July 27th, 2022
Research update

SMC Research
Small and Mid Cap Research

Mensch und Maschine Software SE

Sales and earnings momentum remains strong

Rating: Strong Buy (unchanged) | **Price:** 49.90 € | **Price target:** 65.00 € (prev.: 71.00 €)

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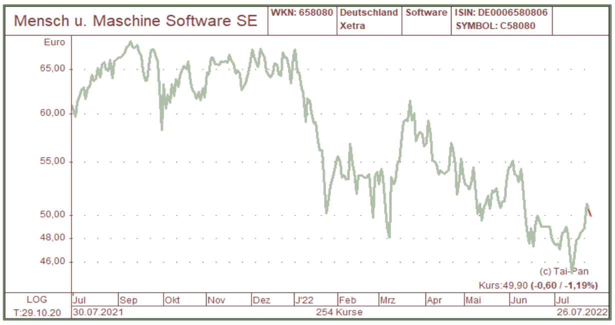
Recent business development



Basic data

Based in:	Wessling
Sector:	CAD/CAM software
Headcount:	1,025
Accounting:	IFRS
ISIN:	DE0006580806
Ticker:	MUM:GR
Price:	49.90 Euro
Market segment:	Scale / m:access
Number of shares:	17.2 m
Market Cap:	855.7 m Euro
Enterprise Value:	941.6 m Euro
Free Float:	45.1%
Price high/low (12M):	69.20 / 44.80 Euro
Ø turnover (Xetra, 12 M):	419,100 Euro / day

In the first half of the year, Mensch und Maschine seamlessly continued its successful course of recent years: Half-year sales increased by 15 percent to EUR 156.6 m, which was once again translated into a disproportionately high increase in all key earnings figures. EBIT increased by almost 23 percent to EUR 22.7 m, the pre-tax result increased in step to EUR 22.3 m and the half-year profit after taxes and minorities even increased by 28 percent to EUR 14.3 m. On this basis, the company has reaffirmed its full-year guidance and continues to target earnings per share growth of between14 and 19 percent to between144 and 150 cents, on the basis of which the dividend is to be raised by 15 to 20 cents to between135 and 140 cents per share. M+M currently even sees itself on a good course to reach the upper edge of the target corridor, albeit with a qualifying reference to a possible further escalation of the Ukraine conflict. As we had previously assumed figures rather at the lower end, we have now raised our estimates, but in terms of fair value this has been more than offset by the simultaneous adjustment of the model framework data to the changed interest rate environment.

FY ends: 31.12.	**2019**	**2020**	**2021**	**2022e**	**2023e**	**2024e**
Sales (m Euro)	245.9	244.0	266.2	295.4	319.1	351.0
EBIT (m Euro)	27.2	31.0	34.7	41.0	46.6	54.0
Net Profit	16.7	18.7	21.3	25.1	28.1	32.7
EPS	0.99	1.11	1.26	1.49	1.67	1.94
Dividend per share	0.85	1.00	1.20	1.40	1.60	1.81
Sales growth	32.7%	-0.8%	9.1%	11.0%	8.0%	10.0%
Profit growth	42.6%	12.3%	13.9%	17.9%	12.1%	16.1%
PSR	3.41	3.44	3.15	2.84	2.63	2.39
PER	50.4	44.9	39.4	33.4	29.8	25.7
PCR	31.9	24.9	22.5	22.5	20.5	18.1
EV / EBIT	34.0	29.8	26.6	22.6	19.8	17.1
Dividend yield	1.7%	2.0%	2.4%	2.8%	3.2%	3.6%

Sales grow by 15 percent

After the strong start to the year, Mensch und Maschine achieved double-digit growth in the second quarter as well and increased its sales by 12 percent to EUR 71.2 m. For the first half of the year, this results in sales growth of 15 percent to EUR 156.6 m. Momentum was equally strong in both segments, at around 15 percent each. In the software segment, M+M reported strong growth in the CAM business and, still at a low level, in the CAE business, while the VAR business benefited from strong growth in the existing business with Autodesk subscription contracts (especially the extension of three-year contracts). In contrast, the development of the BIM (in the Software segment) and services areas, which were particularly strong last year, was less dynamic this time. This was due to the higher comparison base and a higher level of sick leave resulting from the Omicron wave, which was to be seen throughout the first half of the year.

