

## Mensch und Maschine

**Software**
**24 July 2020**

### Maintaining FY20 profit target

Mensch und Maschine has reported a respectable set of H120 results, with revenue growth of 8.5% and EPS growth of 19.0% y-o-y. Q2 suffered from weaker demand in both divisions due to COVID-19 disruption but good cost control minimised the impact at the net income level. Management is maintaining its EPS and dividend targets for FY20; we estimate that this could be achieved even if H2 revenues fall below H1.

### Software business maintained profitability in Q2

The Software business saw 0.9% year-on-year revenue growth in H120 and generated an EBIT margin of 26.3% (+1.7pp y-o-y). This masks divergent performance on a quarterly basis: Q1 revenue growth of 11.3% was offset by a 9.0% decline in Q2. Despite the lower demand in Q2, the EBIT margin only dipped to 25.8% due to good cost control.

### VAR business main driver of H2 revenue growth

The VAR business generated 11.9% y-o-y revenue growth in H120, with 29.9% growth in Q1 only partially offset by a 9.4% decline in Q2. The H1 EBIT margin of 7.3% (+1.6pp y-o-y) was made up of a 9.6% margin in Q1 dropping to 3.4% in Q2. Overall at the group level, net income increased 18.4% and EPS 19.0% y-o-y. Net debt was reduced by €14m h-o-h, resulting in a net cash position of €3.7m (excluding lease liabilities) at the end of H1.

### Valuation: Stock has recovered from lows

Even taking into account issues arising from the restrictions as a result of COVID-19, the company expects to meet its guidance for 18–24% EPS growth in FY20, equating to an EPS range of €1.17–1.23. Consensus estimates are at the lower end of the company's guidance, possibly taking a conservative view based on current market conditions. The stock has recovered 62% from its low of €29.8 in March and is up 7% year-to-date; it trades at a discount to peers on all valuation metrics, with a dividend yield of c 2%.

Consensus estimates						
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/18	185.4	18.2	0.71	0.65	67.9	1.3
12/19	245.9	26.3	0.99	0.85	48.7	1.8
12/20e	273.2	31.3	1.16	1.01	41.4	2.1
12/21e	303.4	37.7	1.42	1.20	33.9	2.5

Source: Refinitiv

**Price** €48.2  
**Market cap** €806m

#### Share price graph



#### Share details

Code MUM  
 Listing Deutsche Börse Scale  
 Shares in issue 16.7m  
 Last reported net cash at end H120\* €3.7m  
 \*Excludes lease liabilities

#### Business description

Mensch und Maschine Software (M+M) sells proprietary and Autodesk CAD/CAM software. It reports across two business lines: M+M Software (FY19 31% of revenues, 64% of EBIT) and VAR (FY19 69% of revenues, 36% 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 H120 results

Mensch und Maschine (M+M) reported revenue growth of 8.5% y-o-y for H120. Due to good cost control, operating profit increased 19.6% and EPS increased 19.0% over the same period. The company noted that after strong revenue growth of 24.5% y-o-y in Q120, COVID-19 disruption resulted in a decline in Q220 revenue of 9.3% y-o-y. The company closed the period with a net debt position of €10m; excluding finance leases, it had a net cash position of €4m.

<b>Exhibit 1: H120 results highlights</b>			
€m	H119	H120	y-o-y
Revenues	120.22	130.38	8.5%
Gross profit	64.12	65.68	2.4%
EBITDA	17.53	21.21	21.0%
Operating profit	13.98	16.72	19.6%
Net income after minority interest	8.44	9.99	18.4%
EPS (€)	0.501	0.596	19.0%
Net debt (including lease liabilities)	21.39	10.04	-53.1%

Source: Mensch und Maschine

## Divisional performance

In the two following exhibits, we analyse the divisional performance on a half-yearly and quarterly basis.

<b>Exhibit 2: Divisional performance</b>			
€m	H119	H120	y-o-y
Revenues			
Software	37.5	37.9	0.9%
VAR	82.7	92.5	11.9%
Total	120.2	130.4	8.5%
Gross profit			
Software	35.2	34.7	-1.5%
VAR	28.9	31.0	7.2%
Total	64.1	65.7	2.4%
Gross margin			
Software	93.9%	91.6%	-2.3%
VAR	34.9%	33.5%	-1.4%
Total	53.3%	50.4%	-3.0%
EBITDA			
Software	11.4	12.4	9.0%
VAR	6.2	8.8	43.0%
Total	17.5	21.2	21.0%
EBITDA margin			
Software	30.3%	32.7%	2.4%
VAR	7.5%	9.5%	2.1%
Total	14.6%	16.3%	1.7%
EBIT			
Software	9.2	10.0	7.8%
VAR	4.8	6.8	42.5%
Total	14.0	16.7	19.6%
EBIT margin			
Software	24.6%	26.3%	1.7%
VAR	5.7%	7.3%	1.6%
Total	11.6%	12.8%	1.2%

Source: Mensch und Maschine

**Exhibit 3: Quarterly performance**

€m	Q120	Q220	Change (year-on-year)	
			Q120	Q220
Revenue				
Software	20.5	17.4	11.3%	-9.0%
VAR	58.2	34.4	29.9%	-9.4%
Total	78.6	51.8	24.5%	-9.3%
EBIT				
Software	5.47	4.48	14.2%	0.9%
VAR	5.61	1.16	66.3%	-15.8%
Total	11.08	5.64	35.8%	-3.0%
EBIT margin				
Software	26.7%	25.8%	0.7%	2.5%
VAR	9.6%	3.4%	2.1%	-0.3%
Total	14.1%	10.9%	1.2%	0.7%

Source: Mensch und Maschine

**Software** business revenue was essentially flat year-on-year for H120; this masks the strong rate of growth in Q120 (+11.3%) offset by a 9.0% decline in Q220 as COVID-19 made it harder to sign new business sales. While the Software gross margin declined by 2.3pp y-o-y in H120, EBIT grew 7.8% resulting in a 1.7pp increase in the EBIT margin to 26.3%. This was particularly evident in Q220 where EBIT increased 0.9% y-o-y despite a 9% revenue decline.

