

April 25th, 2017

**Research-Update**

**SMC** Research  
Small and Mid Cap Research

# Mensch und Maschine SE

Unexpectedly strong start to the year

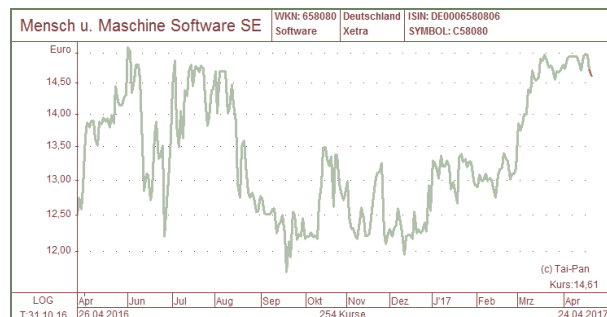
Rating: **Buy** (unchanged) | Price: **14.62 Euro** | Price target: **17.80 Euro**

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Please take notice of the disclaimer at the end of the document!

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## Recent business development



### Basic data

Based in:	Wessling
Sector:	CAD/CAM Software
Headcount:	773
Accounting:	IFRS
ISIN:	DE0006580806
Price:	14.62 Euro
Market segment:	Scale / m:access
Number of shares:	16.7 m
Market Cap:	243.9 m Euro
Enterprise Value:	267.6 m Euro
Free float:	44.3 %
Price high/low (12 M):	15.34 / 11.68 Euro
Ø turnover (12 M):	149,700 Euro

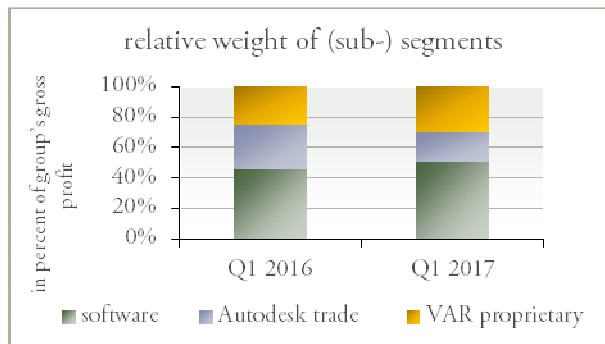
In the first quarter, Mensch und Maschine has exceeded all expectations. Although sales decreased as expected due to last year's final sale of Autodesk one-off licenses, the decline was slighter than anticipated. Moreover, as the business areas of software and service, which generate higher margins than the Autodesk trade, showed a very positive development, the gross margin reached a new record high of EUR 25.0 m. Combined with a sustained cost discipline and declining depreciation and tax expenses, this resulted in a two-digit profit growth to EUR 2.6 m. M+M has thus already achieved 30 percent of its own profit forecast for 2017 in the supposedly most difficult quarter of this year.

We have therefore raised our estimates, which had so far remained slightly below that for reasons of prudence. The resulting new target price of EUR 17.18 indicates a further price potential of over 20 percent, and we think that the success story is likely to continue not only in operating terms but also at the stock market. Our rating remains accordingly a "buy".

FY ends: 31.12.	2014	2015	2016	2017e	2018e	2019e
Sales (m Euro)	140.0	160.4	167.1	168.7	185.6	203.2
EBIT (m Euro)	6.8	8.5	12.5	15.8	19.6	23.7
Net profit	3.7	3.9	6.6	9.0	11.8	14.5
EpS	0.24	0.24	0.39	0.54	0.70	0.87
Dividend per share	0.20	0.25	0.35	0.47	0.58	0.70
Sales growth	11.3%	14.5%	4.2%	1.0%	10.0%	9.5%
Profit growth	42.1%	4.0%	70.4%	36.4%	30.8%	23.5%
PSR	1.74	1.52	1.46	1.45	1.31	1.20
PER	65.6	63.1	37.0	27.1	20.8	16.8
PCR	38.79	16.56	16.65	17.67	15.70	13.39
EV / EBIT	39.6	31.6	21.4	16.9	13.7	11.3
Dividend yield	1.4%	1.7%	2.4%	3.2%	4.0%	4.8%

## Decline in sales

As was expected and announced, Mensch und Maschine's sales decreased in the first quarter of the year. However, the decline was more moderate than anticipated with 9.7 percent to EUR 45.5 m. The revenues from the trade business with Autodesk licenses, which had benefitted hugely last year from the temporary boom through the final sale of one-off licenses in the run-up to Autodesk's conversion of the pricing model from license sale to rental software, declined strongly as expected. This was, however, compensated to a large extent by the dynamic growth of the software segment (sales increase of 11.4 percent) and the brisk service business in the VAR segment.