Stable gross margin

The strong increase in revenues from the renewals of Autodesk software and the relative weakness in the services business were reflected in a slightly lower gross margin in the VAR business (33 percent, after 33.7 percent in the previous year). In contrast, the revenue composition in the software segment that had shifted slightly towards CAM led to an increase in the gross margin there from 90.2 to 91.1 percent, resulting in an almost unchanged figure of 51.1 percent at Group level (previous year: 51.3 percent). In absolute figures, the half-year gross profit increased by 14.6 percent to EUR 80.0 m, with the increase in the software segment being somewhat disproportionately high at almost 16 percent.

Moderate cost growth

Once again, the growth in gross profit was accompanied by a clearly disproportionately low increase in costs. Although other operating expenses have normalised somewhat after the Covid-19-related declines of previous years, so that an above-average increase of 27 percent (to EUR 8.2 m) was recorded (not least due to the return of face-to-face marketing events), personnel expenses, by far the most important cost type, increased by 8.3 percent (to EUR 46.3 m) and thus significantly less than gross profit. The increase mainly reflects the rise in the number of employees by almost 6 percent to 1,025 full-time equivalents, while the noticeable acceleration of wage growth feared in many quarters is not yet visible at M+M. The only moderate increase in depreciation and amortisation, which rose by a mere 5 percent to EUR 4.9 m, also had a margin-enhancing effect.

Business figures	HY 2021	HJ 2022	*Change*
Sales	136.07	156.59	*+15.1%*
VAR business	93.60	107.82	*+15.2%*
Software	42.47	48.77	*+14.8%*
Gross profit	69.83	80.03	*+14.6%*
VAR business	31.51	35.61	*+13.0%*
Software	38.32	44.43	*+15.9%*
Gross margin	*51.3%*	*51.1%*	
EBIT	18.51	22.70	*+22.6%*
VAR business	6.90	8.97	*+30.0%*
Software	11.61	13.73	*+18.2%*
EBIT margin	*13.6%*	*14.5%*	
VAR business	*7.4%*	*8.3%*	
Software	*27.3%*	*28.2%*	
Pre-tax result	18.09	22.27	*+23.1%*
Pre-tax margin	*13.3%*	*14.2%*	
Net profit	11.18	14.34	*+28.2%*
Net margin	*8.2%*	*9.2%*	
Free cash flow	18.21	22.09	*+21.3%*

In m Euro and percent, source: Company

EBIT up by 23 percent

In terms of earnings, the development was reflected in clearly disproportionately high profit increases. Specifically, EBIT increased by almost 23 percent to a new half-year record of EUR 22.7 m, of which EUR 13.7 m (margin: 28.2 percent) were contributed by the Software segment and EUR 9.0 m (margin: 8.3 percent) by the VAR business. As a result, the EBIT margin in both segments was further improved: In the Software segment, it increased by 0.8 percentage points to 28.2 percent, and in the VAR business by 0.9 percentage points to 8.3 percent. As a result, the Group EBIT margin increased to 14.5 percent (previous year: 13.6 percent).

Net margin over 9 percent

At a largely unchanged financial result of EUR -0.4 m, the pre-tax profit increased to EUR 22.3 m, roughly in step with EBIT. Since at the same time the minority interests in the consolidated profit have slightly decreased to EUR 1.4 m, the half-year net profit after taxes and minority interests has even increased by more than 28 percent. At EUR 14.3 m, a net margin of 9.2 percent was thus achieved in the first half of the year.

