

February 16th, 2017

**Research update**

**SMC** Research  
Small and Mid Cap Research

# Mensch und Maschine SE

Success story continues

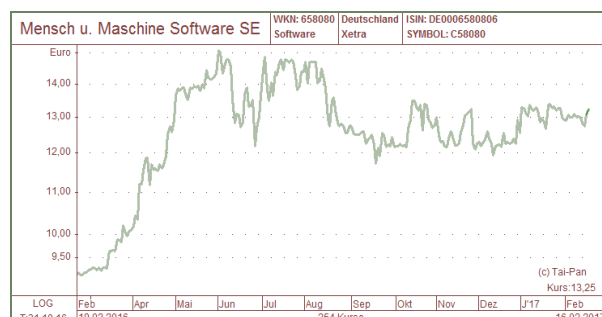
Rating: **Buy** (unchanged) | Price: **13.07 Euro** | Price target: **16.20 Euro**

**Analyst:** Dr. Adam Jakubowski  
**sc-consult GmbH**, Alter Steinweg 46, 48143 Münster

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**Phone:** +49 (0) 251-13476-93  
**Telefax:** +49 (0) 251-13476-92  
**E-Mail:** kontakt@sc-consult.com  
**Internet:** www.sc-consult.com

## Recent business development



### Basic data

Based in:	Wessling
Sector:	CAD/CAM Software
Headcount:	759
Accounting:	IFRS
ISIN:	DE0006580806
Price:	13.07 Euro
Market segment:	Entry Standard / m:access
Number of shares:	16.7 m
Market Cap:	218.0 m Euro
Enterprise Value:	248.6 m Euro
Free float:	44.3 %
Price high/low (12 M):	15.34 / 8.31 Euro
Ø turnover (12 M):	145,400 Euro

Mensch und Maschine has presented preliminary figures for 2016 that are very convincing again. Although sales rose only moderately due to smaller revenues from the trade business with Autodesk licenses, both gross profit and the operating key figures increased very considerably. At the level of EBITDA margin and EBIT margin, the company reported new peaks and was thus able to show that the transition of the business model initiated eight years ago was the right thing to do. The only small drop of bitterness here is the development of the net profit, which rose admittedly by nearly 70 percent, but has nevertheless remained slightly below expectations (due to currency and tax effects). However, M+M has convinced with strong operating cash flows and, on that basis, has announced a 40-percent dividend increase to 35 cents per share. Although the current year will probably be still to some extent burdened by Autodesk's conversion of the pricing model, we still expect that the positive trend will continue in 2017 and after. On that basis, we believe that the share has still a high potential and confirm therefore our rating "buy".

FY ends: 31.12.	2014	2015	2016	2017e	2018e	2019e
Sales (m Euro)	140.0	160.4	167.0	167.0	183.7	201.2
EBIT (m Euro)	6.8	8.5	12.4	14.6	18.6	22.5
Net profit	3.7	3.9	6.5	8.4	11.2	14.2
EpS	0.24	0.24	0.39	0.50	0.67	0.85
Dividend per share	0.20	0.25	0.35	0.47	0.58	0.70
Sales growth	11.3%	14.5%	4.1%	0.0%	10.0%	9.5%
Profit growth	42.1%	4.0%	68.5%	28.2%	34.7%	26.1%
PSR	1.56	1.36	1.31	1.31	1.19	1.08
PER	58.6	56.4	33.5	26.1	19.4	15.4
PCR	34.68	14.80	14.91	16.49	15.00	12.52
EV / EBIT	36.8	29.3	20.1	17.0	13.4	11.0
Dividend yield	1.5%	1.9%	2.7%	3.6%	4.4%	5.4%

## Gross profit at new record level

According to preliminary figures, Mensch und Maschine ended the last financial year with a rise in sales by 4.2 percent to about EUR 167 m, which stayed thus slightly below plan. On the other hand, gross profit, the key performance indicator, reached a new record of EUR 91.4 m and rose thus even more than expected (target: over EUR 90 m).

