

# Mensch und Maschine

Software

29 October 2020

## Focus on profitability pays off

Although COVID-19 continues to make signing new business challenging, Mensch und Maschine (M+M) has managed to report a small increase in revenue over the first nine months of FY20 (9M20). Combined with careful cost control, this has translated to a 20% increase in EBIT over the same period. While the FY20 EPS guidance range has been lowered slightly, the company is confident it can resume its growth trajectory in FY21.

## Profit growth despite weaker revenues

Revenues for 9M20 were 3.6% higher y-o-y to €180.6m (Software +0.4% to €54.9m, VAR +5.1% to €125.7m), while a strict focus on costs resulted in EBIT 19.5% higher year-on-year to €21.8m. EPS of €0.753 for 9M20 was 14.8% higher year-on-year. In Q3, revenues in the Software division were down only 0.9% y-o-y, compared to a 9.0% decline in Q220, while divisional EBIT was up 25% y-o-y. The VAR division saw a 10% revenue decline in Q3 compared to a 9.4% decline in Q2, whereas its EBIT increased 4.5% y-o-y in Q3. At the end of Q320, net debt excluding lease liabilities stood at €2.7m compared to net cash of €3.7m at the end of H120 – in Q3 operating cash flow of €8.3m was offset by the payment of €15.3m for the prior year dividend.

## Minor reduction in FY20 guidance

The company expects a strong Q4 with earnings at a similar level to the prior year (€0.334 per share). While the company has successfully focused on managing the cost base during the pandemic, this has not been quite sufficient to compensate for the slowdown in new business. The company has therefore lowered its EPS outlook for FY20 from €1.17–1.23 to €1.07–1.18, although it continues to expect to be able to pay a dividend in the range €1.00–1.05. For FY21, the company expects to resume its growth target of adding 18–24c to EPS.

## Valuation: Reflects robust profitability

Consensus estimates have been reduced to the mid-point of the FY20 EPS guidance. The stock has rebounded 73% from its low of €29.8 in March and is up 21% year-to-date. It trades at a discount to peers on all valuation metrics, in our view reflecting the fact that its operating margins are at the lower end of its peer group. The stock is supported by a dividend yield of c 2%.

**Price** €51.6  
**Market cap** €867m

### Share price graph



### Share details

Code MUM  
 Shares in issue 16.8m  
 Net debt at end Q320 €2.7m

### 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.

### Analyst

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### Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (c)	DPS (c)	P/E (x)	Yield (%)
12/18	185.4	18.2	0.71	0.65	72.7	1.3
12/19	245.9	26.3	0.99	0.85	52.1	1.6
12/20e	253.6	29.8	1.14	1.01	45.3	1.9
12/21e	282.1	36.4	1.38	1.18	37.4	2.3

Source: Analyst forecasts per Mensch und Maschine investor relations page

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