March 20th, 2024
Research update

SMC Research
Small and Mid Cap Research

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Mensch und Maschine Software SE

Dividend increases even more than initially announced

Rating: Strong Buy (unchanged) | **Price:** 51.60 € | **Price target:** 69.00 € (prev.: 68.00 €)

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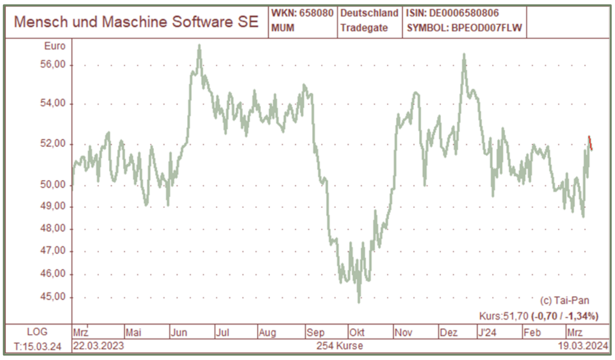
Current development



Basic data

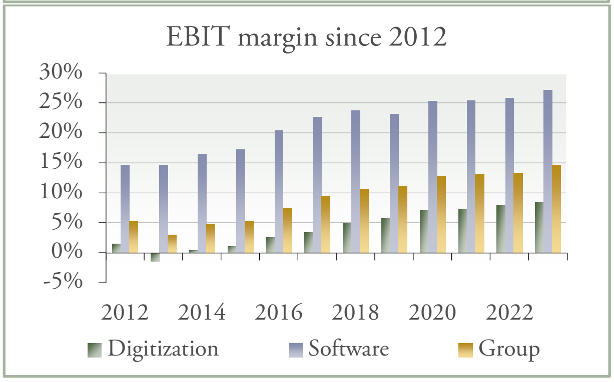
Based in:	Wessling
Sector:	CAD/CAM software
Headcount:	1,056
Accounting:	IFRS
ISIN:	DE0006580806
Ticker:	MUM:GR
Price:	51.60 Euro
Market segment:	Scale / m:access
Number of shares:	17.2 m
Market Cap:	884.9 m Euro
Enterprise Value:	940.5 m Euro
Free float:	45.5 %
Price high/low (12M):	57.80 / 44.35 Euro
Ø turnover (Xetra,12M):	219,200 Euro / day

Slight sales growth achieved

With the publication of the annual report, Mensch und Maschine has confirmed the preliminary figures presented at the beginning of February. Accordingly, sales rose slightly to EUR 322.3 m, but thanks to the higher-margin composition of revenue, this was translated into renewed gross profit growth of almost 5 percent to EUR 168.5 m. However, this time the growth came exclusively from the Software segment, whose gross profit improved by 9 percent to EUR 94.9 m, while the contribution from the Digitization segment (previously: VAR business) remained stable at EUR 73.6 m. This was due to the significant slowdown in business with Autodesk subscription following the expiry of the discount campaign for the extension of three-year contracts, which had previously provided a strong boost to sales, particularly at the end of 2022 and beginning of 2023. The lower weight of the low-margin business with Autodesk licences is reflected in the segment's gross margin, which increased by 0.8 percentage points to 33.8 percent. The margin in the software segment also increased to the same extent, but at a completely different level, reaching 90.7 percent after 89.9 percent in the previous year. The increase in both segments, but above all the shift in sales

FY ends: 31.12.	2021	2022	2023	2024e	2025e	2026e
Sales (m Euro)	266.2	320.5	322.3	354.5	280.0*	308.0
EBIT (m Euro)	34.7	42.6	46.8	54.4	62.7	71.4
Net Profit	21.3	26.0	28.9	33.2	38.1	43.3
EPS	1.26	1.55	1.72	1.97	2.26	2.57
Dividend per share	1.20	1.40	1.65	1.90	2.15	2.35
Sales growth	9.1%	20.4%	0.6%	10.0%	-21.0%	10.0%
Profit growth	13.9%	22.1%	11.0%	15.1%	14.8%	13.4%
PSR	3.27	2.71	2.70	2.45	3.11	2.82
PER	40.8	33.4	30.1	26.2	22.8	20.1
PCR	23.4	22.3	17.2	17.5	16.1	14.4
EV / EBIT	26.6	21.7	19.7	17.0	14.7	12.9
Dividend yield	2.3%	2.7%	3.2%	3.7%	4.2%	4.6%

**arithmetical effect through transition of the partner model at Autodesk* towards the Software business, improved the Group gross margin by 2 percentage points to 52.3 percent.



