March 23rd, 2022
Research report

SMC Research
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Platz 1 German Software & IT (2017)
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Mensch und Maschine Software SE

High-growth dividend stock

Rating: Strong Buy (unchanged) | **Price:** 61.50 € | **Price target:** 71.00 € (prev.: 73.40 €)

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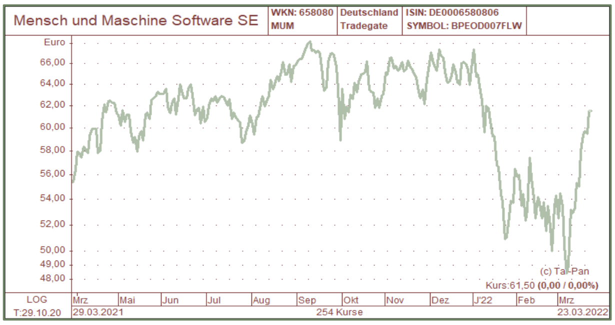
Snapshot



Short profile

The business model of Mensch und Maschine is based on the two pillars of proprietary software and VAR business as an Autodesk partner. With this positioning, the company addresses attractive markets in which it is one of the leading providers. In the software business, M+M scores above all with the technological excellence of its products, which enables it to position itself in the high-price segment of the market and to achieve high margins, while in the VAR business, its role as a digitisation partner for customers is increasingly becoming a growth driver. The figures impressively show that this business model works. Since 2012, M+M has been growing at an average of 9.4 percent p.a. in sales and 21.1 percent in EBIT. In the last two years, the increase in margins has even accelerated further despite the Covid-19 pandemic. M+M intends to continue on this path in 2022 and subsequent years and has set itself the goal of doubling earnings per share again by 2025/2026. Given the strong reliability with which M+M has pursued its own plans and achieved its forecasts in the past, we believe it is likely that this target will be reached.

Basic data

Based in:	Wessling
Sector:	CAD/CAM software
Headcount:	979
Accounting:	IFRS
ISIN:	DE0006580806
Ticker:	MUM:GR
Price:	61.50 Euro
Market segment:	Scale / m:access
Number of shares:	17.2 m
Market Cap:	1,055 m Euro
Enterprise Value:	1,132 m. Euro
Free Float:	approx. 46.4 %
Price high/low (12M):	69.20 / 47.00 Euro
Ø turnover (Xetra, 12 M):	383,400 Euro / day

FY ends: 31.12.	2019	2020e	2021	2022e	2023e	2024e
Sales (m Euro)	245.9	244.0	266.2	290.1	316.2	347.8
EBIT (m Euro)	27.2	31.0	34.7	39.9	45.8	54.0
Net Profit	16.7	18.7	21.3	24.4	27.9	32.8
EPS	0.99	1.11	1.26	1.44	1.65	1.93
Dividend per share	0.85	1.00	1.20	1.35	1.55	1.80
Sales growth	32.7%	-0.8%	9.1%	9.0%	9.0%	10.0%
Profit growth	42.6%	12.3%	13.9%	14.5%	14.6%	17.3%
PSR	4.24	4.28	3.92	3.60	3.30	3.00
PER	62.6	55.7	49.0	42.8	37.3	31.8
PCR	39.6	30.9	28.0	28.6	25.5	22.4
EV / EBIT	41.2	36.1	32.3	28.1	24.4	20.7
Dividend yield	1.4%	1.6%	2.0%	2.2%	2.5%	2.9%

Executive Summary

- **Highly profitable business with CAM software:** The wholly owned subsidiary Open Mind is the group's paragon of profitability. It develops and sells technologically leading CAM software and accounts thus for more than a third of the group's gross profit.

- **High-growth and high-margin software business:** As the largest component of the software segment, Open Mind contributes significantly to its strong growth and high profitability. Over the last five years, the segment's EBIT has increased by 87 percent, and its EBIT margin has been above 20 percent for six years, most recently at 25.4 percent. Another strong-growth company in the software segment was most recently SOFiSTiK, the specialist for construction software, in which the group has held a majority stake since the beginning of 2019.

- **Autodesk partnership for almost 40 years:** However, Mensch und Maschine's origins lie in the trading business with the CAD software of the American CAD pioneer Autodesk, in which M+M, as Autodesk's largest European VAR partner, has a consolidated market position with a broad geographical presence and a very large customer base.

- **Digitisation provides tailwind:** But pure Autodesk trading and the associated services are now playing an ever smaller role in VAR business as well. Instead, the focus is increasingly shifting to proprietary services such as training in the BIM (Building Information Management) environment and, above all, digitisation projects in the industry and the construction sector. Thanks to its experience with BIM and PDM (Product Data Management), M+M scores above all with its expertise in data management and the ability to link construction data with commercial information, on the basis of which complete business processes can be digitised.

- **Dynamic sales and profit growth:** Over the past five years, M+M has increased sales by an average of 13.4 percent p.a., while EBIT and net profit have grown by 23 and 26 percent, respectively − per year. The EBIT margin has been in double digits since 2018, improving by almost 2 percentage points in the last two years alone to most recently 13 percent, despite the Covid-19 pandemic.

- **Proved growth model:** In the medium term, M+M is confident of achieving an EBIT margin of more than 20 percent. In combination with the continued targeted sales growth of 8 to 12 percent p.a., profit is to be doubled again by 2025/2026. The strong profit momentum is due in no small part to the pronounced cost discipline, which is reflected in a group-wide guideline to the profit centres to limit cost growth to about two-thirds of gross profit growth and is combined with strict EBIT incentivisation.

- **Growth stock with attractive dividend yield:** M+M uses the earnings and cash flow strength of the business model for a generous dividend policy, which, together with the steady growth in profits, ensures the attractiveness of the share. We see this additionally underpinned by the solid balance sheet figures as well as the pronounced forecast reliability and confirm our "Strong Buy" rating with a price target of EUR 71.00.

SWOT analysis

Strengths

- Strong position in attractive target markets established for decades.
- A fast-growing, highly profitable software segment with a global market presence and a leading technological position.
- High continuity at management level and very low employee turnover.
- Stable shareholder structure with more than 50 percent of shares in management hands.
- Solid balance sheet structure with a high equity ratio and low debt.
- Growth dynamics above the industry average, with recently a disproportionately high rise in profits.
- Previous forecast accuracy supports the target of further profit increases.

Weaknesses

- The VAR business is largely determined by Autodesk's product and pricing policy.
- The geographic expansion of the VAR business requires the expensive establishment of additional offices.
- Strong dependence on Germany and Europe.
- In both segments, M+M faces the challenge of attracting and retaining suitable employees in a difficult labour market.
- In terms of marketing, technology and personnel, there are at best only minor synergies between the segments.

Opportunities

- There is still considerable potential for margin growth in the VAR business that should allow an above-average profit development in the next few years if the present trends continue.
- The increasing importance of digitisation projects is likely to further boost the development of the VAR business.
- With its expertise in BIM and bridge and tunnel construction, the SOFiSTiK subsidiary is addressing very promising markets.
- With the new eXs software, M+M has a modern product for an attractive market in which there is nothing comparable on offer.
- The foreseeable profit growth should allow a steady and considerable increase in dividends.

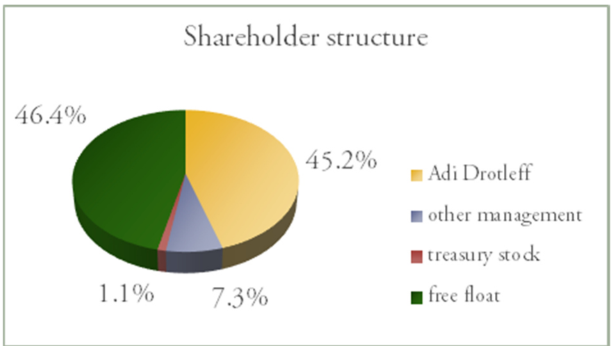
Threats

- High personnel intensity in the VAR business means a high extent of utilisation risk in economically weaker phases.
- The targeted further increase in margins cannot be taken for granted, especially at the level already achieved.
- Should Autodesk fall behind in competition, it could have a perceptibly negative impact on the VAR business.
- The role as technology leader requires intensive development activities in the software segment and carries the risk of technological failures.
- The share's current valuation reflects the very high earnings growth and the expectation of a continuation of this trend. A disappointment of this expectation could lead to significant price declines.

