | N/A | €215–220m | | | +10–12% |
| EBITDA | +€4–5m | | | | |
| EBIT | | €24–26m | | | +€3.5–5m |
| Net income | +€3–4m | | | | |
| EPS | +€0.18–0.24 | €0.89–0.95 (ie +€0.18–0.24) | >€1 | +€0.18–0.24 (ie €1.07–1.19) | |
| Dividend | +€0.15–20 | €0.77–0.83 (ie +€0.12–0.18) | | +€0.15–0.20 (ie €0.92–1.03) | |

Source: Mensch und Maschine

Consensus forecasts below are in line with this guidance for FY19 and marginally below for FY20 at the revenue and EPS level.

Exhibit 4: Consensus forecasts

| €m | FY19e | FY20e |
|----------------|-------|-------|
| Revenues | 218.0 | 239.3 |
| Revenue growth | 17.6% | 9.8% |
| EBITDA | 30.4 | 34.6 |
| EBITDA margin | 13.9% | 14.4% |
| EBIT | 25.6 | 29.6 |
| EBIT margin | 11.7% | 12.4% |
| EPS | 0.91 | 1.06 |
| DPS | 0.81 | 0.96 |

Source: Analyst estimates as provided on Mensch und Maschine's investor relations site

Valuation

The M+M share price has gained 20% over the past 12 months. 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/PLM¹ space, as well as larger international companies operating in this market. With a lower EBITDA margin than the group average, M+M continues to trade below the peer group on EV/sales, EV/EBITDA and P/E. We note that M+M's dividend yield is at the top end of its peer group.

Exhibit 5: Peer group valuation multiples

| Company | Quoted ccy | Share price | Market cap | EV (rep. ccy) | EV/Sales (x) | | EV/EBITDA (x) | | P/E (x) | | Dividend yield | | EBITDA margin | |
|------------------------------|------------|-------------|------------|---------------|--------------|------------|---------------|-------------|-------------|-------------|----------------|-------------|---------------|--------------|
| | | | | | CY | NY | CY | NY | CY | NY | CY | NY | CY | NY |
| Mensch und Maschine Software | EUR | 28.3 | 476 | 487 | 2.2 | 2.0 | 16.0 | 14.1 | 31.2 | 26.6 | 2.9% | 3.4% | 13.9% | 14.4% |
| Aveva Group PLC | GBP | 2,988 | 4,845 | 4,738 | 6.4 | 6.0 | 24.2 | 21.7 | 35.5 | 31.1 | 1.4% | 1.5% | 26.2% | 27.8% |
| CENIT AG | EUR | 14.1 | 118 | 101 | 0.6 | 0.5 | 7.2 | 6.8 | 14.7 | 13.6 | | | 7.7% | 8.0% |
| Nemetschek SE | EUR | 132.4 | 5,077 | 5,130 | 9.5 | 8.3 | 35.1 | 30.5 | 55.1 | 47.4 | 0.7% | 0.8% | 27.1% | 27.4% |
| RIB Software AG | EUR | 12.9 | 666 | 424 | 2.8 | 2.3 | 9.9 | 7.6 | 35.0 | 24.4 | 1.6% | 1.8% | 28.0% | 30.5% |
| Autodesk Inc | USD | 152.4 | 33,370 | 33,880 | 10.3 | 8.5 | 37.6 | 23.9 | 53.1 | 31.8 | 0.0% | 0.0% | 27.5% | 35.5% |
| Dassault Systemes | EUR | 129.5 | 33,718 | 32,110 | 8.3 | 7.6 | 23.9 | 21.3 | 37.7 | 33.8 | 0.6% | 0.6% | 34.6% | 35.8% |
| Hexagon AB | SEK | 465.0 | 160,941 | 17,230 | 4.3 | 4.1 | 13.0 | 12.2 | 19.5 | 18.0 | 1.5% | 1.6% | 32.8% | 33.3% |
| PTC Inc | USD | 88.5 | 10,494 | 10,970 | 8.2 | 7.3 | 29.0 | 22.5 | 49.6 | 34.3 | 0.0% | 0.0% | 28.4% | 32.4% |
| Average | | | | | 6.3 | 5.6 | 22.5 | 18.3 | 35.3 | 28.9 | 0.8% | 0.9% | 26.5% | 28.8% |
| Median | | | | | 7.3 | 6.7 | 24.1 | 21.5 | 36.6 | 31.5 | 0.7% | 0.8% | 27.7% | 31.5% |

Source: Refinitiv. Note: At 11 March.

¹ CAD – computer aided design, CAM – computer aided manufacturing, PLM – product lifecycle management

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