## Proprietary business booming

M+M owes the clearly above-average gross profit growth, reflected in a gross margin rise by 2 percentage points to 54.7 percent, to continuously high dynamics in its proprietary business. This is particularly true for M+M's software segment, where sales and gross profit rose by 11.5 and 12.9 percent respectively over the last year. However, the business with own technology and services within the VAR segment enjoyed a vigorous development as well; M+M puts the gross profit growth in this sector at 16 percent.

## Transition at Autodesk burdening

In contrast, the trade business with Autodesk licenses contributed only EUR 21 m to the gross profit, declining by 8 percent. Across the group, the share of this formerly crucial business sank thus to only just 23 percent. The reason for this decline is solely Autodesk's conversion of the pricing model (from license sale to rental software) completed last year. This leads to a reduced sales effect of the new business, which will, however, be more than compensated for by higher recurring revenues in subsequent years. Last year, this transition led overall to a weaker licensing business, making itself felt especially in the fourth quarter where there was no temporary boom through the final sale of one-time licenses (like in January and July) to offset it. Considered separately, the months October through December saw therefore a decline in the segment's sales and gross profit (-9.6 percent and -2.7 percent), and there is only a weak development of the trade business to be expected in the first three quarters of 2017 as well.

Business figures	FY 2015	FY 2016	Change
Sales	160.34	167.00	+4.2%
<i>VAR business</i>	118.94	120.80	+1.6%
<i>Software</i>	41.44	46.20	+11.5%
Gross profit	84.52	91.40	+8.1%
<i>VAR business</i>	44.94	46.70	+3.9%
<i>Software</i>	39.58	44.70	+12.9%
Gross margin	52.7%	54.7%	
EBITDA	12.81	15.70	+22.6%
<i>VAR business</i>	4.60	5.10	+11.0%
<i>Software</i>	8.22	10.60	+29.0%
EBITDA margin	8.0%	9.4%	
EBIT	8.47	12.40	+46.3%
EBIT margin	5.3%	7.4%	
Net profit	3.87	6.50	+68.1%
Net margin	2.4%	3.9%	

## EBITDA margin reaches record level

M+M was able to convert the dynamic growth of the gross profit into a soaring improvement of the EBITDA, which rose by 23 percent to EUR 15.7 m. This corresponds with an EBITDA margin of 9.4 percent, not only surpassing previous year's figure by 1.4 percentage points, but also achieving by far the best figure in corporate history. Among the reasons M+M gives for this positive development – aside from gross profit growth and the economies of scale it allows – is also the continuous cost discipline. It is clearly visible, for instance, in the development of the personnel figures in the VAR segment, whose headcount increased only by 2 percent as an annual average and was even reduced slightly in the second half year. This was one of the reasons that the constant improvement of the operating profitability, visible in the VAR segment ever since the business model transition in 2011, could continue; the segment's EBITDA margin increased from 3.9 to 4.2 percent. A by far bigger increase, though, was achieved in the software segment, whose EBITDA margin improved by 3.1 percentage points to 22.9 percent. In the

fourth quarter, it reached a new record figure of 28.0 percent.

### EBIT benefits by declining depreciation

In addition, a major part of the PPA amortization from the acquisitions in 2009 expired last year as scheduled. This caused the EBIT to jump up as expected and to increase by 46.3 percent to EUR 12.4 m. The net profit benefitted from this considerably as well: after taxes and minorities, M+M generated a profit of EUR 6.5 m or 40 cents per share, surpassing last year's figure by 68 percent. Unlike other key figures, however, which hit the boundaries of M+M's forecasts, the net profit remained slightly below target despite the increase. The company explains this with an unfavourable currency effect, which worsened by nearly EUR 0.5 m, and with the tax rate, which is likely to be higher than expected.

### Cash flows stronger than expected

These effects as well as the slump in the trade business, which turned out stronger than we had expected, led to P&L figures that were, overall, slightly below our expectations. Operating cash flows, on the other hand, were – again – a very pleasant surprise. At EUR 14.6 m, it nearly reached last year's figure

(EUR 14.7 m), although this had benefitted from a positive special effect amounting to EUR 3 m. Our expectation was a mere EUR 12.3 m.