Profile

Leading market position

Mensch und Maschine Software SE (M+M) was founded in 1984 and has its origins in the distribution of software from the US-based CAD manufacturer Autodesk (the abbreviation CAD stands for Computer Aided Design). In the meantime, the focus has expanded and the market has developed further, which is why M+M defines its own field of activity as the market for CAD/CAM/CAE/PDM/BIM solutions (Computer Aided Manufacturing, Computer Aided Engineering, Product Data Management and Building Information Management), in which the company based in Wessling, Bavaria, is one of Europe's leading providers.



Source: Company, as of 31.12.2021

Majority of shares held by management

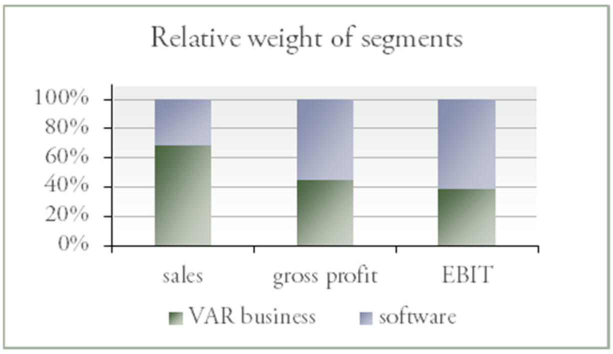
The M+M share has been listed on the stock exchange since 1997 and is traded in the m:access segment of the Munich Stock Exchange and in the Scale segment of the Frankfurt Stock Exchange. Despite this long stock market membership, by far the largest shareholder (45.2 percent) is still the founder Adi Drotleff, who has been an ordinary member of the Executive Board and Chairman of the Board of Directors since the company's transformation into a Societas Europaea (SE). Mr. Drotleff documents his extraordinary commitment to the company not least with his continuous acquisitions of M+M shares, with which he has increased his stake by more than 4 percentage points since 2010. For this purpose, he uses in particular the option regularly offered by M+M to exchange the dividend rights for shares. At the turn of the year, a further 7.3 percent were held by other management and 1.1 percent by the company itself. M+M increases this stake whenever an opportunity arises during periods of market weakness and then uses the shares to service the claims from the stock dividends. Thus, the recent market turbulence was also used for new purchases, so that the proportion of treasury shares increased to over 2 percent by mid-March, according to company information.

Clear holding structure

Within the group, Mensch und Maschine Software SE acts purely as a financial holding company. Located below is the subsidiary Mensch und Maschine Management AG, which performs the typical management and service tasks for the other companies. The operating business, however, is performed by around 40 direct and indirect subsidiaries with altogether 979 employees (FTE) and around 75 locations worldwide. A geographical focus is clearly on the German-speaking region, where M+M is represented comprehensively with more than 40 locations. Moreover, the company has also offices in other European countries, in some Asian countries as well as in the USA and Brazil.

Two business segments

Since 2012, the business model is based on two segments: on the one hand the VAR business, i.e., the direct distribution of Autodesk software to end customers and services in the CAD and BIM field, and on the other hand the development and distribution of proprietary software. In terms of sales, business is dominated by the first segment, which generated EUR 182 m or almost 70 percent of consolidated sales last year. But at the level of gross profit, the contribution of the software segment is predominant (55 vs. 45 percent), and almost two-thirds of the EBIT are actually generated in the business with proprietary software products.



Source: Company, as of 2021

Highly profitable software business

The different segment weights reflect considerable differences in profitability. While the VAR business generated a gross margin of 34.2 percent and an EBIT margin of 7.3 percent in 2021, in the software segment these figures are 90.5 and 25.4 percent, respectively. They reflect the continuous and successful development of the four subsidiaries included in this segment, Open Mind, DATAflor, M+M Mechatronik and SOFiSTiK, all of which achieve operating margins of more than 20 percent.

High-end CAM solution

The group's paragon of profitability and by far the biggest unit within the software segment is clearly the CAM specialist Open Mind, founded 1994 and fully owned by the M+M group since 2002. The company specialises in high-quality software for computer-aided manufacturing (CAM), has annual sales of well over EUR 50 m and generates more than a third of the group's gross profit. The Open Mind software, generating average revenues of EUR 30,000 per workstation, enables customers to carry out highly complex and extremely precise drilling and milling tasks (e.g., with 5-axis mills) in a fraction of the usually required time, thus increasing the productivity of the machines controlled by the software many times over. The software can be used with all common NC mills and lathes, is compatible with leading CAD products (including Autodesk and Solidworks), has a user-friendly interface and enables continuous processes from designing to manufacturing on the machine. In addition, the company offers its own CAD solution that is clearly geared to the requirements of CAM programming, in contrast to leading CAD programs that are mainly optimised for the needs of design engineers. As a central unique selling point, however, Open Mind emphasizes especially its own cutting-edge kernels. They allow a very efficient mapping of highly complex mathematical and geometrical models, resulting in a shorter processing time in the programmed machines. To maintain this technological lead, Open Mind attaches a great importance to software development: of the more than 350 employees of the company, more than 60 are software developers.

Worldwide customer base

According to information on its own website, Open Mind has a worldwide base of around 10,000 customers and more than 20,000 installations. The customers hail from various industries using this kind of machine tools, such as prototype construction, tool and mould construction, aerospace, turbine and generator construction, mechanical and medical engineering, and jewellery manufacturing. But also several Formula 1 racing teams use the software to tune their engines or to aerodynamically optimize the carbon elements. Unlike the VAR business, Open Mind also addresses non-European markets and has offices in Japan, Singapore, Taiwan, China, India, Brazil and the USA.

Leading BIM solution

Since 2019, the second largest unit in the software segment has been SOFiSTiK AG, with which M+M has expanded its product portfolio to include a leading solution for Building Information Management (BIM). SOFiSTiK AG, in which M+M had held a minority interest since 1999 (increased to 51 percent in 2019), has been active in the market since 1987 and specializes in the development of construction software. The company now claims to be Europe's leading software producer for the calculation, design and construction of building projects, with a particular focus on bridge and tunnel construction. Like Open Mind, SOFiSTiK is active worldwide and has over 3,000 customers in 60 countries (source: M+M). It has its own subsidiaries in the USA, Israel and Finland. The strengths of SOFiSTiK's software products include the planning and calculation of static layouts and reinforcements as well as their BIM functionalities, which enable frictionless and complete mapping of the entire design and construction process in consistent data models, making the company one of the leading BIM providers. The software's strength can play out in particular where special demands are made on the static of the object, which is why the reference list comprises several world-famous and spectacular buildings. These include numerous bridges, such as the new Bosporus Bridge in Turkey, several stadiums and the BMW World in Munich. However, the software is also suitable for "normal" use in building construction and civil engineering. In total, M+M speaks of thousands of construction projects that were calculated and constructed with SOFiSTiK products. An exceptional potential for SOFiSTiK could arise in the coming years due to the large repair and replacement requirements of bridges, for which the company has a powerful and fully BIM-compatible standard product in its range with the SOFiSTiK Brigde Modeler. According to information on its homepage, the M+M subsidiary with its 80 employees, spread over nine locations worldwide, has annual sales of around EUR19 m.

DATAflor leading in its niche

The group's oldest product subsidiary, on the other hand, is DATAflor Software AG, whose solutions are mainly used by landscape architects for the graphic and financial planning of green areas. The product costs − according to the company − about EUR 5,000 per workstation. It has already been in the market since 1982 and has a leading position in the addressed niche in the German-speaking area. Recently, the scope of application was extended to earthworks and civil engineering: for instance, the software is used to model and plan parts of the earthworks around the construction of the Brenner base tunnel.

New software for electrical engineering

Finally, in 2019, a new software for computer aided engineering was introduced to the market under the name eXs. It had been developed from scratch with great intensity in the years before under the umbrella of the subsidiary Mensch und Maschine Mechatronik GmbH. The software is tailored exactly to the mapping of highly complex circuit diagrams and enables efficient planning and management of very large projects with thousands of individual sheets, such as those required with railways, mechanical and plant engineering, energy supply, process engineering, hydraulics and pneumatics as well as in the audio and video technology. This solution replaces an older product (ecscad) originally developed by M+M as a supplement of the standard Autodesk program, then sold to the Americans, and licensed back in 2014, including − at that time − more than 1,000 customers. Since M+M took care to ensure the new product's full data compatibility with ecscad, customers with maintenance contracts should be able to automatically switch to eXs and benefit from the numerous advantages of the new solution. These include a faster database, greater variety of functions with simplified operation, largely free configurability as well as an easy data exchange with other systems.