Source: Company;

EBIT increases by almost 10 percent

The final profit figures were also in line with the preliminarily reported ones. While EBITDA increased by just under 8 percent to EUR 56.6 m, EBIT rose by 10 percent to EUR 46.8 m. The pre-tax result increased by 9 percent to EUR 45.2 m, while the net profit after taxes and minority interests was 11 percent higher than in 2022 at EUR 28.9 m. M+M was thus able to continue the margin increase at all earnings levels. With 17.6 percent in EBITDA (previously: 16.4 percent), 14.5 percent in EBIT (13.3 percent), 14.0 percent in EBT (previously 13.0 percent) and 9.0 percent in net income (8.1 percent), new record figures were reported throughout. The group's paragon of profitability continues to be the Software segment, which achieved EBIT of EUR 28.4 m or 27.2 percent of segment sales. However, profitability also continued to improve in the Digitization segment despite declining sales and stagnating gross profit. Segment EBIT increased by 5 percent to EUR 18.4 m, representing an increase in the EBIT margin from 7.9 to 8.5 percent.

Business figures	FY 22	FY 23	*Change*
Sales	320.5	322.3	*0.6%*
Gross profit	161.1	168.5	*4.6%*
Digitization	73.7	73.6	*-0.1%*
Software	87.5	94.9	*8.5%*
Gross margin	*50.3%*	*52.3%*	
EBITDA	52.7	56.6	*7.5%*
EBITDA margin	*16.4%*	*17.6%*	
EBIT	42.6	46.8	*9.8%*
Digitization	17.5	18.4	*5.1%*
Software	25.1	28.4	*13.2%*
EBIT margin	*13.3%*	*14.5%*	
Digitization	*7.9%*	*8.5%*	
Software	*25.8%*	*27.2%*	
EBT	41.5	45.2	*8.9%*
EBT margin	*13.0%*	*14.0%*	
Net profit	26.0	28.9	*11.0%*
Net margin	*8.1%*	*9.0%*	
Free cash flow	32.9	43.4	*31.7%*

In m Euro and percent, source: Company

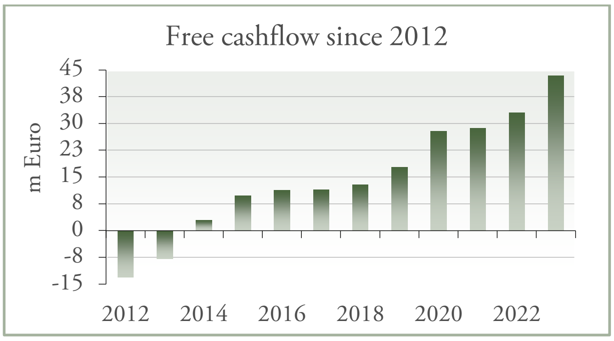
Margin increase due to other operating income and depreciation

In contrast to the previous year, when the strong improvement in employee productivity (measured by gross profit per employee) was the most important earnings driver, this time the increase in average personnel costs (+2.3 percent) was slightly higher than the increase in gross profit per employee (+2.1 percent). In conjunction with the, once again very moderate, increase in the average number of employees (from 1,031 to 1,056 FTEs), this was reflected in a 4.7 percent rise in personnel expenses to EUR 99.4 m. At +6.7 percent (to EUR 19.3 m), the increase in other operating expenses was also disproportionately higher than that of gross profit. The fact that the EBITDA margin was nevertheless improved was this time due to the development of other operating income, which increased by half to EUR 6.8 m, mainly because of the capitalisation of own work in connection with the internal ERP/CRM project. In addition, the slight decline in depreciation and amortisation

(-2.3 percent to EUR 9.8 m) had a margin-increasing effect on EBIT.