Free cash flow with new record

Supported by the increase in earnings, operating cash flow also increased by almost 6 percent to EUR 24.5 m, thus exceeding the previous record figure from the first half of 2020. M+M has thus been able to report 15.7 percent of half-year sales as an operating cash surplus and has thus remained in the double-digit range for the fourth time in a row (on a half-year basis). After outflows of EUR 2.4 m for investment purposes, which were thus halved compared to the same period of the previous year, in which the purchase of the long-standing OpenMind distribution partner in the Benelux region had caused an increase, the free cash flow amounted to EUR 22.1 m − over 21 percent more than a year ago. This time, there were significantly larger movements in the financing cash flow, where, among other things, dividend payments (EUR 21.5 m) and the purchase of treasury shares (EUR 8.6 m) caused high outflows, which were offset primarily by inflows from the utilisation of credit lines (11.2 percent) and from the issue shares as part of the stock dividend. Overall, the financing cash flow totalled EUR -20.1 m (previous year: EUR -10.9 m), which, netted against the free cash flow, resulted in a net increase in liquidity of EUR 2.0 m to EUR 22.0 m in the first half of the year.

Equity ratio noticeably lower

In relation to the balance sheet total, which has increased slightly by 4 percent to EUR 167.8 m since the turn of the year, liquidity has thus increased to 13 percent. In contrast, the equity ratio fell significantly in the first half of the year to 48.0 percent (31.12.: 57.7 per cent) due to the dividend payment, share buybacks and the utilisation of credit lines, but remains in a very comfortable range. In addition, due to the dividend payment, the equity ratio traditionally reaches its lowest value during the year on the half-year reporting date, before it rises again in the second half of the year. It should also be noted that the treasury shares, of which 0.32 million (1.89 percent of the subscribed capital) with an acquisition value of EUR 12.7 m were held by M+M as of 30 June, represent an easily available equity reserve on a considerable scale.

Forecast confirmed

Based on the half-year figures, M+M has confirmed its profit forecast for the current year. Accordingly, with gross profit growth of 8 - 12 percent (to between EUR 150 to and155 m), earnings per share are expected to increase by 14 - 19 percent to between 144 and 150 cents per share and to enable a dividend increase of 12.5 - 16.7 percent to between 135 and 140 cents. In 2023, earnings per share are expected to increase further to 164 - 181 cents and the dividend by a further 15 - 25 cents. The medium-term forecast, which envisages a further doubling of earnings to more than 250 cents per share by 2025/2026, was also reaffirmed. With regard to the current year, M+M currently sees itself on a good course to reach the upper end of the target range, but also points to the risk that a global escalation as a result of the Russian aggression in Ukraine could jeopardise the achievement of the target. However, M+M is still hardly experiencing any negative effects of the conflict on its own business.

Estimates for 2022 increased

Until now, we had aligned our estimates at the lower end of the management's forecast range, based on concerns about the negative macroeconomic consequences of the Russian aggression. Although this is

m Euro	12 2022	12 2023	12 2024	12 2025	12 2026	12 2027	12 2028	12 2029
Sales	295.4	319.1	351.0	386.1	424.7	467.2	513.9	565.3
Sales growth		8.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
EBIT margin	13.9%	14.6%	15.4%	16.2%	16.9%	17.6%	18.4%	19.1%
EBIT	**41.0**	**46.6**	**54.0**	**62.4**	**71.8**	**82.4**	**94.4**	**107.8**
Tax rate	30.0%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%
Adjusted tax payments	12.3	14.2	16.5	19.0	21.9	25.1	28.8	32.9
NOPAT	**28.7**	**32.4**	**37.5**	**43.4**	**49.9**	**57.3**	**65.6**	**74.9**
+ Depreciation & Amortisation	4.3	4.6	4.8	5.0	5.2	5.4	5.7	5.9
+ Increase long-term accruals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross operating Cash Flows	33.0	37.0	42.3	48.4	55.1	62.7	71.3	80.8
- Increase Net Working Capital	-0.7	-0.8	-0.9	-1.0	-1.1	-1.2	-1.3	-1.5
- Investments in fixed assets	-5.4	-4.9	-5.1	-5.4	-5.6	-5.9	-6.1	-6.4
Free Cash Flows	**26.9**	**31.3**	**36.3**	**42.0**	**48.4**	**55.7**	**63.8**	**72.9**

still acute, after two strong quarters our caution regarding 2022 seems a little too pronounced. We have therefore raised our estimates for the current year towards the upper end of the forecast range and now assume sales growth of 11 percent (previously: 9 percent), EBIT of EUR 41.0 m (EUR 39.9 m) and earnings per share of EUR 1.49 (EUR 1.44). A reduction in the imputed profit share of minority shareholders also contributed to the latter.