Europe's largest Autodesk VAR

In the second segment, Mensch und Maschine specialises in direct end-customer distribution of Autodesk software and related services and products. With around 50 locations throughout Europe, 40 of which in the DACH region, and about 500 employees, Mensch und Maschine is the largest Autodesk VAR in Europe.

High service share

However, the importance of trading with Autodesk licenses − the nucleus and origin of the M+M Group − has declined in recent years. While the trading margin accounted for more than three quarters of group value added in 2001, its share now is 20 percent. In addition to the strong growth of the software segment, this is due to the expansion of the service share in the VAR business. Services include activities such as installation, configuration, maintenance and training courses, the latter having undergone particularly dynamic development in recent years. M+M scores here above all with offers relating to the new possibilities in data management that become available to the users through the new software products in the areas of

PDM and BIM (Product Data Management and Building Information Management). Another growth driver in the VAR business are customer-specific projects, which usually involve the implementation and customised adaptation and extension of the Autodesk software, the configuration of adequate data models and the migration of data sets. These projects, whose volume can comprise several man-years, are increasingly using M+M's own software modules that add special functionalities or industry solutions to Autodesk's basic software. These include industry solutions for plant engineering and construction as well as the customX variant and configurator software, with which variant design can be automated with a time saving of more than 90 percent.

Growing importance of digitisation projects

Within the large customer projects, the focus is increasingly moving away from the Autodesk orientation; instead, it is more and more about the digitisation of customer processes. Data management (PDM and BIM) is particularly important in this respect. In this area, M+M helps customers to create consistent data models across departments as a basis for digitisation projects and to smoothly connect data sets. In many cases, it is also a matter of systematically collecting knowledge tied to individual employees and securing it digitally. This could be, for example, geographical data on large company premises or the recording and administration of assets. With regard to the linking of data, the connection of design data with commercial information plays a central role in the projects.

Objective: end-to-end digital processes

On this basis, customers can link their processes completely digitally. For instance, the M+M solutions customX (variant design) and M+M PDM booster (connection to ERP systems) enable the individual configuration made on a mobile device during a customer appointment to be calculated in real time and the corresponding ordering and production processes to be triggered. Such projects enable companies to offer even minimal lot sizes (M+M: lot size 1) without having to accept the complexity costs that would otherwise be incurred. Other examples are digital building manuals for property management companies, or the concept of a digital factory like that carried out for ten years for the Hüttenwerke Krupp Mannesmann (HKM) in Duisburg, Germany, which has now produced a detailed 3D image of the steel plant with all the associated metadata.

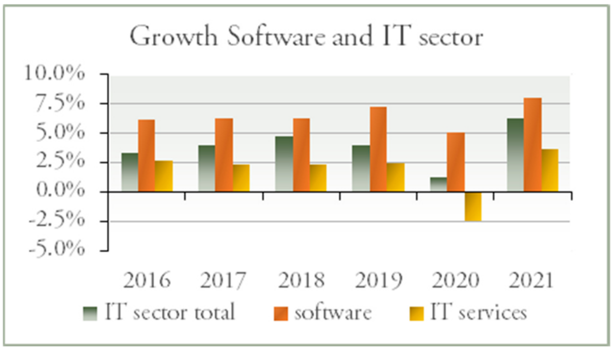
Broad industry focus

Although such projects can be large in scale, they are usually broken down into such small sub-projects that no single project or customer represents a cluster risk for M+M. On the contrary, M+M ensures a strong diversification on the customer side. This is true both with regard to industry structure and – even more – with regard to the share of sales generated with the more than 30,000 individual customers across the group, none of whom is responsible for more than 2 percent of the group's sales. M+M states the industry composition of the customer list (measured by gross profit) as 55 percent industry (which includes all owners and buyers of machine tools as well as companies from such sectors as mechanical engineering, vehicle, aircraft and ship construction, mould and tool making, electrical and process engineering, hydraulics and pneumatics) and 35 percent in the architecture and construction sector. The latter include customers from all segments of construction, gardening and landscaping, building services, technical building equipment and property management. According to M+M, the remaining 10 percent of the value added is generated with companies at the intersection of the two sectors, such as construction suppliers.

Market environment

Software as growth driver

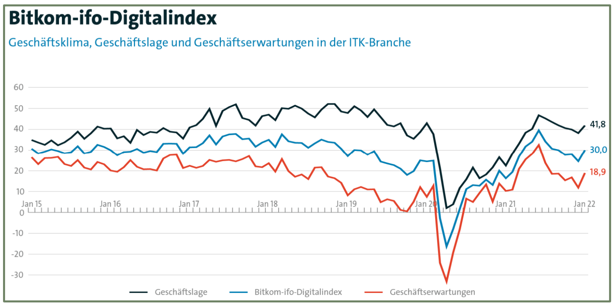
With its focus on IT services and software, Mensch und Maschine operates in markets with above-average growth dynamics. The German software market, for example, has grown by an average of more than 6 percent per year over the last ten years, to most recently almost EUR 30 billion. Even in the first Covid-19 year 2020, growth only declined to 5.1 percent before accelerating again to 8.0 percent last year (source: BITKOM). In contrast, the development of IT service companies is somewhat more moderate, but still above average in the overall economic context. Over the past ten years, the average growth rate has been 2.0 percent p.a., and in 2021 sales increased by 3.7 percent to EUR 41.4 billion.



Source: BITKOM

Confident forecast

In January, the industry association BITKOM was still expecting a further acceleration for the current year, to 9 percent in the software market and 3.9 percent in IT services. This forecast by the industry association was based not least on the monthly economic survey, which in January signalled an optimism at pre-crisis level. The Bitkom-ifo Digital Index calculated by BITKOM and the ifo Institute to measure the business climate in the industry had climbed by 5.4 points to 30 points in January 2022 (see figure. Source: BITKOM). However, since these forecasts are based on the mood captured before the Russian attack on Ukraine, they have probably lost some of their significance by now. The next evaluation of the Digital Index will show how strongly the war has affected the economic assessment in the IT sector.



Source: BITKOM

Tailwind for digitisation

As painful as the Covid-19 slump had been in other sectors, for the IT industry it has in retrospect proved to be a demand driver. After all, the contact restrictions in numerous economic and social areas have made it clear how important the digitisation of products, and even more so of processes, is for the crisis-proofing of business models. In this context, the industry association BITKOM speaks of a digitisation push by Covid-19. According to a survey by Bitkom Research on behalf of the IT service provider Tata Consultancy Services (TCS), three quarters of the 955 German companies surveyed stated that they had increased their investments in digital equipment, technologies and applications in response to the pandemic. In four out of ten of the companies, the digitisation of products and services has accelerated, and in a quarter, this applies to their own business processes. The companies also report a positive change in employees' attitude towards digitisation (source: BITKOM: Corona führt zu einem Digitalisierungsschub).

CAD world highly dynamic

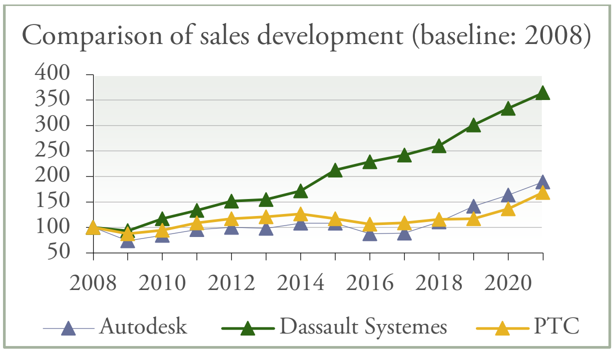
Digitisation is also a driving force in the CAD market, which was co-created by M+M partner Autodesk in the 1980s. After the market was dominated in its early years by 2D products for use in architecture and construction, the current 3D applications have now become indispensable in other areas as well, such as mechanical and plant engineering, the automation industry and consumer goods production. An important step towards the digitisation of complete business processes was the expansion of the functionalities towards the fully software-supported optimisation of the entire product life cycle (PLM), from planning, through design, calculation and production to controlling, distribution and servicing. A similarly comprehensive functional extension in the building industry is becoming increasingly common under the name of BIM (Building Information Management) and enables efficient planning, designing, constructing as well as managing of buildings, infrastructure facilities and utilities in a single system. A focus within the CAD world is now on consistent data models and solutions for the collaboration of numerous participants. And of course, there is a strong tendency towards cloud-supported and mobile applications.

