

Mensch und Maschine Software

Software
25 July 2019

VAR acceleration boosts profitability

Mensch und Maschine (M+M) reported H119 revenue growth of 27% year-on-year, of which 20% was organic, and EPS growth of 27%. The Software business revenue growth of 34% benefited from the first-time consolidation of SOFiSTiK in addition to organic growth of 10%. The VAR business saw strong organic revenue growth in H1 resulting in EBIT margin expansion at a divisional and group level.

Software organic growth boosted by SOFiSTiK

The Software business reported 34.2% year-on-year revenue growth in H119 (Q1: +31.2%, Q2: +37.3%) of which 9.7% was organic growth and the remainder was the €6.9m contribution from the consolidation of SOFiSTiK (which made up 18% of H119 revenues). EBIT grew 28.8% year-on-year resulting in a margin of 24.6%, 1pp lower than in H118, mainly due to slightly lower margins in the original M+M Software business. The SOFiSTiK EBIT margin for H119 was 24.0% compared to 24.7% for the original M+M Software business.

VAR business performance accelerates

The VAR business reported H119 revenue growth of 24.4% year-on-year (Q1: +29.6%, Q2: +18.7%) and 52.4% growth in EBIT, resulting in margin expansion from 4.7% in H118 to 5.7% in H119. This is an acceleration in growth from FY18 (H1 +13.9%, H2 +21.0%). Management has raised guidance for FY19 group revenues (from €215–220m to €220–230m) with EPS and DPS guidance unchanged. Consensus forecasts reflect company guidance for FY19 and FY20.

Valuation: Reflects growth and strong execution

The stock has gained 26% over the last 12 months and 32% year-to-date. M+M is trading at a discount to its peer group on an EV/sales and EV/EBITDA basis, and on a P/E basis it trades at a discount in FY19 and in line in FY20. Its EBITDA profitability is lower than the peer group average, mainly due to the higher level of software reselling compared to peers. As the proportion of proprietary software sold increases, both through the growth of the Software business and through the development of software that works with Autodesk solutions within the VAR business, this margin should increase over time.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/17	160.9	13.6	0.53	0.50	64.2	1.5
12/18	185.4	18.2	0.71	0.65	47.5	1.9
12/19e	223.5	24.5	0.92	0.81	36.8	2.4
12/20e	247.3	27.2	1.02	0.92	33.2	2.7

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

Price €33.7
Market cap €567m

Share price graph



Share details

Code	MUM
Listing	Deutsche Börse Scale
Shares in issue (excluding treasury shares)	16.8m
Net debt as at end H119	€21.4m

Business description

Mensch und Maschine Software (M+M) sells proprietary and Autodesk CAD/CAM software. It reports across two business lines: M+M Software (H119 31% of revenues, 66% of EBIT) and VAR (H119 69% of revenues, 34% of EBIT). 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.
- Large exposure to DACH economies.

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Review of H119 results

Exhibit 1: H1 results highlights			
€m	H119	H118	y-o-y
Revenues	120.22	94.46	27.3%
Gross profit	64.12	52.39	22.4%
EBITDA	17.53	11.81	48.4%
EBIT	13.98	10.28	36.0%
Net income after minority interest	8.32	6.34	31.2%
EPS (€)	0.495	0.388	27.4%
Net debt	21.39	14.66	45.9%

Source: Mensch und Maschine

Exhibit 2: Divisional results			
€m	H119	H118	y-o-y
Revenues			
Software	37.5	28.0	34.2%
VAR	82.7	66.5	24.4%
Total	120.2	94.5	27.3%
Gross profit			
Software	35.2	27.4	28.8%
VAR	28.9	25.0	15.4%
Total	64.1	52.4	22.4%
Gross margin			
Software	93.9%	97.8%	-3.9%
VAR	34.9%	37.6%	-2.7%
Total	53.3%	55.5%	-2.1%
EBITDA			
Software	11.4	7.9	43.8%
VAR	6.2	3.9	57.7%
Total	17.5	11.8	48.4%
EBITDA margin			
Software	30.3%	28.3%	2.0%
VAR	7.5%	5.9%	1.6%
Total	14.6%	12.5%	2.1%
EBIT			
Software	9.2	7.2	28.8%
VAR	4.8	3.1	52.4%
Total	14.0	10.3	36.0%
EBIT margin			
Software	24.6%	25.6%	-1.0%
VAR	5.7%	4.7%	1.1%
Total	11.6%	10.9%	0.7%

Source: Mensch und Maschine

M+M reported year-on-year revenue growth of 27.3% for H119 whereas EBIT increased 36.0% and net income after minority interest 31.2% over the same period. Reflecting dilution from the shares issued to acquire the majority stake in SOFiSTiK at the beginning of the year, diluted EPS increased 27.4% year-on-year. Net debt was significantly higher, with €6.2m of the €6.7m increase due to the application of IFRS 16 from the beginning of this year. As a reminder, M+M applied IFRS 16 from the beginning of FY19 and now focuses on EBIT rather than EBITDA as this incorporates the lease-related depreciation charges.