Slight changes in subsequent years

The assumed higher revenue growth in 2022 is not least a consequence of the dynamic business with existing Autodesk customers due to a discount campaign for the renewal of three-year contracts, which could be followed by a dip in revenue in this area next year. Therefore, we have partially offset the higher sales estimate for 2022 with a slightly lower growth expectation for 2023 (8 instead of 9 percent). Overall, however, the effect of the higher base from 2022 outweighs this, so that the sales projection has also increased somewhat for 2023 and the following years. With regard to margins, the integration of the expense figures from the half-year report into the model led to minor shifts, with the target EBIT margin at the end of the detailed forecast period remaining almost unchanged at 19.2 percent (previously: 19.3 per cent). The resulting model business performance for the next eight years, which we assume for determining the fair value, is summarised in the table above; further details can also be found in the Annex. To determine the terminal value, we subsequently calculate, as before, with a ten percent safety discount on the target EBIT margin and, on this basis, with a "perpetual" cash flow growth of 1.0 percent p.a.

Interest rate level adjusted

There has also been a change in the framework data of the model. Due to the rise in interest rates on the markets, we adjust the long-term average value for the German current yield (as an assumed safe interest rate) from 1.0 to 1.5 percent. In combination with unchanged values for the market risk premium (5.8 percent) and the beta factor (1.2), this results in equity costs according to CAPM of 8.2 percent. As part of a conservative approach, we have also raised the debt interest rate by 0.5 percentage points to 4.5 percent. With an unchanged target capital structure of 37.5 percent debt and a tax rate for the tax shield of 33 percent, this now results in a weighted average cost of capital (WACC) of 6.2 percent (previously: 5.8 percent).

Price target: EUR 65.00 per share

As the effect of adjusting the model's framework data to the changed interest rate environment outweighs the slight increase in estimates, the fair market value of equity we determined has fallen slightly compared to the last update. We now see it at EUR 1,100 m or EUR 65.40 per share, from which we derive the new price target of EUR 65.00 (previously: EUR 71.00). On the other hand, the assessment of the forecast risk of our estimates remains unchanged at two out of six possible points.

Conclusion

Despite the deteriorating economic environment, Mensch und Maschine continued its profitable growth course in the second quarter. Although the company reports a flagging new business in the VAR business as well as increased sick leave, it was nevertheless able to continue its double-digit growth in the months April to June.

For the first half of the year, this resulted in a 15 percent increase in sales to EUR 156.6 m, which was once again accompanied by disproportionately high profit growth at all levels. EBIT increased by 23 percent to EUR 22.7 m, raising the EBIT margin by a narrow percentage point to 14.5 percent.

Against the background of the strong half-year figures, M+M has confirmed its own forecast for the current year and even says that the upper end of the target range (earnings per share between 144 and 150 cents) is achievable.

We had hitherto only assumed the lower end, which we now consider too cautious despite all the macroeconomic imponderables. That is why we have now raised our estimates towards the upper end and now expecting sales growth of 11 percent and earnings of EUR 1.49 per share.

In terms of fair value, however, this adjustment was more than compensated for by the modification of the model framework data, with which we took into account the changed interest rate environment. As a result, our price target has decreased from previously EUR 71.00 to now EUR 65.00, which, however, still signals a clear price potential for the share. Accordingly, we confirm our previous "Strong Buy" rating.

Annex I: SWOT analysis

Strengths

- Strong position in attractive target markets established for decades.
- A fast-growing, highly profitable software segment with a global market presence and a leading technological position.
- High continuity at management level and very low employee turnover.
- Stable shareholder structure with more than 50 percent of shares in management hands.
- Solid balance sheet structure with a high equity ratio and low debt.
- Growth dynamics above the industry average, with recently a disproportionately high rise in profits.
- Previous forecast accuracy supports the target of further profit increases.

Weaknesses

- The VAR business is largely determined by Autodesk's product and pricing policy.
- The geographic expansion of the VAR business requires the expensive establishment of additional offices.
- Strong dependence on Germany and Europe.
- In both segments, M+M faces the challenge of attracting and retaining suitable employees in a difficult labour market.
- In terms of marketing, technology and personnel, there are at best only minor synergies between the segments.

