

Mensch und Maschine Software

Software

VAR acceleration boosts profitability

Mensch und Maschine (M+M) reported 9M19 revenue growth of 30% year-on-year (23% organic) and EBIT growth of 40% (23% organic). The Software business revenue growth of 37% benefited from the first-time consolidation of SOFiSTiK in addition to organic growth of 12%. The VAR business has seen strong organic revenue growth year to date, resulting in EBIT margin expansion at a divisional and group level.

Software organic growth boosted by SOFiSTiK

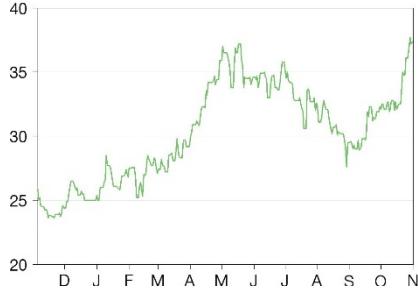
The Software business reported 36.6% year-on-year revenue growth in 9M19 (Q1: +31.2%, Q2: +37.3%, Q3: +42.0%), of which 11.6% was organic growth and the remainder was the €10m contribution from the consolidation of SOFiSTiK. 9M19 EBIT grew 35.5% year-on-year resulting in a margin of 22.3%, broadly flat y-o-y. On an organic basis, 9M19 EBIT grew 11.4% y-o-y, with a margin of 22.4% (flat y-o-y).

VAR business performance accelerates

The VAR business reported 9M19 revenue growth of 27.9% year-on-year (Q1: +29.6%, Q2: +18.7%, Q3: +36.6%), showing an acceleration compared to FY18 (H1 +13.9%, H2 +21.0%). This drove 48.9% growth in EBIT in 9M19 and 36.8% growth in Q319, resulting in margin expansion from 4.3% in 9M18 to 5.0% in 9M19. Management has raised guidance for FY19 group revenues (from €220–230m to €222–240m), 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 44% over the last 12 months and 49% 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 trades at a small premium. 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 in the VAR business, this margin should increase over time.

Price	€37.4
Market cap	€629m
Share price graph	
	
Share details	
Code	MUM
Shares in issue	16.8m
Net debt 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	
<ul style="list-style-type: none"> ■ Largest European Autodesk value-added reseller. ■ High-margin, internally developed software. ■ Loyal workforce. 	
Bear	
<ul style="list-style-type: none"> ■ 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 (€)	DPS (€)	P/E (x)	Yield (%)
12/17	160.9	13.6	0.53	0.50	71.2	1.3
12/18	185.4	18.2	0.71	0.65	52.7	1.7
12/19e	232.5	24.9	0.93	0.82	40.2	2.2
12/20e	257.1	28.1	1.05	0.97	35.6	2.6

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