Excellent cash flow

The operating cash flow was even slightly better than preliminarily reported, increasing by almost 30 percent to EUR 50.6 m (preliminary: EUR 50.0 m). This means that at the end of the year 15.7 percent of the revenue remained in the cash surplus, an excellent figure and a new record. In addition to the strong earnings, the significant reduction in receivables also contributed to this. The exceptional economic boom in the Autodesk business led to a strong increase in receivables at the end of 2022, which were converted in high cash inflows in the first quarter of 2023. At the same time, trade payables increased by 15 percent to EUR 25.5 m in 2023, so that the cash effect of the change in net working capital amounted to EUR +6.5 m (previous year: EUR -1.5 m). With an investment-related cash outflow of EUR -7.2 m, last year's free cash flow amounted to EUR +43.4 m, almost a third more than in 2022.



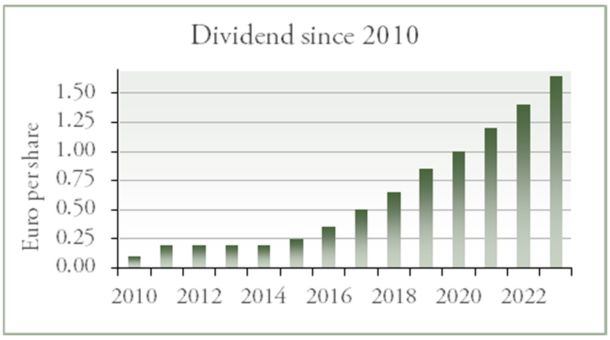
Source: Company, own calculations

High repayments

The high inflow from free cash flow was offset by payments from financing activities of almost the same amount in 2023. The largest item here is traditionally the dividend to M+M shareholders and other associates / minority shareholders (EUR 26.5 m). In contrast to the previous year, when M+M used EUR 15.7 m to buy back its own shares, an inflow of EUR 7.0 m was now realised from the use of some of these shares. Mirroring this, the high borrowing from 2022 (EUR 14.6 m) has now been followed by a net repayment of EUR -18.8 m. Other items included lease payments (EUR -5.8 m), interest (EUR -0.5 m) and the equity inflow from the issue of shares as part of the share dividend (EUR +1.6 m). When added across the three partial balances of the cash flow statement, liquidity increased only slightly to EUR 24.9 m in 2023, representing around 13 percent of all assets.

Equity significantly increased

Due to the combination of the high profit for the period and the use of part of the treasury shares (which reduced the negative deductible amount), equity increased by 16 percent to EUR 99.8 m in 2023. In relation to the balance sheet total, which remained almost completely unchanged at EUR 187.2 m, this corresponds to a significantly higher equity ratio of 53.3 percent (previous year: 45.7 percent). The second largest liability item are trade payables, which increased by 15 percent to EUR 28.5 m. This is followed by short-term provisions of EUR 13.2 m and lease liabilities of EUR 11.6 m. Liabilities to banks, which had increased significantly in 2022 as a result of the share buyback, were significantly reduced again in 2023 and totalled EUR 7.6 m at the end of December (including a property loan). As a result, liquidity exceeded bank liabilities by EUR 17.3 m on the balance sheet date. Among the assets, goodwill is the largest item at EUR 47.9 m, accounting for 45 percent of the fixed assets and a quarter of the total assets. This was followed by receivables at EUR 40.9 m, liquidity and other intangible assets at EUR 22.0 m.



Source: Company

Positive surprise regarding dividend

One deviation from the preliminary figures concerns the dividend proposal, which was at EUR 1.60 in February and which M+M has now set at the upper end of the forecast range of EUR 1.55 to 1.65. Compared to the current share price, the proposal corresponds to a dividend yield of 3.2 percent.

Forecast confirmed

There has been no change to the forecast for the years 2024 and 2025, for which M+M is targeting an average EpS growth of 17 percent p.a. For 2024, the management expects gross profit to grow by 8 to 12 percent to between EUR 182 and 189 m and earnings per share to increase by 10 to 20 percent to between 189 and 206 cents and intends to increase the dividend by a further 20 to 30 cents on this basis. In combination with the increased proposal for the dividend for 2023, however, the absolute dividend target has increased from the previous 180 to 190 cents to between 185 and 195 cents. The target ranges for the coming year are higher, with earnings growth of 12 to 25 percent and an increase in the dividend of 25 to 35 cents.

Estimates largely unchanged

Since the final figures were largely within the range of the provisionally reported ones, there is no major need to adjust our estimates. Although the integration of the data from the annual report into our model was accompanied by some few changes in the expense ratios as well as in several items of the cash flow and balance sheet estimates, the modifications remained moderate overall.

