

Mensch und Maschine Software

Software
14 March 2018

VAR business reaches inflection point

Mensch und Maschine's FY17 results confirmed that its Software business continues to generate strong growth and margins. The VAR business managed to grow EBITDA despite the expected revenue decline, resulting in a record EBITDA margin for the group. With Autodesk back on a growth path after its transition to subscription licencing and the VAR business returning to growth in Q417, we see scope for profitability in the VAR business to improve further in FY18.

FY17 results: Profit growth despite revenue decline

Despite the revenue hit from the Autodesk licencing transition, the group managed to grow gross profit and EBITDA year-on-year, generating a record EBITDA margin of 11.2%. The Software business grew revenues 9% y-o-y and has now hit its 25% EBITDA margin target. The VAR business saw an 8.6% revenue decline but through good cost control and strong proprietary software sales, grew EBITDA by 5% y-o-y. Net debt was reduced by 27% over the year, to close the year at €16.3m. The company announced a €0.50 dividend for FY17.

Outlook positive

The company has revised its outlook for FY18 and FY19: while the gross profit targets have been reduced, EBITDA, net income and DPS are marginally higher than previously guided. Consensus forecasts are for revenue growth of 10% in FY18 and FY19, and EPS growth of 37% in FY18 and 17% in FY19. Based on the Software business' recent performance and the return to growth of the VAR business in Q417, these forecasts appear reasonable.

Valuation: Margin growth key to upside

The stock has performed well over the last year, gaining 63%. It is trading 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 licencing 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 of close to 3%.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/16	167.1	11.1	0.40	0.35	58.8	1.5
12/17	160.9	13.6	0.53	0.50	44.3	2.1
12/18e	177.2	18.4	0.72	0.65	32.6	2.8
12/19e	195.6	21.3	0.84	0.80	28.0	3.4

Source: Mensch und Maschine, Bloomberg (at 12 March 2018).

Price
€23.5
Market cap
€92m

Share price graph



Share details

Code	MUM
Listing	Deutsche Börse Scale
Shares in issue	16.3m
Last reported net debt at end FY17	€16.3m

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.
- Management owns more than 50% of the company.
- Change in Autodesk's licencing model to subscription model.

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Review of FY17 results

Mensch und Maschine (M+M) reported a revenue decline of 3.7% in FY17. On a divisional basis, Software saw strong growth of 9.1% which was offset by an 8.6% decline in VAR revenues. As explained in our report [Supporting the digitisation of industry](#) (April 2017), this was the result of Autodesk's shift to a subscription licensing model. In Q417, we note that the VAR business returned to y-o-y growth of 15.8%, after four quarters of revenue declines. Software gross profit grew in line with revenues, with a small 0.2pp increase in the gross margin to 97.0%. With operating costs well controlled, the Software division's EBITDA increased 19% y-o-y and the margin expanded by 2.1pp to 25.2%. Despite an 8.6% decline in VAR revenues, the gross profit only declined 1.8%, resulting in an increase in the VAR gross margin of 2.9pp. VAR EBITDA increased 5% y-o-y with the margin expanding to 4.8%.

The company noted that within the VAR business, gross profit from reselling Autodesk licences totalled €16.0m, down from €21.0m in FY16. Conversely, gross profit from proprietary software and services increased to €29.9m from €25.7m in FY16, emphasising the work the company has done to develop its own software and services around Autodesk software.

Exhibit 1: Divisional results				
€m	FY17	FY16	y-o-y	
Revenues				
Software	50.5	46.2	9.1%	
VAR	110.4	120.8	-8.6%	
Total	160.9	167.1	-3.7%	
Gross profit				
Software	48.9	44.7	9.4%	
VAR	45.9	46.7	-1.8%	
Total	94.8	91.4	3.7%	
Gross margin				
Software	97.0%	96.7%	0.2%	
VAR	41.6%	38.6%	2.9%	
Total	59.0%	54.7%	4.2%	
EBITDA				
Software	12.7	10.7	19.0%	
VAR	5.3	5.1	5.0%	
Total	18.0	15.8	14.5%	
EBITDA margin				
Software	25.2%	23.1%	2.1%	
VAR	4.8%	4.2%	0.6%	
Total	11.2%	9.4%	1.8%	

Source: Mensch und Maschine

Group gross profit of €94.8m was below the company's guidance of €98-99m, but good control of operating costs resulted in EBITDA in the middle of the €17.5-18.5m range. Group EPS of €0.525 was at the lower end of the company's guided range of €0.52-0.57 and the €0.50 dividend was at the top end of the company's previous guidance of €0.45-0.50. The company reduced its net debt position from €22.3m at the end of FY16 to €16.3m at the end of FY17.