### Dividend increases by 40 percent

Given the strong cash flows development and the further improved balance sheet (equity ratio rose from 38.6 to 41 percent), M+M intends to pay a dividend of 35 cents per share for the last year. This targets a figure on the upper end of the previous forecast corridor, corresponding to an increase by 40 percent year-on-year. At the current price level, this means a dividend yield of 2.7 percent.

### Modified forecasts

For the next years, M+M holds out the prospect of a dynamic dividend growth as well. It intends to pay a dividend of 45 to 50 cents per share for the current year, and of about 60 cents for 2018. Subsequently, the company plans to raise the dividend by 10 to 15 cents p.a., at the same time expecting an annual profit increase by 13 to 20 cents per share. On that basis, the EPS boundary of 1 Euro per share would be exceeded in 2020. However, M+M has slightly reduced its forecasts for the current year, calculating with a gross profit growth of 7 to 8 percent (instead of 10

m Euro	12 2017	12 2018	12 2019	12 2020	12 2021	12 2022	12 2023	12 2024
Sales	167.0	183.7	201.2	220.3	241.2	264.1	289.2	315.2
Sales growth		10.0%	9.5%	9.5%	9.5%	9.5%	9.5%	9.0%
EBIT margin	8.8%	10.1%	11.2%	12.0%	12.5%	12.8%	12.8%	12.9%
<b>EBIT</b>	<b>14.6</b>	<b>18.6</b>	<b>22.5</b>	<b>26.4</b>	<b>30.1</b>	<b>33.7</b>	<b>37.1</b>	<b>40.7</b>
Tax rate	33.0%	31.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Adjusted tax payments	4.8	5.8	6.8	7.9	9.0	10.1	11.1	12.2
<b>NOPAT</b>	<b>9.8</b>	<b>12.8</b>	<b>15.8</b>	<b>18.5</b>	<b>21.0</b>	<b>23.6</b>	<b>26.0</b>	<b>28.5</b>
+ Depreciation & Amortisation	2.8	3.1	3.3	3.1	3.2	3.3	3.4	3.5
+ 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
<b>Gross operating cash flows</b>	<b>12.6</b>	<b>16.0</b>	<b>19.0</b>	<b>21.6</b>	<b>24.2</b>	<b>26.9</b>	<b>29.4</b>	<b>32.0</b>
- Increase Net Working Capital	1.7	-0.3	-0.6	-0.8	-1.0	-1.3	-1.6	-1.9
- Investments in fixed asses	-3.1	-3.1	-3.2	-3.3	-3.5	-3.6	-3.8	-3.9
<b>Free cash flows</b>	<b>11.2</b>	<b>12.6</b>	<b>15.2</b>	<b>17.4</b>	<b>19.7</b>	<b>22.0</b>	<b>24.0</b>	<b>26.2</b>

*SMC estimation model*

percent) due to the dampening effect of the Auto-desk trade that will be perceptible well into the autumn months. As the gross margin is, moreover, expected to increase further, sales will probably stagnate or even decline slightly in 2017. The EBITDA growth will probably be weaker as well, EUR 1.8 to 2.8 m instead of previously targeted EUR 3 to 4 m p.a. From 2018 on, however, M+M intends to gather speed again and to increase gross profit by up to 12 percent p.a.

### Less sales at higher gross margin

Against the background of the modified forecasts, we adjusted our estimates as well. The most important alteration concerns the sales growth assumed for 2017, which we reduce to zero while considerably raising the gross margin. This results in a gross profit growth by 7.9 percent (so far: 8.7 percent), which increases again next year to 11 percent. Subsequently, we calculate as before with figures around the 10-percent mark. We expect now an EBITDA of EUR 17.5 m for 2017, choosing thus a deliberately cautious approach at the lower end of M+M's forecast corridor. With regard to EBITDA margin, this means a figure of 10.5 percent, which we still let increase to the target figure of 14 percent until 2022. An overview over the data underlying our valuation is to be found in the table below, a detailed presentation of the model business development up to 2024 is shown in the tables in the Annex. Subsequently, due to precautionary reasons, we calculate as before with an EBIT margin of 9 percent.