Opportunities

- There is still considerable potential for margin growth in the VAR business that should allow an above-average profit development in the next few years, if the present trends continue.
- The increasing importance of digitisation projects is likely to further boost the development of the VAR business.
- With its expertise in BIM and bridge and tunnel construction, the SOFiSTiK subsidiary is addressing very promising markets.
- With the new eXs software, M+M has a modern product for an attractive market in which there is nothing comparable on offer.
- The foreseeable profit growth should allow a steady and considerable increase in dividends.

Threats

- A further escalation of the Ukraine conflict could slow down or interrupt the positive trend.
- High personnel intensity in the VAR business means a high extent of utilisation risk in economically weaker phases.
- The targeted further increase in margins cannot be taken for granted at the level already achieved.
- Should Autodesk fall behind in competition, it could have a perceptibly negative impact on the VAR business.
- The role as technology leader requires intensive development activities in the software segment and carries the risk of technological failures.

Annex II: Balance sheet and P&L estimation

Balance sheet estimation

m Euro	2021 act.	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e
ASSETS									
I. Total non-current assets	100.4	101.4	101.8	102.1	102.5	102.9	103.3	103.7	104.2
1. Intangible assets	65.2	65.2	64.6	64.0	63.5	62.9	62.4	61.9	61.4
2. Tangible assets	33.8	34.9	35.8	36.7	37.7	38.6	39.5	40.5	41.4
II. Total current assets	60.4	68.1	73.2	80.0	88.6	98.6	110.3	123.7	139.2
LIABILITIES									
I. Equity	92.8	93.8	99.8	107.5	116.9	127.7	140.0	154.1	170.1
II. Accruals	12.9	13.0	13.1	13.2	13.3	13.4	13.5	13.6	13.7
III. Liabilities									
1. Long-term liabilities	20.2	28.2	28.2	28.2	28.2	28.2	28.2	28.2	28.2
2. Short-term liabilities	34.9	34.5	33.9	33.3	32.7	32.3	31.9	31.6	31.4
TOTAL	**160.8**	**169.5**	**174.9**	**182.1**	**191.1**	**201.5**	**213.6**	**227.4**	**243.4**

P&L estimation

m Euro	2021 act.	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e
Sales	266.2	295.4	319.1	351.0	386.1	424.7	467.2	513.9	565.3
Gross profit	138.4	154.5	168.4	186.1	205.6	227.1	250.9	277.2	306.2
EBITDA	44.4	50.8	56.7	64.3	72.9	82.5	93.4	105.5	119.2
EBIT	34.7	41.0	46.6	54.0	62.4	71.8	82.4	94.4	107.8
EBT	33.8	40.2	45.6	53.3	61.7	71.1	81.8	93.8	107.2
EAT (before minorities)	23.9	28.1	31.7	37.1	42.9	49.4	56.8	65.2	74.5
EAT	21.3	25.1	28.1	32.7	37.6	43.1	49.2	56.0	63.7
EPS	1.26	1.49	1.67	1.94	2.23	2.56	2.92	3.33	3.78

Annex III: Cash flows estimation and key figures

Cash flows estimation

m Euro	2021 act.	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e
CF operating	37.2	37.2	41.0	46.5	52.4	59.1	66.6	75.0	84.4
CF from investments	-8.3	-5.4	-4.9	-5.1	-5.4	-5.6	-5.9	-6.1	-6.4
CF financing	-25.0	-26.9	-33.5	-37.2	-41.3	-46.5	-52.3	-58.9	-66.3
Liquidity beginning of year	16.0	20.3	25.2	27.8	32.0	37.7	44.7	53.1	63.1
Liquidity end of year	20.3	25.2	27.8	32.0	37.7	44.7	53.1	63.1	74.8