Exhibit 2: Results highlights				
€m	FY17	FY16	y-o-y	
Revenues	160.85	167.07	-3.7%	
Gross profit	94.82	91.43	3.7%	
EBITDA	18.04	15.76	14.5%	
Operating profit	15.21	12.49	21.8%	
Net income after minority interest	8.55	6.59	29.8%	
EPS (€)	0.525	0.404	30.0%	

Source: Mensch und Maschine

Outlook

The company has revised its outlook for FY18 and FY19. It does not typically guide on revenue growth, but provides ranges for gross profit, EBITDA, net income, EPS and dividends. As noted above, gross profit came in lower than originally anticipated, and this has resulted in a reduction in the outlook for FY18. However, due to strong control of operating costs, the EBITDA range is slightly better than previously expected. We note that Autodesk consensus forecasts are for revenue growth of 21.9% in the year ended 31 January 2019 (FY17a –18.9%, FY18a +1.3%), which supports continued growth in the VAR business. The company expects incremental profits to come from the VAR business, through a combination of higher revenues and a reduced cost base. The Software business has already hit its 25% EBITDA margin target, so we would not expect a material increase from this, whereas the VAR business EBITDA margin is still some way from its 10% target.

Exhibit 3: Financial outlook

	FY18e	FY18e	FY19e	FY19e	FY20e	FY20e
	old	new	old	new	old	new
Gross profit	c €110m	€104-106m				
EBITDA	c €22m	€22-23m		+€4-5m		
Net income	c €11.5m	€11-12m	€13.5-14.5m	+€3-4m		
EPS	c €0.70	€0.67-73	€0.83-0.90	+€0.18-0.24	c €1.00	>€1
Dividend	c €0.60	€0.62-68	€0.70-0.75	+€0.15-20		

Source: Mensch und Maschine

Valuation

The stock has gained 63% over the last year and 23% over the last six 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 is trading 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 4: Peer group valuation metrics

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	23.5	383	400	2.3	2.1	17.8	15.6	32.6	28.0	2.8%	3.4%	12.7%	13.1%
Aveva Group	GBP	2038	3285	3152	13.6	7.2	53.4	29.5	27.3	26.1	1.2%	1.6%	25.5%	24.3%
Cenit	EUR	20.9	175	152	1.0	0.9	11.5	9.0	23.0	18.0	4.8%	4.8%	8.6%	9.6%
Ige + Xao	EUR	144.0	206	176	5.7	5.4	19.5	17.4	30.8	28.4	1.0%	1.0%	29.5%	31.1%
Nemetschek	EUR	88.6	3409	3422	8.6	7.5	32.2	28.5	49.1	46.0	0.8%	0.9%	26.8%	26.2%
Rib Software	EUR	34.1	1599	1459	13.4	12.0	35.2	35.1	78.1	94.3	0.6%	0.6%	38.1%	34.1%
Autodesk	USD	139.4	30696	30768	12.3	9.7	86.4	32.5	153.8	43.0	0.0%	0.0%	14.2%	29.7%
Dassault Systemes	EUR	110.9	28960	27514	8.1	7.5	23.2	20.9	37.7	33.7	0.6%	0.7%	34.9%	35.6%
Hexagon Ab-B	SEK	497.3	179248	19598	5.4	5.0	16.3	15.1	24.2	21.9	1.2%	1.3%	32.9%	33.4%
Ptc	USD	80.7	9386	9787	7.9	7.2	32.0	24.4	59.2	40.9	0.0%	0.0%	24.7%	29.6%
Average					8.4	6.9	34.4	23.6	41.2	38.7	1.1%	1.2%	26.1%	28.2%
Median					8.1	7.2	32.0	24.4	37.7	33.7	0.8%	0.9%	26.8%	29.7%

Source: Bloomberg (at 12 March 2018)

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