

## Mensch und Maschine Software

**Software**
**25 July 2019**

### VAR acceleration boosts profitability

Mensch und Maschine (M+M) reported H119 revenue growth of 27% year-on-year, of which 20% was organic, and EPS growth of 27%. The Software business revenue growth of 34% benefited from the first-time consolidation of SOFiSTiK in addition to organic growth of 10%. The VAR business saw strong organic revenue growth in H1 resulting in EBIT margin expansion at a divisional and group level.

### Software organic growth boosted by SOFiSTiK

The Software business reported 34.2% year-on-year revenue growth in H119 (Q1: +31.2%, Q2: +37.3%) of which 9.7% was organic growth and the remainder was the €6.9m contribution from the consolidation of SOFiSTiK (which made up 18% of H119 revenues). EBIT grew 28.8% year-on-year resulting in a margin of 24.6%, 1pp lower than in H118, mainly due to slightly lower margins in the original M+M Software business. The SOFiSTiK EBIT margin for H119 was 24.0% compared to 24.7% for the original M+M Software business.

### VAR business performance accelerates

The VAR business reported H119 revenue growth of 24.4% year-on-year (Q1: +29.6%, Q2: +18.7%) and 52.4% growth in EBIT, resulting in margin expansion from 4.7% in H118 to 5.7% in H119. This is an acceleration in growth from FY18 (H1 +13.9%, H2 +21.0%). Management has raised guidance for FY19 group revenues (from €215–220m to €220–230m) 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 26% over the last 12 months and 32% 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 it trades at a discount in FY19 and in line in FY20. 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 within the VAR business, this margin should increase over time.

#### Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/17	160.9	13.6	0.53	0.50	64.2	1.5
12/18	185.4	18.2	0.71	0.65	47.5	1.9
12/19e	223.5	24.5	0.92	0.81	36.8	2.4
12/20e	247.3	27.2	1.02	0.92	33.2	2.7

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

**Price** €33.7  
**Market cap** €567m

#### Share price graph



#### Share details

Code	MUM
Listing	Deutsche Börse Scale
Shares in issue (excluding treasury shares)	16.8m
Net debt as 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

- 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

Katherine Thompson +44 203 077 5730  
[tech@edisongroup.com](mailto:tech@edisongroup.com)  
[Edison profile page](#)

Edison Investment Research provides qualitative research coverage on companies in the Deutsche Börse Scale segment in accordance with section 36 subsection 3 of the General Terms and Conditions of Deutsche Börse AG for the Regulated Unofficial Market (Freiverkehr) on Frankfurter Wertpapierbörse (as of 1 March 2017). Two to three research reports will be produced per year. Research reports do not contain Edison analyst financial forecasts.

## Review of H119 results

<b>Exhibit 1: H1 results highlights</b>			
€m	H119	H118	y-o-y
Revenues	120.22	94.46	27.3%
Gross profit	64.12	52.39	22.4%
EBITDA	17.53	11.81	48.4%
EBIT	13.98	10.28	36.0%
Net income after minority interest	8.32	6.34	31.2%
EPS (€)	0.495	0.388	27.4%
Net debt	21.39	14.66	45.9%

Source: Mensch und Maschine

<b>Exhibit 2: Divisional results</b>			
€m	H119	H118	y-o-y
<b>Revenues</b>			
Software	37.5	28.0	34.2%
VAR	82.7	66.5	24.4%
Total	120.2	94.5	27.3%
<b>Gross profit</b>			
Software	35.2	27.4	28.8%
VAR	28.9	25.0	15.4%
Total	64.1	52.4	22.4%
<b>Gross margin</b>			
Software	93.9%	97.8%	-3.9%
VAR	34.9%	37.6%	-2.7%
Total	53.3%	55.5%	-2.1%
<b>EBITDA</b>			
Software	11.4	7.9	43.8%
VAR	6.2	3.9	57.7%
Total	17.5	11.8	48.4%
<b>EBITDA margin</b>			
Software	30.3%	28.3%	2.0%
VAR	7.5%	5.9%	1.6%
Total	14.6%	12.5%	2.1%
<b>EBIT</b>			
Software	9.2	7.2	28.8%
VAR	4.8	3.1	52.4%
Total	14.0	10.3	36.0%
<b>EBIT margin</b>			
Software	24.6%	25.6%	-1.0%
VAR	5.7%	4.7%	1.1%
Total	11.6%	10.9%	0.7%

Source: Mensch und Maschine

M+M reported year-on-year revenue growth of 27.3% for H119 whereas EBIT increased 36.0% and net income after minority interest 31.2% over the same period. Reflecting dilution from the shares issued to acquire the majority stake in SOFiSTiK at the beginning of the year, diluted EPS increased 27.4% year-on-year. Net debt was significantly higher, with €6.2m of the €6.7m increase due to the application of IFRS 16 from the beginning of this year. As a reminder, M+M applied IFRS 16 from the beginning of FY19 and now focuses on EBIT rather than EBITDA as this incorporates the lease-related depreciation charges.

Based on the organic growth figures reported by M+M (revenues +20%, gross margin +12%, EBIT +20%), in H119 we calculate the split of organic and acquired Software results in Exhibit 3. The original M+M software business grew revenues 10% y-o-y while EBIT only increased 6% y-o-y, resulting in a small decline in the underlying EBIT margin. The acquired business (consolidated from 1 January 2019) contributed the remaining 24.5% growth in Software revenues y-o-y. We had assumed that SOFiSTiK would add c €10m revenues in FY19, but based on the revenues contributed in H119, we believe the contribution for the full year could be higher. We note that at the EBIT level, SOFiSTiK generates a similar level of profitability to the original M+M software business.