Based on the organic growth figures reported by M+M (revenues +20%, gross margin +12%, EBIT +20%), in H119 we calculate the split of organic and acquired Software results in Exhibit 3. The original M+M software business grew revenues 10% y-o-y while EBIT only increased 6% y-o-y, resulting in a small decline in the underlying EBIT margin. The acquired business (consolidated from 1 January 2019) contributed the remaining 24.5% growth in Software revenues y-o-y. We had assumed that SOFiSTiK would add c €10m revenues in FY19, but based on the revenues contributed in H119, we believe the contribution for the full year could be higher. We note that at the EBIT level, SOFiSTiK generates a similar level of profitability to the original M+M software business.

The VAR business saw revenue growth accelerate to 24.4% year-on-year (H118 +13.9%, H218 +21.0%) and EBIT growth of 52% year-on-year, with a 1.1pp increase in the EBIT margin year-on-year.

Exhibit 3: Organic and acquired financial results for the Software segment

€m	H119	H118	y-o-y
M+M revenues	30.7	28.0	9.7%
SOFiSTiK revenues	6.9	0	N/A
Total Software revenues	37.5	28.0	34.2%
M+M gross profit	29.8	27.4	8.9%
SOFiSTiK gross profit	5.4	0	N/A
Total Software gross profit	35.2	27.4	28.8%
M+M gross margin	97.2%	97.8%	-0.7%
SOFiSTiK gross margin	79.3%	N/A	N/A
Total Software gross margin	93.9%	97.8%	-3.9%
M+M EBIT	7.6	7.2	5.8%
SOFiSTiK EBIT	1.6	0	N/A
Total Software EBIT	9.2	7.2	28.8%
M+M EBIT margin	24.7%	25.6%	-0.9%
SOFiSTiK EBIT margin	24.0%	N/A	N/A
Total Software EBIT margin	24.6%	25.6%	-1.0%

Source: Edison Investment Research

Outlook and consensus forecasts

Management has increased guidance for FY19 revenues from €215–220m to €220–230m. All other guidance is unchanged (EBIT €24–26m, EPS €0.89–0.95, DPS €0.77–0.83). The table below summarises consensus forecasts; these are in line with company guidance.

Exhibit 4: Consensus forecasts

€m	FY19e	FY20e
Revenues	223.5	247.3
Revenue growth	20.5%	10.7%
EBITDA	32.6	36.4
EBITDA margin	14.6%	14.7%
EBIT	25.6	28.1
EBIT margin	11.5%	11.4%
EPS	0.92	1.02
DPS	0.81	0.92

Source: Analyst notes on M+M website

Valuation

The stock has gained 26% over the last 12 months and 32% year-to-date. M+M is trading at a discount to its peer group on an EV/sales and EV/EBITDA basis, and on a P/E basis, it trades at a discount in FY19 and in line in FY20. Its EBITDA profitability is lower than the peer group average, mainly due to the higher level of software reselling compared to peers. As the proportion of proprietary software sales increases, both through the growth of the Software business and through the development of software that works with Autodesk solutions within the VAR business, this margin should increase over time.

Exhibit 5: Peer group valuation metrics

Company	Quoted ccy	Share price	Market cap (m)	EV (m – rep. ccy)	EV/Sales		EV/EBITDA		P/E		Div yield		EBITDA margin	
					CY	NY	CY	NY	CY	NY	CY	NY	CY	NY
Mensch und Maschine	EUR	33.7	567	588	2.6	2.4	18.1	16.2	36.8	33.2	2.4%	2.7%	14.6%	14.7%
Aveva Group	GBp	4002	6479	6,351	7.7	7.4	29.3	25.7	38.4	34.1	1.1%	1.3%	26.4%	28.6%
Cenit	EUR	12.7	106	80	0.5	0.4	5.0	4.5	15.2	13.1	5.5%	6.3%	9.3%	9.7%
Nemetschek	EUR	53.4	6192	6,284	11.3	10.0	40.0	34.8	64.8	54.8	0.6%	0.7%	28.3%	28.6%
RIB Software	EUR	17.1	885	669	3.7	3.2	14.5	12.2	48.9	37.2	1.2%	1.3%	25.5%	25.9%
Autodesk	USD	169.3	37,184	38,175	11.6	9.5	42.5	27.5	59.9	35.6	0.0%	0.0%	27.3%	34.6%
Dassault Systemes	EUR	135.9	35,907	33,897	8.6	7.9	24.4	21.7	38.7	35.0	0.5%	0.6%	35.2%	36.3%
Hexagon AB-B Shs	SEK	482.1	168,682	18,068	4.5	4.3	13.7	12.7	21.7	19.7	1.3%	1.5%	33.1%	34.1%
PTC	USD	88.0	10,123	10,542	8.0	7.1	28.8	22.3	49.2	34.3	0.0%	0.0%	27.8%	31.8%
Average					7.0	6.2	24.8	20.2	39.6	32.6	1.3%	1.5%	26.6%	28.7%
Median					7.9	7.2	26.6	22.0	43.8	34.6	0.9%	1.0%	27.6%	30.2%

Source: Refinitiv. Note: Prices at 22 July 2019.

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