Robust growth

Given the large overlaps with other software segments, a precise demarcation of the CAD market is not easy. Jon Peddie Research estimates the global market volume in 2021 at USD 9.4 billion, which means that the market has grown by 6.8 percent. The analysts at Grandviewresearch see last year's market volume even at USD 10 billion and believe that the industry will increase its sales by an average of 6.4 percent p.a. to USD 15.4 billion by 2028. Among other things, the increasing adaptation in many industries (e.g., entertainment, medical technology) and the development in the emerging markets are considered to be important market drivers; in addition, the analysts cite the growing cloud usage and 3D printing as important aspects.

Intense competition

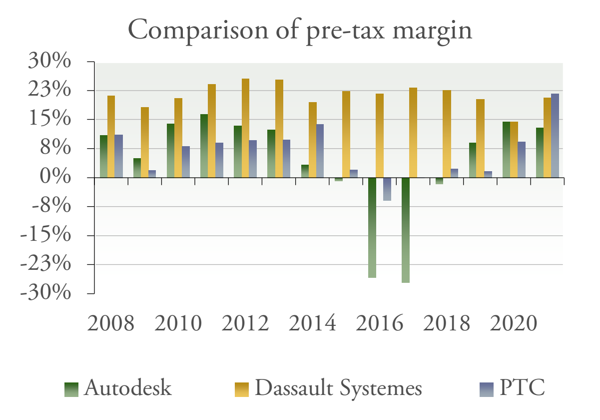
The market is considered highly competitive. Besides the M+M partner Autodesk, the most important players include Dassault Systemes, PTC, Siemens and Bentley Systems. In terms of the worldwide installed base, Autodesk continues to be considered the market leader, with strengths mainly in the mid-price segment, while the premium segment, defined primarily by comprehensive PLM functionalities, is dominated by Dassault Systemes. Following several acquisitions (including UGS and Mentor Graphics), Siemens and its subsidiary Siemens Digital Industries Software also play a leading role in this segment. In the DAX group's figures, this is listed in the superordinate Digital Industries division, whose software revenues amounted to EUR 4.3 billion in 2021. This means that Siemens is now likely to be on a similar scale to Dassault Systemes in the PLM sector.



Source: Autodesk, Dassault Systemes and PTC

Autodesk with strong sales increase

In terms of sales, however, Autodesk has long since lost its market leadership to Dassault Systemes. One of the reasons is the accelerated transformation of the business model towards cloud software and subscription, which involved lower licence income in the transition period. This process led to a significant decline in sales of 19 percent in 2016, followed by stagnation in 2017. But since 2018, Autodesk sales have been growing again, and more strongly than Dassault's. In each of the last two years, Autodesk grew by almost 16 percent, while the French market leader grew by nearly 11 and 9 percent respectively. Recurring subscription revenues now account for 95 percent of Autodesk's sales, which should ensure stable growth in the future. Despite these new dynamics, the cumulative growth gap to Dassault (since 2008) is still huge. While Autodesk is now 90 percent above the level from the base year, the French have increased their revenues by more than 260 percent in the same period, although very intensive acquisition activities have also contributed to this.



Source: Autodesk, Dassault Systemes and PTC

...and with improved profitability

The temporarily weak sales performance was also reflected in Autodesk's profit, which slipped into the red for the first time in 2015 and remained there until 2018. Since 2019, however, Autodesk has been back in the black, and in 2020 it generated its highest pre-tax margin since 2012 at 14.4 percent. Last year, this level could not quite be maintained, the EBT margin fell slightly to 12.9 percent. This means that Autodesk is still lagging well behind Dassault also in terms of profitability. The French regularly achieve a pre-tax margin of more than 20 percent; only in the first Covid-19 year did this slip to "merely" 14.5 percent. In 2021, however, a figure of over 20 percent was achieved again. An impressive renaissance has been experienced in the last two years by the third listed provider PTC, which as recently as 2019 seemed to be trailing behind with meagre growth and low profitability, but has since outstripped the other two in terms of growth rates (2020: 16 percent, 2021: 24 percent) and increased its pre-tax margin in two steps by 20 percentage points to most recently 21.7 percent (although a significant part of last year's profit jump was due to special effects).

Autodesk as market standard

Despite the weaker growth dynamics and lower profitability compared to Dassault in recent years, Autodesk continues to enjoy a strong market position. The Californians have by far the widest range of products and are thus able to address the entire width of the market, while the competition is mainly focusing on industrial customers and among them especially on individual sectors like automotive or aerospace industry. Autodesk is still the undisputed leader in the architecture/engineering/construction area (AEC) which constitutes approximately one third of the market. Another advantage is the fact that Autodesk's products, due to their widespread use, represent a kind of industry standard that many users have come to identify with CAD. Thus, the high availability of users able to work with Autodesk software is an important argument in favour of Autodesk from the customer's point of view.

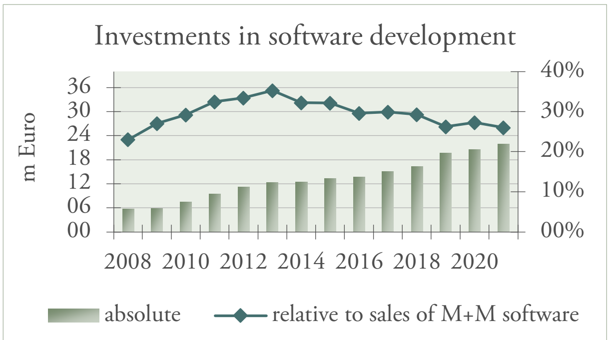
BIM as an important market driver

Given its strong position in the AEC field, Autodesk could well benefit from the trend to extend the CAD software by a complete management of all data pertaining to the building. This concept, coined by Autodesk under the term Building Information Management (BIM) that is now common in the market, is currently attracting a great deal of interest. The data management incorporates a time component as well, and some market observers speak in this context of a transition towards 5D models, which include – in addition to the three spatial dimensions – also costs and a time axis. In some cases, the definitions reach up to 7D if the models also include a sustainability assessment and applications for facility management (manuals, service contacts, spare parts information, etc.). Regardless of the definition used, many market observers believe that the BIM concept has disruptive potential for the construction industry. As a pioneer, the M+M supplier Autodesk could benefit particularly strongly from this development, especially as – according to Mensch und Maschine – the Americans clearly dominate the BIM market with their Revit software.

Strategy

Technological leadership with software

From the group's perspective, the central strategic thrust that has been instrumental in the successful development of recent years is the technological leadership of the subsidiary Open Mind in the CAM business it addresses. The increases in productivity Open Mind is offering its customers are in some instances very considerable. They are the most powerful sales argument and they create the scope for positioning in the high-price segment and, consequently, for the sustained achievement of very high margins. To maintain and expand this positioning, high-quality innovations are crucial; therefore, high investments in the maintenance and development of the company's own software (only capitalized to a very small extent in the balance sheet) are at the core of M+M's strategy. In relation to segment sales, development costs have averaged just under 28 percent over the last five years, albeit with a declining trend due to growth. Last year, the item increased again in absolute terms by 6 percent to EUR 21.9 m, while the share in segment revenues declined from 27.2 to 26.0 percent.



Source: M+M

Expansion of software business

With the majority takeover of SOFiSTiK AG, with which M+M has positioned itself as a software producer for the calculation, design and construction of statically particularly demanding building projects, especially in bridge and tunnel construction, the high-margin software business was further expanded. Like Open Mind, SOFiSTiK is technology leader in the addressed market and promises high growth for the next years. With the new product Bridge Modeler alone, a market segment is being addressed in which the construction or repair of more than 100,000 motorway and railway bridges is planned in Germany in the medium term. A further strengthening of the software range was completed with the development of the eXs solution, with which M+M now has a modern product that is likely to meet with great demand, especially in the technologically driven German Mittelstand, and can also fulfil an important door-opening function.

Diversification with two segments

With the two-pillar strategy reflected in the two segments, M+M ensures diversification of its own activities, both in terms of areas addressed and geography. While the VAR business provides a large market share in Europe as well as recurring service revenues, the product-related business contributes more to the internationalisation of the revenue base and enables higher margins.