Source: Company;

## Gross profit at a new record high

As the sales mix has thus shifted further towards higher-margin revenues, the gross profit increased despite the sales slump by 1.5 percent to EUR 25 m, reaching a new quarter high. The software segment contributed EUR 12.6 (+12.8 percent) and the VAR business EUR 12.4 m (-7.8 percent). Within the VAR business, the contribution of services and own solutions increased by 22 percent to EUR 7.5 m while the share of Autodesk trade business decreased by almost a third to EUR 5.0 m. The share of the former core business Autodesk trade in the group's gross profit has thus dropped below the mark of 20 percent. As a result, the gross margin rose year-on-year by 6.1 percentage points to 54.9 percent.

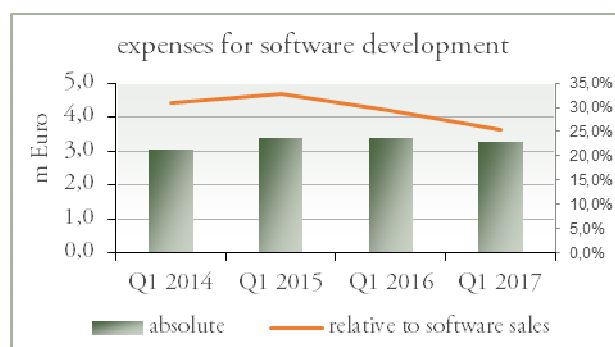
Business figures	Q1 2016	Q1 2017	Change
Sales	50.37	45.47	-9.7%
<i>VAR business</i>	38.85	32.64	-16.0%
<i>Software</i>	11.52	12.83	+11.4%
Gross profit	24.60	24.98	+1.5%
<i>VAR business</i>	13.47	12.42	-7.8%
<i>Software</i>	11.13	12.56	+12.8%
Gross margin	48.8%	54.9%	
EBITDA	5.28	5.42	+2.7%
<i>VAR business</i>	2.36	1.87	-20.5%
<i>Software</i>	2.92	3.54	+21.4%
EBITDA margin	10.5%	11.9%	
EBIT	4.42	4.73	+7.0%
<i>VAR business</i>	1.81	1.48	-18.4%
<i>Software</i>	2.62	3.26	+24.5%
EBIT margin	8.8%	10.4%	
EBT	3.82	4.22	+10.5%
EBT margin	7.6%	9.3%	
Net profit	2.20	2.57	+17.2%
Net margin	4.4%	5.7%	

## Renewed rise in earnings

M+M was able to convert this slight gross profit growth in an even stronger profit growth. This is partly due to a sustained cost discipline, which resulted in other operating expenses declining by 4 percent and personnel expenses increasing by only 2.5 percent. The EBITDA increased therefore even more disproportionately to the gross profit by 2.7 percent, the growth being achieved solely in the software segment. The EBITDA of the VAR business, on the other hand, dropped by 20.5 percent. In relation to the decreased sales, the EBITDA margin improved by 1.4 percentage points to 11.9 percent. Below the EBITDA level, decreasing depreciations and amortizations, a lower interest burden, an assumed improved tax rate and a reduced minority interest resulted in even stronger growth, amounting to 7 percent (EBIT), 10.5 percent (EBT) and even 17.2 percent for the net profit.

## Software segment remains dynamic

A crucial factor here was the software segment whose EBITDA margin increased to 27.6 percent and the EBIT margin to 25.4 percent. This development is driven mainly by the CAM subsidiary OpenMind for which M+M reports a continuously high sales growth. However, the management is also satisfied with the development of the two smaller product subsidiaries: both generated an EBITDA margin above 20 percent. In the software business, the company benefits especially from the growth-related high economies of scale resulting in a lower average burden of overhead and development expenses. Accordingly, the share of expenses for software development in relation to sales in the software segment has decreased noticeably, to 25.5 percent most recently. In absolute figures, however, it remains largely stable.



Source: Company;

## Very strong cash flows

Just like in the previous year, the operating cash flows saw a very strong development in the first quarter of 2017 as well. At EUR 7.7 m, it surpassed the previous year's figure by a quarter and in relation to sales reached a ratio of nearly 17 percent. In addition to improved earnings, M+M benefitted here from a year-on-year moderated growth of the net working capital as well as from higher payments for maintenance contracts in the software segment, which will only be reflected in sales in the further course of the year. Given an outflow of funds due to investments of EUR 1.0 m (previous year: EUR 0.8 m), the result was free cash flows of EUR 6.7 m, marking a new quarterly record.

## Balance sheet figures improve further

After interest, debt repayments and dividends for minorities, there was a net increase of cash by EUR 2.5 m to EUR 8.9 m. Net debt (including property loan and a shareholder loan) was thus reduced to EUR 15.8 m, the equal of last year's EBITDA. Equity ratio has improved further as well, to 41.5 percent; however, both figures will probably decline slightly again due to the dividend payment that has been increased by 40 percent to 35 cents.

