

## Mensch und Maschine

**Software**
**18 March 2020**

### Another strong year

Mensch und Maschine (M+M) reports strong revenue and earnings growth in 2019. Organic revenue growth of 25% was further boosted by the SOFiSTiK acquisition, driving EPS growth of 38% y-o-y and a dividend ahead of company guidance. Despite concerns over coronavirus, the company maintains its positive outlook for organic growth and profitability in FY20 and FY21.

### Software business boosted by SOFiSTiK

The Software division saw revenue growth of 35% in FY19 (to €75.1m), of which 9% was organic. The SOFiSTiK acquisition was included from 1 January 2019 and contributed revenues of €14.3m and net income of €1.7m. The SOFiSTiK business generated a lower operating margin (18%) compared to the existing business (24%) resulting in divisional EBIT growth of 32% but a small decline in the EBIT margin from 23.7% in FY18 to 23.1% in FY19.

### VAR business demand rebounds

Revenue growth for the VAR division accelerated to 32% in FY19 (to €170.9m), from the 17% achieved in FY18. Customers have been taking advantage of the deals on offer from Autodesk to switch from software maintenance to a subscription billing method; these deals are likely to come to an end in H120 at which point the company expects growth to moderate. Divisional EBIT grew 52% y-o-y and the margin expanded from 5.0% to 5.7% y-o-y.

### Valuation: Reflects current market concerns

Even taking into account potential issues arising from the restrictions imposed by coronavirus, which are more likely to affect CAM software and training services, the company expects continued organic growth in revenues and profitability, equating to 18–24% EPS growth in FY20. Consensus estimates are at the lower end of the company's guidance, possibly taking a conservative view based on current market conditions. The stock has fallen 42% over the last month on coronavirus fears and is essentially flat compared to year-ago levels; it trades at a discount to peers on all valuation metrics, with a dividend yield of c 3%.

Consensus estimates						
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/18	185.4	18.2	0.71	0.65	43.6	2.1
12/19	245.9	26.3	0.99	0.85	31.5	2.7
12/20e	272.8	29.5	1.11	0.98	28.1	3.1
12/21e	303.0	37.5	1.42	1.20	22.0	3.8

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

**Price** €31.2  
**Market cap** €524m

#### Share price graph



#### Share details

Code	MUM
Listing	Deutsche Börse Scale
Shares in issue	16.8m
Last reported net debt at end FY19*	€10.5m

\*Excludes lease liabilities

#### 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

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 FY19 results

### Exhibit 1: Mensch und Maschine results highlights

€m	FY19	FY18	y-o-y
Revenues	245.9	185.4	32.7%
Gross profit	127.9	103.9	23.1%
EBITDA	36.6	22.7	60.7%
Operating profit	27.2	19.7	38.3%
Net income after minority interest	16.7	11.7	42.6%
EPS (€)	0.99	0.71	38.5%
DPS (€)	0.85	0.65	30.8%
Net debt	23.7	11.2	111.1%
Net debt excludg leases	10.5	11.2	-6.0%

Source: Mensch und Maschine

Mensch und Maschine (M+M) saw revenue growth of 32.7% in FY19, of which 25% was organic. Operating profit increased 38.3% over the same period, with 25% organic growth. EPS increased at a similar rate to operating profit and the company announced a dividend of €0.85, higher than the preliminary announcement of €0.83. Net debt excluding the impact of finance leases incorporated in FY19 was 6% lower than a year ago. One-off cash payments in FY19 included €1m to acquire SOFiSTiK and €3.0m to complete a new building for SOFiSTiK.

## Divisional performance

### Exhibit 2: Divisional performance

€m	FY19	FY18	y-o-y
Revenues			
Software	75.1	55.7	34.7%
VAR	170.9	129.7	31.8%
Total	245.9	185.4	32.7%
Gross profit			
Software	68.7	54.4	26.4%
VAR	58.2	49.5	17.4%
Total	126.9	103.9	22.1%
Gross margin			
Software	91.5%	97.5%	-6.0%
VAR	34.1%	38.2%	-4.2%
Total	51.6%	56.0%	-4.5%
EBIT			
Software	17.4	13.2	31.5%
VAR	9.8	6.5	52.2%
Total	27.2	19.7	38.3%
EBIT margin			
Software	23.1%	23.7%	-0.6%
VAR	5.7%	5.0%	0.8%
Total	11.1%	10.6%	0.5%

Source: Mensch und Maschine

## Software division

The exhibit below splits out the performance of this division between the original M+M Software business and the SOFiSTiK business acquired on 1 January 2019. The original M+M Software business division saw 9% revenue growth with a slightly expanded EBIT margin. The acquired business contributed revenues of €14.3m, adding a further 25% to revenue growth. At the EBIT level, SOFiSTiK generated a margin of 18%, bringing down the divisional margin.