CAGR of 10 percent by 2031

We thus expect sales to increase by 10 percent to EUR 354.5 m in 2024, while at the same time anticipating a minimal increase in the gross profit margin to 52.4 percent. The growth assumptions for the following years are also unchanged: In terms of sales, we expect a constant 10 percent p.a. until 2031, and in terms of gross profit, initially slightly more (up to 10.5 percent) due to the assumed slightly disproportionate expansion of the proprietary business, but then also 10 percent p.a. from 2029 onwards. At the end of the detailed forecast period in 2031, we thus expect sales of EUR 496 m and consolidated gross profit of EUR 366 m. It should be noted that we have made a one-time shift downwards in the time series for revenue and cost of materials in 2025 (by EUR 110 m each) to take account of the change in the sales model announced by Autodesk.

m Euro	12 2024	12 2025	12 2026	12 2027	12 2028	12 2029	12 2030	12 2031
Sales	354.5	280.0	308.0	338.8	372.7	409.9	450.9	496.0
Sales growth		-21.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
EBIT margin	15.4%	22.4%	23.2%	24.0%	24.8%	25.5%	26.1%	26.8%
EBIT	**54.4**	**62.7**	**71.4**	**81.3**	**92.3**	**104.4**	**117.8**	**132.9**
Tax rate	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%
Adjusted tax payments	16.6	19.1	21.8	24.8	28.2	31.8	35.9	40.5
NOPAT	**37.8**	**43.6**	**49.6**	**56.5**	**64.2**	**72.5**	**81.9**	**92.3**
+ Depreciation & Amortisation	4.3	4.7	5.1	5.5	5.8	6.1	6.4	6.7
+ 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 Flow	42.1	48.3	54.7	61.9	70.0	78.6	88.3	99.0
- Increase Net Working Capital	1.7	-0.4	-0.5	-0.6	-0.7	-0.8	-0.9	-1.1
- Investments in fixed assets	-5.3	-5.6	-5.9	-6.1	-6.4	-6.7	-7.0	-7.3
Free Cashflow	**38.5**	**42.3**	**48.4**	**55.2**	**62.9**	**71.1**	**80.3**	**90.6**

SMC estimation model

Further margin increase

In 2025, this will result in a sharp improvement in the gross profit margin (from 52.4 to 73.3 percent) and the subsequent revenue related earnings KPIs. In addition, however, we are assuming a continuous improvement in profitability for both the current year and subsequent years. The EBIT margin increases from 15.4 percent in the current year to 22.4 percent in 2025 and then climbs to 26.8 percent by 2031. The absolute EBIT estimate for 2024 is EUR 54.4 m, while we now expect net profit for the year of EUR 33.2 m or EUR 1.97 per share. The table on the previous page shows the model business development resulting from our assumptions for the years 2024 to 2031; detailed overviews of the estimates for balance sheet, income statement and cash flows statement can be found in the Annex.

New price target: EUR 69.00

Based on an unchanged discount rate of 7.0 percent and unchanged assumptions regarding the terminal value (safety discount of 10 percent on the target margin, perpetual growth of 1 percent), the fair value now amounts to EUR 1,157.7 m or EUR 68.69 per share, from which we derive the new price target of EUR 69.00 (previously: EUR 68; a sensitivity analysis for determining the price target is included in the Annex). We continue to rate the forecast risk as below average with two points on a scale of 1 (low) to 6 (high).

Conclusion

With the presentation of the annual report, Mensch und Maschine has confirmed the very good preliminary figures and even slightly exceeded them regarding operating cash flow. With sales more or less stagnating at EUR 322 m, profits once again increased significantly, with net profit for the year rising by 11 percent to EUR 28.9 m – the tenth increase in a row. The development of the operating cash flow in 2023 was particularly remarkable: it increased by almost 30 percent to EUR 50.6 m – nearly 16 percent of the revenue.

M+M has now garnished the strong figures, which have been largely known since February, with a positive surprise regarding the dividend. This is not to be raised to EUR 1.60 for 2023, as previously announced, but to EUR 1.65. In relation to the current share price, this corresponds to an attractive dividend yield of 3.3 percent.