Increasing market share

In the VAR business, the focus on Autodesk products is the central strategic determinant, which means that the development of the CAD pioneer plays a formative role for this M+M division. Autodesk's strategic decisions, such as the realignment of the business model towards rental software, have as much direct impact on the development of M+M as the quality and degree of innovation of the Americans' product portfolio. But within this setting, M+M has enough regulating variables at its disposal to be able to influence its own sales and profit growth. The main source of growth is therefore an even more intensive penetration of already covered markets and an increase of the company's share in Autodesk sales (at the expense of other VARs). The development of the last few years shows that M+M is quite successful in this respect. Since 2012, Mensch und Maschine has increased its

VAR sales by 114 percent to EUR 182 m, while Autodesk sales in the geographical segment EMEA (Europe, Middle East and Africa) have "only" doubled to USD 1,7 billion in that time.

Realising economies of scale

The size achieved by now represents an important competitive edge over other Autodesk VARs. As it allows a centralisation of several important functions such as marketing or hotline support, M+M is able to realise substantial cost benefits. At the same time, the consistent label and the comprehensive presence facilitate the addressing and support of larger customers.

Expansion of the range of services

An important aspect of the growth strategy is the expansion of the company's own range of services. By now, M+M offers a comprehensive portfolio of services in the VAR business, which go far beyond the original offer relating to support, maintenance and implementation of the Autodesk software. An important part of this are training courses for BIM applications, which, according to M+M, have been completed by a five-digit number of customer employees to date. Digitisation projects, which are increasingly independent of manufacturers and in which aspects such as data management or digital interlinking of processes play a central role, are at least as promising. This development is also accompanied by a reduction in dependence on Autodesk. The share of trading business, i.e., Autodesk licenses, in the group's gross profit is now only around 20 percent.

Standardisation of range

Important differentiating features in competition with other Autodesk partners and at the same time central elements in many customer projects are the company's own modules and extensions to the Autodesk standard software, with which the customer- or industry-specific requirements are met. These solutions then demonstrate the degree of expertise to the industries addressed, facilitate sales, increase productivity in the projects and facilitate their calculability. They include such products as BIM and PDM Booster, with which Autodesk's standard products are adapted to European conditions, customX for the digitisation of variant production and MapEdit, a solution for the integration of map data. However, standardisation is not only expressed in software modules but also in the range of services and training courses for which M+M has also developed a wide range of "ready-made" components.

Clear focus on profitability

Mensch und Maschine owes its profitability, which has been rising steadily for years, not least to the consistent management of the group via EBIT. This means that the managers of the approximately 100 independent profit centres are incentivised exclusively through EBIT. At the same time, the group-wide target is to keep cost growth at two-thirds of gross profit growth. With this combination, M+M links a pronounced cost awareness with a high level of motivation, which is reflected in the good group figures year after year. At the same time, decentralised cost management ensures a high degree of flexibility. This was not least noticeable during the Covid-19 crisis, to which the group was able to react very quickly with a cost freeze, which ultimately formed the basis for the above-average profit growth even in the difficult year 2020.

Continuity and predictability

M+M pursues its long-term strategy with great dependability, thus ensuring a high degree of reliability for customers, partners and investors. Continuity is also a top priority in terms of personnel and, above all, in the management structure. In line with this, the generation change in the top management has been carried out smoothly over several years through the development of suitable executives and by increasingly delegating tasks and responsibilities.

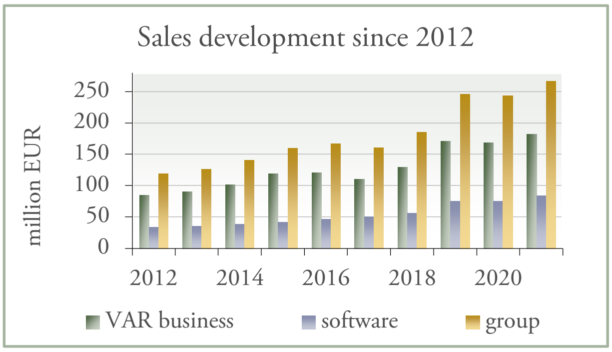
Complementing acquisitions

The excellently functioning business model allows M+M to concentrate on organic growth, which is easily plannable and low-risk, and to forego major acquisitions. Larger acquisitions to open up new markets or gain new customers are therefore not on the agenda; instead, M+M limits its own M&A activities to smaller, opportunistic acquisitions to round out its own position. At the beginning of 2021, the CAM sales partner for the Benelux region was taken over for just under EUR 2.6 m as a succession solution. The new subsidiary, operating under the name Open Mind Technologies Benelux BV, contributed EUR 2.2 m to consolidated sales and EUR 0.6 m to the pre-tax result last year.

Financials

CAGR of nearly 10 percent

M+M has grown strongly since its focus on the current business model and has increased sales by more than 120 percent between 2012 and 2021 to most recently EUR 266 m. Despite a temporary dip in sales due to a strategic change at the main supplier Autodesk and despite the dampening effect of the Covid-19 pandemic, the average annual growth rate for this period thus amounts to 9.4 percent. The software segment made particularly strong gains (+151 percent to EUR 84 m), but revenues in the VAR business also more than doubled to EUR 182 m. In the last business year, the growth rate of the software division was also somewhat higher than in the VAR business, even if the gap was only small this time at 11 vs. 8 percent and can be attributed to the small consolidation effect from the acquisition of Open Mind Technologies Benelux BV. Growth at group level was 9.1 percent.



Source: Company

Stable gross margin

Gross profit in this period has grown in step with sales, but much more steadily, because the fluctuations in revenue are mainly observed in the area of low-margin trading revenues with Autodesk licences. It increased by almost 120 percent to EUR 138.4 m between 2012 and 2021. This means that the business model has a stable gross margin in the long term, which amounted to 52 percent last year. But there is a clear difference between the two segments here as well: While the software business consistently generates a margin of over 90 percent (2021: 90.5 percent), the margin in the VAR business is subject to greater fluctuations depending on the weight of the trading business. In recent years, it has fluctuated between 41.6 and 34.1 percent, with an average of 37.4 percent. In 2021, it was at 34.2 percent, slightly lower than the previous year, due to the increase in trading revenues.

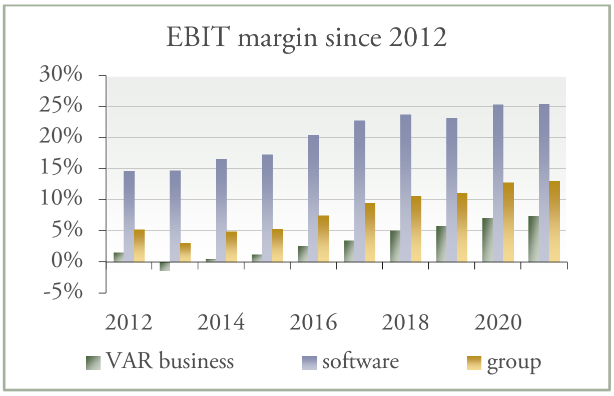
Source: Company

EBIT growth disproportionately high every year

Mensch und Maschine combines the steady growth with consistent cost discipline, which enables a permanently disproportionate growth in profits. Overall, EBIT has more than quintupled to EUR 34.7 m in the ten years to 2021, equivalent to a remarkable CAGR of 21.1 percent. Since 2014, EBIT has not only increased every year (before that, extraordinary income had a distorting effect), but it has also risen disproportionately higher than sales each time.

Double-digit EBIT margin

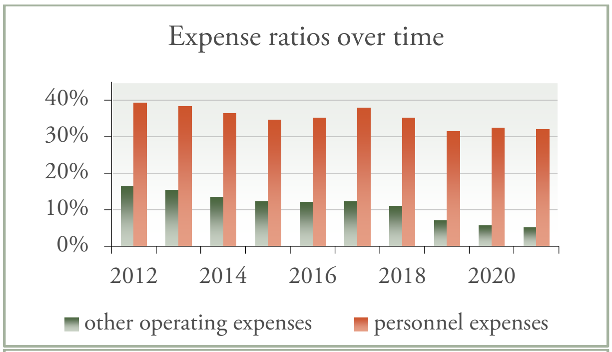
The continuous increase in profitability can be seen in the development of the EBIT margin, which increased by more than 8 percentage points between 2014 and 2021 to most recently 12.7 percent. Since 2018, the EBIT margin has been in the double-digit range; last year, a new record figure of 13.0 percent was marked. In the software business, an EBIT margin above 20 percent has been generated already since 2016 (most recently 25.4 percent), while in the VAR business, which was still loss-making in 2013, the most recent figure was 7.3 percent.