Key figures

percent	2021 act.	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e
Sales growth	9.1%	11.0%	8.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Gross profit growth	8.2%	11.6%	9.0%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%
Gross margin	52.0%	52.3%	52.8%	53.0%	53.2%	53.5%	53.7%	53.9%	54.2%
EBITDA margin	16.7%	17.2%	17.8%	18.3%	18.9%	19.4%	20.0%	20.5%	21.1%
EBIT margin	13.0%	13.9%	14.6%	15.4%	16.2%	16.9%	17.6%	18.4%	19.1%
EBT margin	12.7%	13.6%	14.3%	15.2%	16.0%	16.8%	17.5%	18.2%	19.0%
Net margin (after minorities)	8.0%	8.5%	8.8%	9.3%	9.7%	10.1%	10.5%	10.9%	11.3%

Annex IV: Sensitivity analysis

	Perpetual cash flows growth				
WACC	**2.0%**	**1.5%**	**1.0%**	**0.5%**	**0.0%**
5.2%	101.94	90.65	82.02	75.21	69.70
5.7%	87.72	79.39	72.82	67.51	63.12
6.2%	76.87	70.53	**65.40**	61.16	57.61
6.7%	68.32	63.37	59.28	55.85	52.92
7.2%	61.41	57.47	54.15	51.33	48.89

Disclaimer

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Charts
The charts were made with Tai-Pan (www.lp-software.de).

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II) Preparation and updating

The present financial analysis was prepared by: Dipl. Volkswirt Dr. Adam Jakubowski

Participants in the preparation of the present financial analysis: -

The present analysis was finished on 27.07.2022 at 8:00 and published on 27.07.2022 at 8:20.

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Strong Buy	We expect an increase in price for the analysed financial instrument by at least 10 percent. We assess the estimation risk as below average (1 to 2 points).
Buy	We expect an increase in price for the analysed financial instrument by at least 10 percent. We assess the estimation risk as average (3 to 4 points).
Speculative Buy	We expect an increase in price for the analysed financial instrument by at least 10 percent. We assess the estimation risk as above average (5 to 6 points).

Hold	We expect that the price of the analysed financial instrument will remain stable (between -10 and +10 percent). The forecast risk (1 to 6 points) has no further impact on the rating. The rating "hold" is also used in cases where we perceive a price potential of more than 10 percent, but explicitly mentioned temporary factors prevent a short-term realization of the price potential.
Sell	We expect that the price of the analysed financial instrument will drop by at least 10 percent. The forecast risk (1 to 6 points) has no further impact on the rating.

The expected change in price refers to the current share price of the analyzed company. This price and any other share prices used in this analysis are XETRA closing prices as of the last trading day before publication. If the share is not traded on XETRA, the closing price of another public stock exchange is used with a separate note to that effect.

The price targets published within the assessment are calculated with common methods of financial mathematics, especially with the DCF (discounted cash flow) method, the sum of the parts valuation and a peer group analysis. The valuation methods are affected by economic framework conditions, especially by the development of the interest rates.

The rating resulting from these methods reflects current expectations and can change anytime subject to company-specific or economic changes.

More detailed explanations of the models used by SMC Research can be found at:
http://www.smc-research.com/impressum/modellerlaeuterungen

An overview of the recommendations prepared and distributed by SMC Research in the last 12 months can be found at: http://www.smc-research.com/publikationsuebersicht

In the past 24 months, sc-consult GmbH has published the following financial analyses for the company:

Date	Investment recomm.	Target price	Conflict of interests
22.04.2022	Strong Buy	71.00 Euro	1), 3)
23.03.2022	Strong Buy	71.00 Euro	1), 3), 4)
11.02.2022	Strong Buy	73.40 Euro	1), 3)
25.10.2021	Strong Buy	70.00 Euro	1), 3), 4)
05.08.2021	Strong Buy	68.00 Euro	1), 3), 4)
23.04.2021	Hold	63.70 Euro	1), 3)
16.03.2021	Strong Buy	63.40 Euro	1), 3)
12.02.2021	Hold	62.70 Euro	1), 3), 4)
22.10.2020	Hold	52.30 Euro	1), 3), 4)
18.09.2020	Buy	52.20 Euro	1), 3), 4)

In the course of the next twelve months, sc-consult GmbH will presumably prepare the following financial analyses for the company: one report and two updates.

The publishing dates for the financial analyses are not yet fixed at the present moment.

Exclusion of liability

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