But Mensch und Maschine can also be described as attractive in other respects. The company impresses with a mature business model, steady, profitable and cash-flow-strong growth, a more than solid balance sheet, a highly experienced management team focussed on continuity, reliability and risk limitation and a pronounced adherence to forecasts.

Finally, the M+M share continues to offer attractive price potential. Our updated price target is now EUR 69.00, which is more than a third above the current price. We therefore see our positive assessment confirmed and reaffirm our “Strong Buy” rating.

Annex I: 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.
- Remarkable forecast accuracy supports the target of further profit increases.

Weaknesses

- The Digitization business is largely determined by Autodesk's product and pricing policy.
- The geographic expansion of the Digitization segment 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 Digitization business that should allow an above-average profit development in the next few years, if the present trends continue.
- The increasing importance of digitization projects is likely to further boost the development.
- 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

- A further escalation of geopolitical conflicts or a deep recession in Europe could slow down or interrupt the positive trend.
- High personnel intensity in the Digitization business means a high extent of utilisation risk in economically weaker phases.
- The targeted further increase in margins cannot be taken for granted, especially in the Software segment at the level already achieved.
- Should Autodesk fall behind in competition, it could have a perceptibly negative impact on the Digitization segment.
- The role as technology leader requires intensive development activities in the Software segment and carries the risk of technological failures.

Annex II: Balance sheet and P&L estimation

Balance sheet estimation

m Euro	2023 act.	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e
ASSETS									
I. Total non-current assets	105.7	106.7	107.6	108.3	109.0	109.6	110.2	110.8	111.4
1. Intangible assets	69.9	69.3	68.8	68.2	67.7	67.2	66.7	66.2	65.7
2. Tangible assets	34.7	36.3	37.7	39.0	40.2	41.3	42.4	43.5	44.6
II. Total current assets	81.5	84.1	88.2	93.8	102.7	115.3	130.6	148.0	167.7
LIABILITIES									
I. Equity	99.8	107.1	115.5	125.2	137.8	152.4	167.6	184.6	203.8
II. Accruals	13.4	13.8	14.2	14.6	15.0	15.4	15.8	16.3	16.7
III. Liabilities									
1. Long-term liabilities	17.3	15.3	13.4	11.5	9.7	8.0	8.0	8.0	8.0
2. Short-term liabilities	56.7	54.6	52.6	50.8	49.2	49.0	49.4	50.0	50.6
TOTAL	**187.2**	**190.8**	**195.7**	**202.1**	**211.7**	**224.9**	**240.8**	**258.8**	**279.1**

P&L estimation

m Euro	2023 act.	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e
Sales	322.3	354.5	280.0	308.0	338.8	372.7	409.9	450.9	496.0
Gross profit	168.5	185.7	205.3	226.3	249.3	274.8	302.4	332.7	366.2
EBITDA	56.6	64.7	73.4	82.5	92.7	104.1	116.5	130.2	145.5
EBIT	46.8	54.4	62.7	71.4	81.3	92.3	104.4	117.8	132.9
EBT	45.2	54.4	62.8	71.7	81.7	93.0	105.2	118.8	133.9
EAT (before minorities)	31.9	37.8	43.6	49.8	56.8	64.7	73.1	82.6	93.1
EAT	28.9	33.2	38.1	43.3	49.0	55.4	62.3	69.8	78.2
EPS	1.72	1.97	2.26	2.57	2.91	3.29	3.69	4.14	4.64

Annex III: Cash flows estimation and key figures

Cash flows estimation

m Euro	2023 act.	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e
CF operating	50.6	49.8	53.9	60.4	67.6	75.7	84.4	94.0	104.7
CF from investments	-7.2	-5.3	-5.6	-5.9	-6.1	-6.4	-6.7	-7.0	-7.3
CF financing	-43.0	-42.3	-47.0	-51.7	-55.7	-60.0	-65.8	-73.3	-81.7
Liquidity beginning of year	24.4	24.9	27.0	28.4	31.2	37.0	46.4	58.3	72.0
Liquidity end of year	24.9	27.0	28.4	31.2	37.0	46.4	58.3	72.0	87.7