### Price target: EUR 16.20 per share

These assumptions result in a market value of equity of EUR 270.4 m or EUR 16.21 per share, from which we derive the new price target of EUR 16.20. The increase over the previous estimate (EUR 14.80) is the result of three partly countervailing effects. While our modified assumptions had a slightly negative impact on the model result, the rollover effect from the turn of the year and our lowering of the risk-free interest rate in all models (due to the continuing low-interest phase) led to an increase of the fair value. In our favourite scenario, we calculate now with a perpetual growth of 1.0 percent and a WACC of 7.1 percent (previously: 7.7 percent). The estimation risk, however, remains unchanged at three out of six possible points.

Sensitivity analysis	Perpetual cash flows growth				
	2.0%	1.5%	1.0%	0.5%	0.0%
WACC					
6.1%	23.46	21.44	19.82	18.49	17.38
6.6%	20.70	19.14	17.85	16.78	15.88
7.1%	18.47	17.24	16.21	15.33	14.58
7.6%	16.65	15.65	14.81	14.09	13.46
8.1%	15.12	14.31	13.61	13.01	12.48

### Sensitivity analysis

When the input parameters are varied for the sensitivity analysis (WACC between 6.1 and 8.1 percent, perpetual growth between 0 and 2 percent), the fair value fluctuates between EUR 12.48 and EUR 23.46 per share.

## Conclusion

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In the last business year, Mensch und Maschine continued the positive trend of the previous years. The company was not only able to increase gross profit to a new record level, but also to convert this – as planned – into a strong profit growth.

The operating margins that rose to new heights show in an impressive way that the transition of the business model initiated in 2009 was the right thing to do. We believe, besides, that they increase the credibility of forecasts for the next years even further as well. Therefore, we still align our estimates fairly close to the company's guidance. On that basis, we see the fair value now at EUR 16.20 per share. Ac-

ording to our calculations, the share, whose price rose in the last year by a third, has still a price potential of 25 percent. In favour of the share is also the stockholder-friendly dividend policy, promising a dividend yield of 2.7 percent for 2016. If the business develops as scheduled, the dynamic growth of the dividend should continue as well over the next years.

In conclusion, Mensch und Maschine continues to convey a thoroughly convincing image and we confirm therefore our rating "buy".

# Annex I: Balance sheet and P&L estimation

## Balance sheet estimation

m Euro	12 2016	12 2017	12 2018	12 2019	12 2020	12 2021	12 2022	12 2023	12 2024
<b>ASSETS</b>									
I. Total non-current assets	61.3	61.5	61.5	61.4	61.6	61.9	62.2	62.6	63.0
1. Intangible assets	42.7	42.0	41.2	40.5	39.9	39.5	39.0	38.6	38.3
2. Tangible assets	13.2	14.2	14.9	15.6	16.3	17.1	17.8	18.6	19.4
II. Total current assets	38.9	40.7	44.4	48.3	52.8	57.9	66.5	75.7	88.5
<b>LIABILITIES</b>									
I. Equity	40.8	43.7	47.9	52.9	59.2	66.8	75.2	84.5	94.8
II. Accruals	7.9	8.4	8.9	9.4	9.9	10.4	11.0	11.5	12.1
III. Liabilities									
1. Long-term liabilities	33.6	31.2	28.4	25.0	21.0	16.4	14.4	12.0	12.0
2. Short-term liabilities	17.8	19.0	20.6	22.4	24.2	26.1	28.2	30.4	32.7
<b>TOTAL</b>	<b>100.1</b>	<b>102.2</b>	<b>105.9</b>	<b>109.8</b>	<b>114.4</b>	<b>119.8</b>	<b>128.7</b>	<b>138.3</b>	<b>151.5</b>

