

Mensch und Maschine Software

Firing on all cylinders

Mensch und Maschine (M+M) has reported strong revenue growth for H118, with both divisions reporting double-digit growth on a year-on-year basis. Group EBITDA margins expanded over the same period, with better profitability for both businesses. Management has maintained its growth and profitability guidance for FY18, underpinned by the strong H118 results.

Strong performance continues into Q2

M+M reported H118 revenue growth of 13% y-o-y, with Q1 growth of 6.8% y-o-y accelerating to 20.3% in Q218. Both divisions contributed to growth, confirming that the VAR business is back on track now that the demand fluctuations related to the switch to subscription licensing for Autodesk software are substantially over. Both divisions expanded EBITDA margins, resulting in a 1.6pp y-o-y increase in group EBITDA margin to 12.5% in H118. The Software business is now generating EBITDA margins ahead of its 25% target (Q1 29.5%, Q2 27.0%), and the VAR business is making steady progress towards its 10% target (5.9% in H118 vs 4.7% in H117; both Q1 and Q2 margins were higher y-o-y). To make further progress towards this target, we expect the VAR business to focus on increasing the level of value-added services and proprietary software that it can provide to its Autodesk customer base.

FY18 outlook unchanged

The company has maintained its outlook for FY18 and FY19. Consensus forecasts are for revenue growth of 10.4% in FY18 and 10.1% in FY19, and EPS growth of 35% in FY18 and 25% in FY19. Based on H118 performance, these forecasts appear reasonable in our view.

Valuation: Margin growth key to upside

The stock is up 26% year-to-date, but continues to trade at a discount to peers on all valuation metrics, although we note that it generates lower margins than the peer group. With the main impact of the Autodesk licensing transition in the past, and with Autodesk back on a revenue growth path, we see potential for the VAR business to improve profitability and hence drive up group margins. The stock is supported by a dividend yield rising to 3% by FY19e.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/16	167.1	11.1	0.40	0.35	66.8	1.3
12/17	160.9	13.6	0.53	0.50	50.9	1.9
12/18e	177.6	18.2	0.71	0.65	37.6	2.4
12/19e	195.6	22.0	0.89	0.80	30.0	3.0

Source: Bloomberg

Software

26 July 2018

Price

€26.70

Market cap

€436m

Share price graph



Share details

Code	MUM
Listing	Deutsche Börse Scale
Shares in issue	16.7m
Last reported net debt at end-H118	€14.7 m

Business description

Mensch und Maschine Software (M+M) sells proprietary and Autodesk CAD/CAM software. It reports across two business lines: M+M Software (31% of FY17 revenues) and VAR (69% of FY17 revenues). 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.

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Review of H118 results

Exhibit 1: Half-yearly results highlights

€m	H118	H117	y-o-y
Revenues	94.46	83.59	13.0%
Gross profit	52.39	48.21	8.7%
EBITDA	11.81	9.12	29.5%
Operating profit	10.28	7.75	32.6%
Net income after minority interest	6.09	4.45	36.9%
EPS (€)	0.372	0.274	35.8%
Net debt	14.66	20.05	-26.9%

Source: Mensch und Maschine

Exhibit 2: Divisional results

€m	H118	H117	y-o-y
Revenues			
Software	28.0	25.2	10.8%
VAR	66.5	58.4	13.9%
Total	94.5	83.6	13.0%
Gross profit			
Software	27.4	24.5	11.5%
VAR	25.0	23.7	5.8%
Total	52.4	48.2	8.7%
Gross margin			
Software	97.8%	97.3%	0.5%
VAR	37.6%	40.6%	-2.9%
Total	55.5%	57.7%	-2.2%
EBITDA			
Software	7.9	6.4	24.4%
VAR	3.9	2.8	41.3%
Total	11.8	9.1	29.5%
EBITDA margin			
Software	28.3%	25.2%	3.1%
VAR	5.9%	4.7%	1.1%
Total	12.5%	10.9%	1.6%

Source: Mensch und Maschine

Exhibit 3: Quarterly performance by division

	Q117	Q217	Q317	Q417	Q118	Q218
Revenues (€m)						
VAR	32.64	25.73	21.11	30.91	34.56	31.94
Software	12.83	12.39	10.78	14.47	14.02	13.93
Total	45.47	38.12	31.88	45.38	48.58	45.87
Revenue growth y-o-y						
VAR	-16.0%	-0.6%	-28.3%	15.8%	5.9%	24.2%
Software	11.4%	6.9%	4.2%	13.1%	9.3%	12.4%
Total	-9.7%	1.8%	-19.8%	14.9%	6.8%	20.3%
EBITDA (€m)						
VAR	1.87	0.90	0.36	2.22	2.48	1.43
Software	3.54	2.81	1.96	4.39	4.14	3.76
Total	5.42	3.70	2.32	6.60	6.62	5.19
EBITDA margin						
VAR	5.7%	3.5%	1.7%	7.2%	7.2%	4.5%
Software	27.6%	22.7%	18.1%	30.3%	29.5%	27.0%
Total	11.9%	9.7%	7.3%	14.6%	13.6%	11.3%

Source: Mensch und Maschine

M+M reported strong revenue growth of 13.0% for H118, with growth of 10.8% for the Software division and 13.9% for the VAR division. The Software division saw strong demand for its CAM software and the VAR division saw good progress in the conversion of maintenance customers to subscription contracts.