**Exhibit 3: Software division – organic versus SOFiSTiK performance**

	FY19	FY18	y-o-y
M+M revenues	60.8	55.7	9.1%
SOFiSTiK revenues	14.3	N/A	N/A
Total Software revenues	75.1	55.7	34.7%
M+M EBIT	14.8	13.2	12.0%
SOFiSTiK EBIT	2.6	N/A	N/A
Total Software EBIT	17.4	13.2	31.5%
M+M EBIT margin	24.3%	23.7%	0.6%
SOFiSTiK EBIT margin	18.0%	N/A	N/A
Total Software EBIT margin	23.1%	23.7%	(0.6%)

Source: Mensch und Maschine

## VAR division

The VAR business has benefited from a rebound in demand now that Autodesk's transition to a subscription business is substantially complete. VAR revenues were 32% higher year-on-year and VAR EBIT grew 52% over the same period, to a margin of 5.7% (+0.8pp), despite a decline in gross margin.

## Outlook and estimates

The company expects further healthy organic growth and sees sufficient operating margin potential, mainly in the VAR segment, to increase EPS by 18–24c pa and increase the dividend by 15–20c pa. The company noted that H120 growth is expected to be higher than in H220, coinciding with the end of Autodesk's offer to transition from maintenance to subscription contracts.

The table below summarises the company's expectations:

**Exhibit 4: Company outlook**

	FY20e	FY21e
Gross profit	€140–143m (+10–12%)	+10–12%
EBITDA	€41–43m (+13–18%)	+13–18%
EPS	€1.17–1.23 (+18–24c)	+€0.18–0.24
Dividend	€1.00–1.05	+15–20c

Source: Mensch und Maschine

Consensus estimates were updated after the February trading update and have not all been updated for the final results. EPS and DPS forecasts for FY20 are just below company expectations.

**Exhibit 5: Consensus forecasts**

€m	FY20e	FY21e
Revenues	272.8	303.0
Revenue growth	10.9%	11.1%
EBITDA	41.6	47.4
EBITDA margin	15.2%	15.6%
EBIT	30.5	38.4
EBIT margin	11.2%	12.7%
EPS (€)	1.11	1.42
DPS (€)	0.98	1.20

Source: Mensch und Maschine IR website, 17 March

## Coronavirus impact

The company noted that its guidance already reflects some negative effects from coronavirus, particularly within the CAM business and training. At this point, it is difficult to judge how much impact the virus is likely to have, but we expect that business development is likely to be affected as travel is restricted and face-to-face meetings are cancelled.

## Valuation

The stock has declined 43% over the last month as concerns about the impact of coronavirus have hit the stock market. The stock now trades at a large discount to peers on EV/sales and EV/EBIT multiples and at a smaller discount on a P/E basis, reflecting its lower operating margins versus peers. Its dividend yield is at the top end of its peer group.

### Exhibit 6: Peer group metrics

Company	Quoted ccy	Share price	Market cap (m)	EV (rep ccy) m	EV/sales		EV/EBIT		P/E		Dividend yield		EBIT margin	
					CY	NY	CY	NY	CY	NY	CY	NY	CY	NY
<b>MENSCH UND MASCHINE</b>	€	31.2	524	548	2.0	1.8	18.0	14.3	28.1	22.0	3.1%	3.8%	11.2%	12.7%
AVEVA GROUP PLC	Gbp	3082	4978	4989	5.9	5.6	22.9	20.3	28.6	25.2	1.6%	1.7%	25.9%	27.6%
CENIT AG	€	9.8	82	61	0.3	0.3	5.9	5.0	N/A	N/A	N/A	N/A	5.7%	6.5%
NEMETSCHEK SE	€	43.5	5062	5110	7.9	6.9	33.5	28.3	43.6	36.6	0.9%	1.0%	23.5%	24.5%
RIB SOFTWARE AG	€	27.9	1448	1363	6.3	4.8	50.5	36.7	74.0	55.2	0.7%	0.7%	12.4%	13.1%
AUTODESK INC	US\$	158.0	34772	35013	8.9	7.5	29.3	21.2	36.6	26.3	0.0%	0.0%	30.2%	35.2%
DASSAULT SYSTEMES	€	121.0	31814	34524	7.0	6.4	22.5	20.0	28.7	25.4	0.7%	0.8%	31.1%	32.1%
HEXAGON AB-B SHS	SEK	412.3	144648	15355	3.7	3.5	14.5	13.4	16.4	15.1	1.8%	1.9%	25.8%	26.5%
PTC INC	US\$	56.4	6510	7368	5.0	4.5	18.9	15.4	24.2	19.3	0.0%	0.0%	26.4%	29.3%
<b>Average</b>					<b>5.6</b>	<b>5.0</b>	<b>24.7</b>	<b>20.0</b>	<b>35.9</b>	<b>29.5</b>	<b>0.8%</b>	<b>0.9%</b>	<b>22.7%</b>	<b>24.4%</b>
<b>Median</b>					<b>6.1</b>	<b>5.2</b>	<b>22.7</b>	<b>20.2</b>	<b>28.7</b>	<b>25.4</b>	<b>0.7%</b>	<b>0.8%</b>	<b>25.9%</b>	<b>27.1%</b>

Source: Refinitiv (as at 16 March)

---

## 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

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.