## GUV- P&L estimation

m Euro	12 2016	12 2017	12 2018	12 2019	12 2020	12 2021	12 2022	12 2023	12 2024
Sales	167.0	167.0	183.7	201.2	220.3	241.2	264.1	289.2	315.2
Gross profit	91.4	98.6	109.4	120.2	132.1	145.1	159.4	174.5	190.2
EBITDA	15.7	17.5	21.7	25.8	29.5	33.3	37.0	40.5	44.2
EBIT	12.4	14.6	18.6	22.5	26.4	30.1	33.7	37.1	40.7
EBT	10.8	13.0	17.0	21.1	25.0	29.1	33.0	36.7	40.5
EAT (before minorities)	7.0	8.7	11.7	14.8	17.5	20.4	23.1	25.7	28.3
EAT	6.5	8.4	11.2	14.2	16.8	19.6	22.2	24.6	27.2
EPS	0.39	0.50	0.67	0.85	1.01	1.17	1.33	1.48	1.63

## Annex II: Cash flows estimation and key figures

### Cash flows estimation

m Euro	12 2016	12 2017	12 2018	12 2019	12 2020	12 2021	12 2022	12 2023	12 2024
CF operating	14.6	13.2	14.5	17.4	19.8	22.5	25.1	27.5	29.9
CF from investments	-3.1	-3.1	-3.1	-3.2	-3.3	-3.5	-3.6	-3.8	-3.9
CF financing	-12.0	-8.7	-10.4	-13.3	-15.4	-17.6	-16.8	-18.8	-18.0
Liquidity beginning of year.	9.6	9.3	10.7	11.8	12.7	13.9	15.4	20.0	24.9
Liquidity end of year	9.3	10.7	11.8	12.7	13.9	15.4	20.0	24.9	32.9

### Key figures

Percent	12 2016	12 2017	12 2018	12 2019	12 2020	12 2021	12 2022	12 2023	12 2024
Sales growth	4.1%	0.0%	10.0%	9.5%	9.5%	9.5%	9.5%	9.5%	9.0%
Gross profit growth	8.1%	7.9%	10.9%	9.9%	9.9%	9.9%	9.9%	9.5%	9.0%
Gross margin	54.7%	59.1%	59.6%	59.8%	60.0%	60.2%	60.4%	60.3%	60.3%
EBITDA margin	9.4%	10.5%	11.8%	12.8%	13.4%	13.8%	14.0%	14.0%	14.0%
EBIT margin	7.4%	8.8%	10.1%	11.2%	12.0%	12.5%	12.8%	12.8%	12.9%
EBT margin	6.5%	7.8%	9.2%	10.5%	11.4%	12.1%	12.5%	12.7%	12.8%
Net margin (after minorities)	3.9%	5.0%	6.1%	7.1%	7.6%	8.1%	8.4%	8.5%	8.6%



## Disclaimer

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### Editor

sc-consult GmbH

Alter Steinweg 46

48143 Münster

Internet: [www.sc-consult.com](http://www.sc-consult.com)

Phone: +49 (0) 251-13476-94

Telefax: +49 (0) 251-13476-92

E-Mail: [kontakt@sc-consult.com](mailto:kontakt@sc-consult.com)

### Responsible analyst

Dr. Adam Jakubowski

### Charts

The charts were made with Tai-Pan ([www.lp-software.de](http://www.lp-software.de)).

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## II) Preparation and updating

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

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Buy	We expect an increase in price for the analyzed financial instrument by at least 10 percent. We assess the estimation risk as average (3 to 4 points).
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The expected change in price refers to the current share price of the analyzed 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.

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Date	Rating	Target price	Conflict of interests
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July 29th, 2016	Hold	14.90 Euro	1), 3), 4)
April 28th, 2016	Hold	12.90 Euro	1), 3),
February 19th, 2016	Buy	10.50 Euro	1), 3),
November 3rd, 2015	Buy	9.50 Euro	1), 3),
August 12th, 2015	Buy	8.90 Euro	1), 3), 4)

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

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