We note that now that the main part of the transition to subscription licensing for Autodesk software is complete, the VAR business appears to have returned to normal seasonality. For both businesses, Q1 and Q4 are typically strong, with a dip in Q2 and Q3. On a quarterly basis, growth

accelerated for both businesses in Q2, with the Software division accelerating from 9.3% in Q118 to 12.4% in Q218, and the VAR division seeing a large step up from growth of 5.9% in Q118 to 24.2% in Q218. This has translated into EBITDA margin expansion for both businesses, with the Software division ahead of its 25% target for both quarters, and the VAR division expanding margins on a year-on-year basis in both quarters. Group EBITDA margins of 12.5% for H118 were 1.6pp higher than in H117. The company ended H118 with a net debt position of €14.7m, down from €20.1m a year ago and €16.3m at the end of FY17.

Outlook unchanged

Management has maintained its outlook for FY18. With gross profit of €52.4m and EBITDA of €11.8m reported for H118, guidance for FY18 looks achievable.

Exhibit 4: Financial outlook

€m	FY18e	FY19e	FY20e
Gross profit	104–106		
EBITDA	22–23	+4–5	+4–5
Net income	11–12	+3–4	+3–4
EPS (€)	0.67–73	+0.18–0.24	>1€
Dividend (€)	0.62–68	+0.15–0.20	+0.15–0.20

Source: Mensch und Maschine

Consensus forecasts prior to results were in line with this guidance; post-results there have been minimal upgrades to forecasts, which are still within the guidance range.

Valuation

The M+M share price is up 26% year-to-date and has gained 34% over the past 12 months. In the table below, we compare M+M's valuation to a group of peers that includes European software companies operating in the CAD/CAM/PLM space, as well as larger international companies operating in this market. With a lower EBITDA margin than the group average, M+M continues to trade below the peer group on EV/sales, EV/EBITDA and P/E. We note that M+M's dividend yield is at the top end of its peer group.

Exhibit 5: Peer group valuation

Company	Quoted ccy	Share price	Market cap (m)	EV (rep. ccy m)	EV/sales (x)		EV/EBITDA (x)		P/E (x)		Div yield		EBITDA margin	
					CY	NY	CY	NY	CY	NY	CY	NY	CY	NY
Mensch und Maschine Software	EUR	26.7	436	450	2.5	2.3	19.9	17.1	37.6	30.0	2.4%	3.0%	12.7%	13.4%
Aveva Group	GBP	2,630	4,233	4,137	6.7	6.3	25.7	23.1	32.6	29.4	1.3%	1.6%	26.1%	27.4%
Cenit	EUR	17.7	148	116	0.6	0.6	7.4	6.1	16.8	13.5	5.9%	6.4%	8.4%	9.7%
Ige + Xao	EUR	142.0	202	172	5.5	5.3	18.4	17.4	29.6	27.5	1.0%	1.1%	29.9%	30.4%
Nemetschek	EUR	116.0	4,466	4,424	9.8	8.5	37.0	31.6	59.2	49.8	0.7%	0.8%	26.4%	26.9%
Rib Software	EUR	19.5	1,006	772	6.3	5.4	18.9	15.0	58.8	38.6	1.0%	1.0%	33.2%	35.9%
Autodesk	USD	132.3	28,995	29,117	11.7	9.1	75.5	31.0	146.4	41.6	0.0%	0.0%	15.5%	29.4%
Dassault Systemes	EUR	123.6	32,464	30,422	8.9	8.2	23.8	23.0	41.8	37.0	0.5%	0.6%	37.6%	35.5%
Hexagon Ab-B	SEK	501.0	180,654	19,463	5.3	4.9	16.4	15.0	24.2	21.8	1.2%	1.3%	32.3%	33.1%
Ptc	USD	95.8	11,081	11,454	9.1	8.4	37.8	29.2	66.8	48.4	0.0%	0.0%	24.2%	28.6%
Average					7.1	6.3	29.0	21.3	41.2	33.3	1.3%	1.4%	25.9%	28.5%
Median					6.7	6.3	23.8	23.0	41.8	37.0	1.0%	1.0%	26.4%	29.4%

Source: Bloomberg (as at 25 July 2018)

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