The **VAR** business saw H120 revenue growth of 11.9% y-o-y, with 29.9% growth in Q120 partially offset by a 9.4% decline in Q220. VAR EBIT increased 42.5% y-o-y in H120, expanding the EBIT margin by 1.6pp to 7.3%. On a quarterly basis, in Q120 EBIT grew 66.3% and the margin expanded 2.1pp to 9.6%. In Q220, the revenue decline resulted in a 15.8% decrease in EBIT and a 0.3pp decline in the margin to 3.4%.

## Outlook and consensus estimates

Despite the weaker demand experienced in Q220, the company believes that as long there is a modest improvement in demand in H2, it should meet its targets for FY20 (EPS of €1.17–1.23 and a dividend of €1.00–1.05). Management noted that the emphasis would be on achieving the profitability target for FY20 with less focus on revenue and gross profit.

Having reported EPS of €0.6 in H120, M+M will need to generate roughly the same level of net income in H2 to reach the target. As M+M managed to reduce its cost base in Q2 (we estimate that operating expenses declined 13% q-o-q), we expect the company to maintain this focus during H2, which means that it should be able to generate the desired level of net income on lower revenues than in H1.

Consensus forecasts (which have not yet changed post results) are just below the bottom of the EPS target range for FY20 while the dividend forecast is within the range. This assumes that H220 revenues increase 9.5% compared to H120 while EBIT decreases 10% h-o-h.

**Exhibit 4: Consensus forecasts**

€m	FY20e	FY21e
Revenues	273.2	303.4
Revenue growth	11.1%	11.1%
EBITDA	41.4	47.6
EBITDA margin	15.1%	15.7%
EBIT	31.7	38.4
EBIT margin	11.6%	12.7%
EPS (€)	1.16	1.42
DPS (€)	1.01	1.20

Source: Refinitiv (as at 23 July)

## Valuation

The stock trades at a large discount to peers on EV/sales and EV/EBIT multiples and at a smaller discount on a P/E basis, reflecting its lower operating margins versus peers. Its dividend yield is at the top end of its peer group.

**Exhibit 5: Peer financial metrics and valuation multiples**

Company	Quoted Ccy	Share price	Market cap m	EV (rep ccy) m	EV/sales		EV/EBIT		P/E		Div yield		EBIT margin	
					CY	NY	CY	NY	CY	NY	CY	NY	CY	NY
<b>MENSCH UND MASCHINE</b>	€	<b>48.2</b>	<b>806</b>	<b>802</b>	<b>2.9</b>	<b>2.6</b>	<b>26.3</b>	<b>20.9</b>	<b>41.4</b>	<b>33.9</b>	<b>2.1%</b>	<b>2.5%</b>	<b>11.2%</b>	<b>12.7%</b>
AVEVA GROUP	GBP	4215	6,806	6,761	8.5	7.9	32.5	28.1	41.2	35.8	1.1%	1.2%	26.2%	28.2%
CENIT	€	9.7	81	68	0.5	0.4	31.6	9.4	58.8	23.4	4.4%	4.4%	1.5%	4.5%
NEMETSCHEK	€	65.0	7,474	7,641	13.1	11.5	64.4	49.9	79.4	61.2	0.5%	0.6%	20.3%	23.1%
RIB SOFTWARE	€	25.5	1,323	1,233	4.5	3.8	40.8	26.2	51.8	36.3	0.7%	0.9%	11.0%	14.6%
AUTODESK	US\$	240.7	52,769	52,938	14.2	12.0	50.0	36.5	63.7	44.9	0.0%	0.0%	28.4%	32.8%
DASSAULT SYSTEMES	€	159.9	42,101	44,680	9.8	8.9	35.5	30.3	43.4	37.6	0.5%	0.5%	27.6%	29.4%
HEXAGON	SEK	585.0	205,305	22,183	6.0	5.6	25.9	21.4	29.9	25.2	0.9%	1.1%	23.2%	26.0%
PTC	US\$	83.8	9,699	10,468	7.4	6.7	26.8	22.7	36.5	29.8	0.0%	0.0%	27.5%	29.4%
<b>Average</b>					<b>8.0</b>	<b>7.1</b>	<b>38.4</b>	<b>28.1</b>	<b>48.7</b>	<b>35.6</b>	<b>1.0%</b>	<b>1.1%</b>	<b>20.7%</b>	<b>23.5%</b>
<b>Median</b>					<b>7.9</b>	<b>7.3</b>	<b>34.0</b>	<b>27.1</b>	<b>47.6</b>	<b>36.1</b>	<b>0.6%</b>	<b>0.8%</b>	<b>24.7%</b>	<b>27.1%</b>

Source: Refinitiv. Note: Priced at 23 July.

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