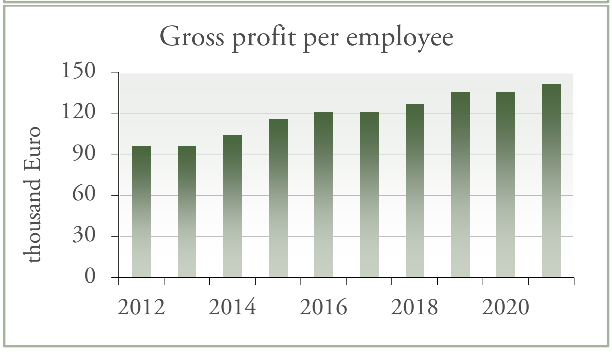


Source: Company

Sustained cost discipline

M+M owes the continuous margin increase to the pronounced cost discipline in the group. This is expressed in a group-wide target for the approximately 100 decentralised profit centres to keep cost growth at around two-thirds of gross profit growth, as well as in strict EBIT incentivisation. The fact that this model also works in the long term is illustrated by a look at the development of the expenditure ratios, which clearly shows a downward trend over time. Between 2012 and 2021, the personnel expense ratio decreased by 7.4 percentage points, while the share of other operating expenses even decreased by 11 percentage points to 5.2 percentage points. However, part of this decrease is due to the first-time application of IFRS 16 in 2019, as a result of which rental and leasing costs of approximately EUR 5.5 m p.a. are no longer recognised as other expenses but as depreciation. The decline in the cost/income ratio ultimately reflects the significant progress in productivity in the M+M Group: The average gross profit per employee has increased by half between 2012 and 2021 from just under EUR 96,000 to more than EUR 141,000.





Source: Company

New records in 2021

These positive trends have continued over the last two years, notwithstanding the Covid-19 pandemic, and the prudent cost policy and pandemic-related savings have even further increased the profit momentum. Thus, EBIT increased by 11.8 percent to EUR 34.7 m in 2021, which corresponds to an increase of almost 28 percent compared to the last pre-Covid year 2019. By way of comparison, sales have "only" increased by 8 percent during this time. One important reason is the massive decrease in other operating expenses, which fell by 21.5 percent in 2020 and remained stable in 2021. This was due, among other things, to the Covid-19-related savings in travel, vehicle and event costs, which are expected to increase again in the future, but without regaining their former weight. Thanks to positive effects in the financial result, the net profit for 2021 even increased by 13.9 percent to EUR 21.3 m, which corresponds to an increase of 13 percent to EUR 1.26 per share.

Business figures	FY 2020	FY 2021	*Change*
Sales	244.0	266.2	*+9.1%*
VAR business	168.4	182.0	*+8.1%*
Software	75.6	84.2	*+11.3%*
Gross profit	128.0	138.4	*+8.2%*
VAR business	59.1	62.3	*+5.4%*
Software	68.8	76.1	*+10.6%*
Gross margin	*52.4%*	*52.0%*	
EBITDA	40.3	44.4	*+10.2%*
EBITDA margin	*16.5%*	*16.7%*	
EBIT	31.0	34.7	*+11.8%*
VAR business	11.9	13.3	*+12.1%*
Software	19.1	21.4	*+11.6%*
EBIT margin	*12.7%*	*13.0%*	
Pre-tax result	29.8	33.8	*+13.6%*
Pre-tax margin	*12.2%*	*12.7%*	
Net profit	18.7	21.3	*+13.9%*
Net margin	*7.7%*	*8.0%*	
Free cash flow	27.8	28.6	*+3.0%*

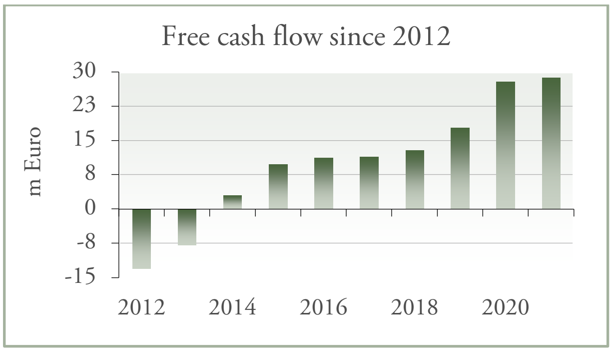
In m Euro and percent, source: Company

Very high cash surpluses

The strength of the M+M business model is also impressively reflected in the cash flow figures. For many years, the group has consistently generated high surpluses in both operating cash flow and free cash flow, which also show a clear upward trend. Since 2016, the free cash flow has been in the double-digit millions, and the operating cash flow already since 2015. In 2021, the latter increased again by 9.4 percent to EUR 36.9 m, leaving 13.9 percent of sales in the till at the end of the year. Free cash flow grew somewhat more slowly due to the acquisition of the Dutch CAM distribution partner, but still improved by 3.0 percent to EUR 28.6 m.

High payout ratio

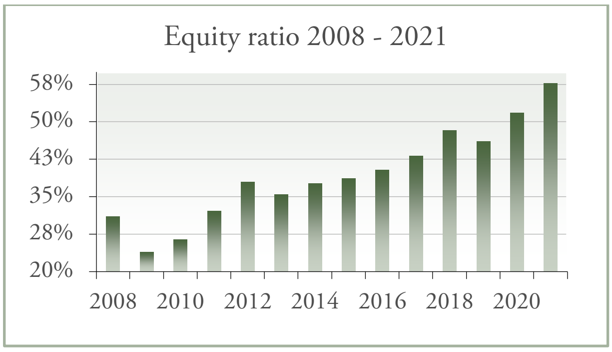
M+M uses its earnings and cash flow strength to pursue a very shareholder-friendly dividend policy, characterised by a high payout ratio and steadily rising dividends. The dividend per share increased sixfold between 2014 and 2021, to most recently EUR 1.20.



Source: Company

Excellent balance sheet figures

Despite the generous distribution policy, equity has also been growing steadily for years, amounting to EUR 92.8 m at the end of 2021, equivalent to an equity ratio of 58 percent. The liquidity situation is also very comfortable. The balance sheet liquidity amounted to EUR 20.0 m at the end of December and thus exceeded the bank liabilities (incl. a real estate loan) by almost EUR 12 m. However, by far the largest item on the assets side of the balance sheet is the capitalised goodwill of earlier acquisitions, which amounts to EUR 47.9 m. Since some of these goodwill values concern companies that were acquired decades ago and have grown very successfully since then (such as Open Mind), they do not currently represent a balance sheet risk in any way.



Source: Company

Next profit doubling planned

Building on the experience of recent years and especially against the background of the resilience, flexibility and scalability of the business model proved once again during the Covid-19 crisis, Mensch und Maschine is confident of being able to continue the dynamic profit growth trend for a long time to come. Having more than doubled earnings per share between 2017 and 2021, M+M is now confident of another doubling to more than 250 cents in the next four to five years. For sales, the company expects a slightly longer doubling period, so that the half-billion mark is to be taken in 2028/2029.

Further dividend growth

The specific forecast for 2022 and 2023 envisages average revenue and gross profit growth of 8 to 12 percent p.a. over these periods, on the basis of which EBIT is expected to increase by 14 to 20 percent, and thus again at a clearly disproportionately high rate. Regarding the planned EpS, M+M expects a growth of between 18 and 24 cents to between 144 and 150 cents for the current year and on this basis wants to increase the dividend again by 15 to 20 cents per share. For 2023, management even expects earnings to grow by 20 to 30 cents per share and the dividend to increase by 15 to 25 cents per share.

Equity story

Strong market position

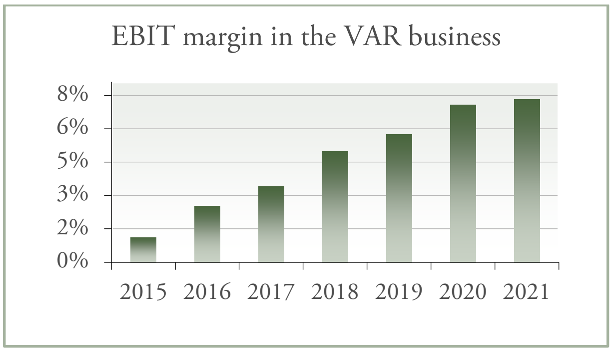
M+M has a strong market position in the addressed markets. In the CAM field, the company with its subsidiary Open Mind is one of the pioneers of the 5-axis milling process, holds a technologically leading position and has a broad and globally spread customer and installed base. The subsidiary SOFiSTiK also plays in the premier league in the market it addresses, both technologically and in terms of market position. In the CAD software market, moreover, M+M has been active for nearly four decades and is thus a leading European Value Added Reseller for the software of the American CAD pioneer Autodesk. The Bavarians have a comprehensive presence in German-speaking Europe as well as offices in several other European countries and a broad customer and installed base.