The VAR business saw revenue growth accelerate to 24.4% year-on-year (H118 +13.9%, H218 +21.0%) and EBIT growth of 52% year-on-year, with a 1.1pp increase in the EBIT margin year-on-year.

**Exhibit 3: Organic and acquired financial results for the Software segment**

€m	H119	H118	y-o-y
M+M revenues	30.7	28.0	9.7%
SOFiSTiK revenues	6.9	0	N/A
Total Software revenues	37.5	28.0	34.2%
M+M gross profit	29.8	27.4	8.9%
SOFiSTiK gross profit	5.4	0	N/A
Total Software gross profit	35.2	27.4	28.8%
M+M gross margin	97.2%	97.8%	-0.7%
SOFiSTiK gross margin	79.3%	N/A	N/A
Total Software gross margin	93.9%	97.8%	-3.9%
M+M EBIT	7.6	7.2	5.8%
SOFiSTiK EBIT	1.6	0	N/A
Total Software EBIT	9.2	7.2	28.8%
M+M EBIT margin	24.7%	25.6%	-0.9%
SOFiSTiK EBIT margin	24.0%	N/A	N/A
Total Software EBIT margin	24.6%	25.6%	-1.0%

Source: Edison Investment Research

## Outlook and consensus forecasts

Management has increased guidance for FY19 revenues from €215–220m to €220–230m. All other guidance is unchanged (EBIT €24–26m, EPS €0.89–0.95, DPS €0.77–0.83). The table below summarises consensus forecasts; these are in line with company guidance.

**Exhibit 4: Consensus forecasts**

€m	FY19e	FY20e
Revenues	223.5	247.3
Revenue growth	20.5%	10.7%
EBITDA	32.6	36.4
EBITDA margin	14.6%	14.7%
EBIT	25.6	28.1
EBIT margin	11.5%	11.4%
EPS	0.92	1.02
DPS	0.81	0.92

Source: Analyst notes on M+M website

## Valuation

The stock has gained 26% over the last 12 months and 32% 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, it trades at a discount in FY19 and in line in FY20. 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 sales increases, both through the growth of the Software business and through the development of software that works with Autodesk solutions within the VAR business, this margin should increase over time.

**Exhibit 5: Peer group valuation metrics**

Company	Quoted ccy	Share price	Market cap (m)	EV (m – rep. ccy)	EV/Sales		EV/EBITDA		P/E		Div yield		EBITDA margin	
					CY	NY	CY	NY	CY	NY	CY	NY	CY	NY
Mensch und Maschine	EUR	33.7	567	588	2.6	2.4	18.1	16.2	36.8	33.2	2.4%	2.7%	14.6%	14.7%
Aveva Group	GBp	4002	6479	6,351	7.7	7.4	29.3	25.7	38.4	34.1	1.1%	1.3%	26.4%	28.6%
Cenit	EUR	12.7	106	80	0.5	0.4	5.0	4.5	15.2	13.1	5.5%	6.3%	9.3%	9.7%
Nemetschek	EUR	53.4	6192	6,284	11.3	10.0	40.0	34.8	64.8	54.8	0.6%	0.7%	28.3%	28.6%
RIB Software	EUR	17.1	885	669	3.7	3.2	14.5	12.2	48.9	37.2	1.2%	1.3%	25.5%	25.9%
Autodesk	USD	169.3	37,184	38,175	11.6	9.5	42.5	27.5	59.9	35.6	0.0%	0.0%	27.3%	34.6%
Dassault Systemes	EUR	135.9	35,907	33,897	8.6	7.9	24.4	21.7	38.7	35.0	0.5%	0.6%	35.2%	36.3%
Hexagon AB-B Shs	SEK	482.1	168,682	18,068	4.5	4.3	13.7	12.7	21.7	19.7	1.3%	1.5%	33.1%	34.1%
PTC	USD	88.0	10,123	10,542	8.0	7.1	28.8	22.3	49.2	34.3	0.0%	0.0%	27.8%	31.8%
<b>Average</b>					<b>7.0</b>	<b>6.2</b>	<b>24.8</b>	<b>20.2</b>	<b>39.6</b>	<b>32.6</b>	<b>1.3%</b>	<b>1.5%</b>	<b>26.6%</b>	<b>28.7%</b>
<b>Median</b>					<b>7.9</b>	<b>7.2</b>	<b>26.6</b>	<b>22.0</b>	<b>43.8</b>	<b>34.6</b>	<b>0.9%</b>	<b>1.0%</b>	<b>27.6%</b>	<b>30.2%</b>

Source: Refinitiv. Note: Prices at 22 July 2019.

---

## General disclaimer and copyright

Any Information, data, analysis and opinions contained in this report do not constitute investment advice by Deutsche Börse AG or the Frankfurter Wertpapierbörse. Any investment decision should be solely based on a securities offering document or another document containing all information required to make such an investment decision, including risk factors. This report has been commissioned by Deutsche Börse AG and prepared and issued by Edison for publication globally.

Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2019 Edison Investment Research Limited (Edison). All rights reserved FTSE International Limited ("FTSE") © FTSE 2019. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.

---

## Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

---

## New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

---

## United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

---

## United States

The Investment Research is a publication distributed in the United States by Edison Investment Research, Inc. Edison Investment Research, Inc. is registered as an investment adviser with the Securities and Exchange Commission. Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Frankfurt +49 (0)69 78 8076 960  
Schumannstrasse 34b  
60325 Frankfurt  
Germany

London +44 (0)20 3077 5700  
280 High Holborn  
London, WC1V 7EE  
United Kingdom

New York +1 646 653 7026  
1,185 Avenue of the Americas  
3rd Floor, New York, NY 10036  
United States of America

Sydney +61 (0)2 8249 8342  
Level 4, Office 1205  
95 Pitt Street, Sydney  
NSW 2000, Australia