Key figures

m Euro	2023 act.	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e
CF operating	0.6%	10.0%	-21.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
CF from investments	4.6%	10.2%	10.5%	10.2%	10.2%	10.2%	10.0%	10.0%	10.0%
CF financing	52.3%	52.4%	73.3%	73.5%	73.6%	73.7%	73.8%	73.8%	73.8%
Liquidity beginning of year	17.6%	18.3%	26.2%	26.8%	27.4%	27.9%	28.4%	28.9%	29.3%
Liquidity end of year	14.5%	15.4%	22.4%	23.2%	24.0%	24.8%	25.5%	26.1%	26.8%
m Euro	14.0%	15.3%	22.4%	23.3%	24.1%	25.0%	25.7%	26.3%	27.0%
CF operating	9.0%	9.4%	13.6%	14.0%	14.5%	14.9%	15.2%	15.5%	15.8%

Annex IV: Sensitivity analysis

	Perpetual cash flows growth				
WACC	**2.0%**	**1.5%**	**1.0%**	**0.5%**	**0.0%**
6.0%	99.14	90.53	83.65	78.01	73.31
6.5%	87.56	80.92	75.49	70.96	67.12
7.0%	78.30	73.06	**68.69**	65.00	61.83
7.5%	70.73	66.52	62.95	59.90	57.25
8.0%	64.43	60.99	58.04	55.49	53.25

Disclaimer

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Charts
The charts were made with Tai-Pan (www.lp-software.de).

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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 20.03.2024 at 7:40 and published on 20.03.2024 at 8:15.

For the preparation of its financial analyses, the sc-consult GmbH uses a five-tier rating scheme with regard to price expectation in the next twelve months. Additionally, estimation risk is quantified on a scale from 1 (low) to 6 (high). The ratings are as follows:

Strong Buy	We expect an increase in price for the analysed financial instrument by at least 10 percent. We assess the estimation risk as below average (1 to 2 points).
Buy	We expect an increase in price for the analysed financial instrument by at least 10 percent. We assess the estimation risk as average (3 to 4 points).
Speculative Buy	We expect an increase in price for the analysed financial instrument by at least 10 percent. We assess the estimation risk as above average (5 to 6 points).

Hold	We expect that the price of the analysed financial instrument will remain stable (between -10 and +10 percent). The forecast risk (1 to 6 points) has no further impact on the rating. The rating "hold" is also used in cases where we perceive a price potential of more than 10 percent, but explicitly mentioned temporary factors prevent a short-term realization of the price potential.
Sell	We expect that the price of the analysed financial instrument will drop by at least 10 percent. The forecast risk (1 to 6 points) has no further impact on the rating.

The expected change in price refers to the current share price of the analysed company. This price and any other share prices used in this analysis are XETRA closing prices as of the last trading day before publication. If the share is not traded on XETRA, the closing price of another public stock exchange is used with a separate note to that effect.

The price targets published within the assessment are calculated with common methods of financial mathematics, especially with the DCF (discounted cash flow) method, the sum of the parts valuation and a peer group analysis. The valuation methods are affected by economic framework conditions, especially by the development of the interest rates.

The rating resulting from these methods reflects current expectations and can change anytime subject to company-specific or economic changes.

More detailed explanations of the models used by SMC Research can be found at:
http://www.smc-research.com/impressum/modellerlaeuterungen

An overview of the recommendations prepared and distributed by SMC Research in the last 12 months can be found at: http://www.smc-research.com/publikationsuebersicht

In the past 24 months, sc-consult GmbH has published the following financial analyses for the company:

Date	Investment recomm.	Target price	Conflict of interests
09.02.2024	Strong Buy	68.00 Euro	1), 3),
20.10.2023	Strong Buy	66.00 Euro	1), 3), 4)
01.08.2023	Strong Buy	66.00 Euro	1), 3), 4)
24.04.2023	Strong Buy	63.60 Euro	1), 3)
17.03.2023	Strong Buy	61.70 Euro	1), 3)
13.02.2023	Strong Buy	62.30 Euro	1), 3)
26.10.2022	Strong Buy	66.50 Euro	1), 3), 4)
27.07.2022	Strong Buy	65.00 Euro	1), 3), 4)
22.04.2022	Strong Buy	71.00 Euro	1), 3)
23.03.2022	Strong Buy	71.00 Euro	1), 3), 4)

In the course of the next twelve months, sc-consult GmbH will presumably prepare the following financial analyses for the company: one report and two updates.

The publishing dates for the financial analyses are not yet fixed at the present moment.

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