Digitisation provides tailwind

The already good positioning was further improved by the majority takeover of SOFiSTiK. This applies not only to the construction software business, but also to activities in the booming BIM field, where the new group subsidiary also has a strong position. In the construction sector, M+M plays thus a leading role as a digitisation partner and can benefit considerably from efforts to make data management and processes in the industry more efficient. However, the same challenges and tasks are also faced by companies in other sectors, which is why M+M is also increasingly perceived as a first-class digitisation partner in the industrial sector and benefits from strong demand. Based on its experience to date, M+M can score particularly well in the areas of data management and the integration of construction and ERP data, which in most cases form the basis of all digitisation efforts.

Distinctive continuity

M+M is characterised by an impressive continuity. This is true for the addressed business areas and the pursued strategy, as well as for the persons involved. Founder Adi Drotleff, who despite the company's 25-years stock market presence is still by far the largest shareholder with a share of 45.2 percent, continues to be active on the Executive Board and the Board of Directors. At the same time, the generation change at the top of the company was carried out in a process lasting several years absolutely smoothly and without friction by gradually transferring operational responsibility to other team members. But the personnel also show a strong bond with the company: According to M+M, there is only a low staff turnover, and the second and third management levels are composed of staff members most of whom have been part of the team for more than 15 years.



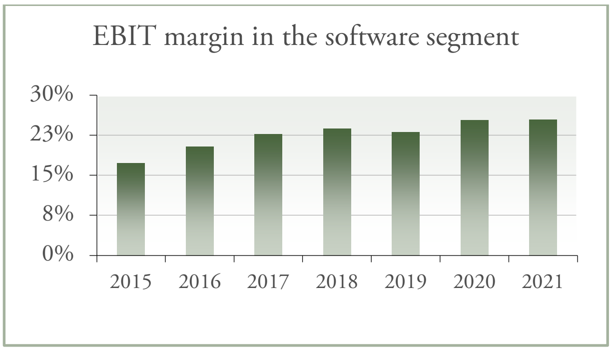
Source: Company

High potential for profit increase

Although M+M has already achieved high margin growth in the VAR business in recent years and has increased the EBIT margin nearly sevenfold between 2015 and 2021, the segment still offers considerable potential for further improvement in profitability. According to the company, important margin drivers for this continuous improvement are, on the operating level, growth-related economies of scale, a growing number of prefabricated extensions and industry modules and increasing routine of the processes within the new segment.

Highly profitable software business

But the already highly profitable software business also offers even further scope for above-average profit increases. Since 2019 alone, M+M has been able to increase the segment's EBIT margin by 2.3 percentage points to 25.4 percent, and the company considers the 30 percent mark to be realistic. Margin drivers here include growth-related economies of scale in average overhead costs and development expenses. Although the latter's growth is also dynamic, it is clearly disproportionately low compared to that of the segment's sales. By combining the margin growth in both segments, M+M is confident of increasing the group-wide EBIT margin to more than 20 percent in the medium term.



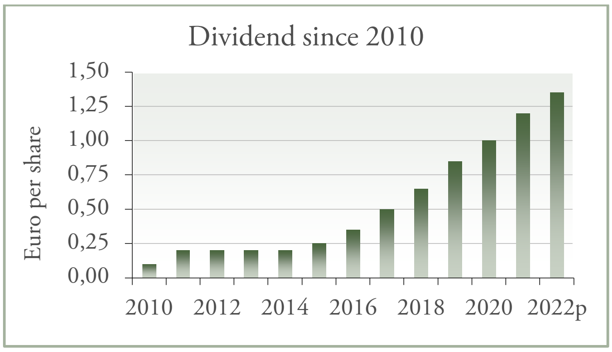
Source: Company

Reliable forecasts

In recent years, M+M has reliably fulfilled its own forecast, achieving especially the announced profit increases. We think therefore that the current forecast, both with regard to the current year and the medium-term goals, is plausible and well-founded, and grant it a high probability of occurrence.

Strong cost elasticity

The very fact that M+M continued its above-average profit growth with high momentum even during the Covid-19 crisis illustrates how well the EBIT-focused management system works and how strong the cost elasticity of the business model is. The strict profit responsibility of the operating units means that reaction times to impending plan shortfalls are very short, and it also ensures a high degree of discipline in terms of material costs and staff planning.



Source: Company, 2022: lower end of the M+M forecast

Attractive dividend policy

A further constant is the high payout ratio, which has fluctuated between 85 and 96 percent in recent years and, in step with the dynamic growth in profits, ensured strong dividend increases. With the planned distribution of EUR 1.20 for 2021, the dividend has increased sixfold since 2014, and a further increase of 15 to 20 cents is planned for the current year, which could accelerate even further in 2023. In the current low-interest environment, the M+M share thus offers an attractive dividend yield (currently 2.0 percent) as well as a comparatively reliable prospect of further increasing distributions over time.

DCF valuation

Core assumption: Continued growth

After we had already incorporated the preliminary figures for 2021 into the model in our last update and these were confirmed by the final figures, the integration of the final figures into the model resulted in only minor changes regarding some expense and balance sheet items. However, in response to the Russian invasion of Ukraine and the resulting economic risks, we have made our estimate for 2022 and 2023 more cautious. Nevertheless, we are sticking to our basic scenario, aligned with the company's guidance that has been very reliable for years, in which we expect a continuation of the growth course and further increasing margins.

More cautious growth assumptions

Although Mensch und Maschine says it is virtually unaffected by the war and the sanctions, negative effects on the economy are likely, especially if energy supply becomes more expensive or if major supply bottlenecks should arise. It remains to be seen how this will affect the demand for M+M products and services, which in many cases enable a more efficient use of resources. The management also justifies its own confidence by referring to a very strong first quarter, which was clearly on a record course at the time of the financial statement press conference. We therefore remain within the guidance range with our estimates but have shifted them towards the lower limits out of caution.

Sales estimate lower

So far, we had calculated sales growth of 11.5 and 10.5 percent for 2022 and 2023, respectively, which we have now lowered to 9 percent for both years. Subsequently, as before, we expect a steady growth of 10 percent p.a. At the end of the detailed forecast period, this results in a sales estimate of EUR 560.2 m (previously: EUR 580.6 m).

Target margin almost unchanged

The profit estimate for the next two years is now also somewhat more cautious. We still expect this year's EBIT margin to be 13.7 percent, but in combination

m Euro	12 2022	12 2023	12 2024	12 2025	12 2026	12 2027	12 2028	12 2029
Sales	290.1	316.2	347.8	382.6	420.9	463.0	509.3	560.2
Sales growth		9.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
EBIT margin	13.7%	14.5%	15.5%	16.3%	17.1%	17.9%	18.6%	19.3%
EBIT	**39.9**	**45.8**	**54.0**	**62.4**	**72.0**	**82.7**	**94.8**	**108.4**
Tax rate	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%
Adjusted tax payments	12.2	14.0	16.5	19.0	22.0	25.2	28.9	33.1
NOPAT	**27.7**	**31.9**	**37.5**	**43.4**	**50.0**	**57.5**	**65.9**	**75.3**
+ Depreciation & Amortisation	4.2	4.5	4.7	4.8	4.8	4.9	4.9	4.8
+ Increase long-term accruals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross operating Cash Flows	31.9	36.4	42.2	48.2	54.9	62.3	70.8	80.2
- Increase Net Working Capital	-0.7	-0.8	-0.9	-1.0	-1.1	-1.2	-1.3	-1.5
- Investments in fixed assets	-4.7	-4.6	-4.6	-4.5	-4.5	-4.4	-4.4	-4.3
Free Cash Flows	**26.5**	**31.0**	**36.8**	**42.7**	**49.3**	**56.7**	**65.0**	**74.4**

with the lower sales expectation, this results in an EBIT estimate of EUR 39.9 m (previously: EUR 40.6 m) and an EpS estimate of EUR 1.44 per share. As a result, the EpS growth assumed for 2022 is now at the lower end of the Executive Board's forecast range; previously we had calculated with EUR 1.46. The changes also have an impact on the estimates for the following years, but to a decreasing extent. At the end of the detailed forecast period in 2029, the EBIT margin of 19.3 percent is almost the same as the old estimate (19.4 percent).

Terminal Value

The table on the previous page shows the model business development resulting from our assumptions for the years 2022 to 2029; detailed overviews of the estimates for balance sheet, income statement and cash flows statement can be found in the Annex. To determine the terminal value for the period from 2029 onwards, we have, as before, included a moderate safety margin on the target EBIT margin of the detailed forecast period and calculate accordingly with an EBIT margin of 17.4 percent, on the basis of which we subsequently assume a "perpetual" cash flow growth of 1.0 percent per annum.

Discount rate

We discount the free cash flows resulting from these assumptions with WACC (Weighted Average Cost of Capital) at an interest rate on borrowed capital of 4.0 percent. The cost of equity is determined using the Capital Asset Pricing Model (CAPM). Our risk-free interest rate is – at 1.0 percent – the long-term average of the German current yield, and we estimate the market risk premium at 5.8 percent (this corresponds to the average value in Germany; source: Survey: Market Risk Premium and Risk-Free Rate used for 81 countries in 2020). Combined with a fundamentally derived beta of 1.2, a target debt ratio of 37.5 percent and a tax rate for the tax shield of 33 percent, this results in a WACC rate of 5.8 percent.

Price target: EUR 71.00 per share

In our favourite scenario (perpetual growth 1.0 percent, WACC 5.8 percent), these assumptions add up to a market value of equity of EUR 1,204 m or EUR 70.98 per share. From this, we derive a new price target of EUR 71.00. Compared to the last update, our price target has thus decreased slightly (previously: EUR 73.40), which is due to the somewhat more cautious growth assumptions for 2022 and 2023 as a result of the war in Ukraine.

Low estimation risk

In addition to the fundamental fair value calculation, we assess the estimation risk on a scale from 1 (very low) to 6 (very high). In view of the stable market position, the long-standing track record and the proven high forecast reliability of the management, we consider the predictability of M+M's development to be good. For this reason, we continue to consider the rating of one point (low estimation risk) to be justified.

Sensitivity analysis	**Perpetual cash flows growth**				
WACC	**2.0%**	**1.5%**	**1.0%**	**0.5%**	**0.0%**
4.8%	117.15	102.16	91.11	82.63	75.92
5.3%	98.68	88.03	79.87	73.40	68.16
5.8%	85.08	77.21	**70.98**	65.93	61.75
6.3%	74.67	68.66	63.79	59.76	56.37
6.8%	66.43	61.73	57.85	54.58	51.79

Sensitivity analysis

For our sensitivity analysis, we have varied the input parameters WACC and perpetual growth. The calculated fair value lies between EUR 51,79 per share in the most restrictive case (WACC of 6.8 percent and perpetual growth of 0 percent) and EUR 117,15 in the most optimistic case.

Conclusion

Mensch und Maschine has been distinguishing itself by high growth and increasing margins for many years. This is made possible by the combination of attractive target markets, technologically leading products, a well thought-out and consistently implemented growth strategy and, last but not least, a corporate culture that is consistently geared towards profitability.

The successes achieved are impressive: In the last five years alone, sales have increased by two thirds, while EBIT has increased by almost 130 percent and net income by 150 percent. M+M is confident of maintaining this momentum in the future and aims to double earnings per share again by 2025/2026.

The company uses the strong growth dynamics and the pronounced cash flow strength of the business model for a very shareholder-friendly distribution policy; in recent years, between 85 and 96 percent of the profits were distributed to the shareholders. Nevertheless, the balance sheet shows excellent figures with an equity ratio of 58 percent and a net cash position.

Since the addressed markets all still promise great potential, an end to M+M's success story is not in sight. We therefore consider the ambitious goals to be plausible and achievable. Moreover, as the M+M Executive Board has shown an impressive forecast accuracy in recent years, we have aligned our estimates with management guidance. This also applies to the current year, in which M+M is sticking to its outlook despite the Russian aggression in Ukraine and the impending risks for the economy.

Although we have reduced our estimates somewhat out of caution − within the forecast range − we still see attractive price potential up to EUR 71.00. Combined with the low estimation risk, this continues to justify a "Strong Buy" rating.

Annex I: Balance sheet and P&L estimation

Balance sheet estimation

m Euro	2021 act.	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e
ASSETS									
I. Total non-current assets	100.4	100.9	101.0	100.9	100.6	100.2	99.8	99.3	98.8
1. Intangible assets	65.2	64.6	64.0	63.5	62.9	62.4	61.9	61.4	60.9
2. Tangible assets	33.8	34.9	35.6	36.0	36.3	36.5	36.6	36.6	36.5
II. Total current assets	60.4	65.2	71.1	79.2	88.5	99.4	112.1	126.6	143.3
LIABILITIES									
I. Equity	92.8	100.0	106.6	115.0	124.6	135.5	148.0	162.3	178.5
II. Accruals	12.9	13.0	13.1	13.2	13.3	13.4	13.5	13.6	13.7
III. Liabilities									
1. Long-term liabilities	20.2	18.6	18.6	18.6	18.6	18.6	18.6	18.6	18.6
2. Short-term liabilities	34.9	34.5	33.9	33.2	32.7	32.2	31.8	31.5	31.3
TOTAL	**160.8**	**166.1**	**172.1**	**180.0**	**189.1**	**199.7**	**211.9**	**226.0**	**242.1**

P&L estimation

m Euro	2021 act.	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e
Sales	266.2	290.1	316.2	347.8	382.6	420.9	463.0	509.3	560.2
Gross profit	138.4	150.9	166.0	184.2	203.5	224.9	248.4	274.4	303.2
EBITDA	44.4	49.6	55.8	64.2	72.7	82.3	93.1	105.2	118.7
EBIT	34.7	39.9	45.8	54.0	62.4	72.0	82.7	94.8	108.4
EBT	33.8	39.5	45.5	53.7	62.1	71.7	82.5	94.6	108.2
EAT (before minorities)	23.9	27.4	31.6	37.3	43.2	49.8	57.3	65.8	75.2
EAT	21.3	24.4	27.9	32.8	37.7	43.2	49.4	56.3	64.0
EPS	1.26	1.44	1.65	1.93	2.22	2.55	2.91	3.32	3.77

Annex II: Cash flows estimation and key figures

Cash flows estimation

m Euro	2021 act.	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e
CF operating	37.2	36.5	40.8	46.6	52.5	59.1	66.5	74.8	84.1
CF from investments	-8.3	-4.7	-4.6	-4.6	-4.5	-4.5	-4.4	-4.4	-4.3
CF financing	-25.0	-29.7	-32.9	-36.7	-41.5	-46.7	-52.6	-59.3	-66.8
Liquidity beginning of year	16.0	20.3	22.4	25.8	31.2	37.7	45.6	55.0	66.1
Liquidity end of year	20.3	22.4	25.8	31.2	37.7	45.6	55.0	66.1	79.1

Key figures

percent	2021 act.	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e
Sales growth	9.1%	9.0%	9.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Gross profit growth	8.2%	9.0%	10.0%	11.0%	10.5%	10.5%	10.5%	10.5%	10.5%
Gross margin	52.0%	52.0%	52.5%	53.0%	53.2%	53.4%	53.7%	53.9%	54.1%
EBITDA margin	16.7%	17.1%	17.7%	18.5%	19.0%	19.6%	20.1%	20.6%	21.2%
EBIT margin	13.0%	13.7%	14.5%	15.5%	16.3%	17.1%	17.9%	18.6%	19.3%
EBT margin	12.7%	13.6%	14.4%	15.4%	16.2%	17.0%	17.8%	18.6%	19.3%
Net margin (after minorities)	8.0%	8.4%	8.8%	9.4%	9.8%	10.3%	10.7%	11.1%	11.4%

Disclaimer

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II) Preparation and updating

The present financial analysis was prepared by: Dipl. Volkswirt Dr. Adam Jakubowski

Participants in the preparation of the present financial analysis: -

The present analysis was finished on 23.03.2022 at 12:53 and published on 23.03.2022 at 13:15.

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Date	Investment recommendation	Target price	Conflict of interests
11.02.2022	Strong Buy	73.40 Euro	1), 3)
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05.08.2021	Strong Buy	68.00 Euro	1), 3), 4)
23.04.2021	Hold	63.70 Euro	1), 3)
16.03.2021	Strong Buy	63.40 Euro	1), 3)
12.02.2021	Hold	62.70 Euro	1), 3), 4)
22.10.2020	Hold	52.30 Euro	1), 3), 4)
18.09.2020	Buy	52.20 Euro	1), 3), 4)
24.07.2020	Hold	50.50 Euro	1), 3)
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