## Forecasts confirmed

Against the background of the strong beginning of the year, M+M confirmed its own forecasts or even raised them a little in terms of sales. Instead of stagnating or slightly declining sales, the company now believes that a slight increase is possible, but for the key target figure gross profit it still maintains the forecast range of EUR 98 to 99 m. The profit forecast (EBITDA of EUR 17.5 to 18.5 m, EPS of 52 to 57 cents) remains unchanged, as does the mid-term objective of more than doubling the profit to 100 cents per share.

## Estimates raised

Until now, our estimates had been at the lower end of the company guidance for the EBITDA and even below it for the net profit; however, in reaction to the surprisingly strong Q1-figures, we have now slightly raised them. We calculate now with sales of EUR 168.7 m and a gross profit of EUR 99.2 m (so far: EUR 167.0 m and 98,6 m respectively), and have raised our EBITDA estimate from EUR 17.5 to 18.2 m. We expect now a net profit of EUR 9.0 m instead of 8.4 m. Through the increased sales base and the expense ratios that we reduced slightly quicker than before, these changes continue into the subsequent years as well, leading us to calculate with sales of EUR 318.5 m and an EBIT margin of 13.4 percent at the end of the detailed forecast period. Subsequently, we still assume a perpetual growth of 1 percent and an EBIT margin of 9 percent. An overview over the data underlying our valuation is to be found in the table above, a detailed presentation of

m Euro	12 2017	12 2018	12 2019	12 2020	12 2021	12 2022	12 2023	12 2024
Sales	168.7	185.6	203.2	222.6	243.7	266.8	292.2	318.5
Sales growth		10.0%	9.5%	9.5%	9.5%	9.5%	9.5%	9.0%
EBIT margin	9.4%	10.6%	11.7%	12.4%	12.9%	13.2%	13.3%	13.4%
<b>EBIT</b>	<b>15.8</b>	<b>19.6</b>	<b>23.7</b>	<b>27.7</b>	<b>31.5</b>	<b>35.3</b>	<b>38.9</b>	<b>42.6</b>
Tax rate	35.0%	33.0%	33.0%	33.0%	33.0%	33.0%	33.0%	33.0%
Adjusted tax payments	5.5	6.5	7.8	9.1	10.4	11.6	12.8	14.1
<b>NOPAT</b>	<b>10.3</b>	<b>13.1</b>	<b>15.9</b>	<b>18.5</b>	<b>21.1</b>	<b>23.6</b>	<b>26.1</b>	<b>28.6</b>
+ Depreciation & Amortisation	2.4	3.2	3.4	3.2	3.3	3.4	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>16.4</b>	<b>19.2</b>	<b>21.8</b>	<b>24.4</b>	<b>27.0</b>	<b>29.5</b>	<b>32.1</b>
- Increase Net Working Capital	2.1	0.1	-0.2	-0.4	-0.7	-0.9	-1.2	-1.5
- Investments in fixed asses	-3.1	-3.1	-3.2	-3.4	-3.5	-3.6	-3.8	-3.9
<b>Free cash flows</b>	<b>11.6</b>	<b>13.3</b>	<b>15.7</b>	<b>17.9</b>	<b>20.2</b>	<b>22.4</b>	<b>24.5</b>	<b>26.7</b>

*SMC estimation model*

the model business development up to 2024 is shown in the tables in the Annex.

### Price target: EUR 17.80 per share

These assumptions result in a market value of equity of EUR 297.2 m or EUR 17.82 per share, from which we derive the new price target of EUR 17.80. The increase over the previous update is mainly attributable to the outlined adjustment of our estimates. Moreover, our discount rate (WACC) declined as well to 6.6 percent due to the assumed decrease of the interest on borrowed capital (to 4.5 percent) and has thus contributed with about EUR 0.40 per share to the increase of the fair value we ascertained. The estimation risk, however, remains unchanged at three out of six possible points.

Sensitivity analysis WACC	Perpetual cash flows growth				
	2.0%	1.5%	1.0%	0.5%	0.0%
5.6%	26.32	23.85	21.90	20.34	19.05
6.1%	23.05	21.17	19.66	18.42	17.38
6.6%	20.47	19.01	17.82	16.81	15.96
7.1%	18.39	17.24	16.27	15.45	14.74
7.6%	16.68	15.74	14.95	14.27	13.68

### Sensitivity analysis

When the input parameters are varied for the sensitivity analysis (WACC between 5.6 and 7.6 percent, perpetual growth between 0 and 2 percent), the fair value fluctuates between EUR 13.68 and EUR 26.32 per share.

## Conclusion

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M+M's Q1 figures were convincing again. Although sales dropped as expected due to last year's temporary boom in the Autodesk trading business, gross profit and all profit figures increased in part considerably. The company benefits here from a sustained brisk demand for its own software products and services.

Overall, the start of the year was thus stronger than expected, and M+M has therefore confirmed its forecast and even slightly raised it with regard to sales. We had hitherto been more cautious in our calculations, but we do not think it necessary any more,

given that the supposedly most difficult quarter was successfully handled. Therefore, we have raised our estimates as well. The resulting fair value is now EUR 17.80 per share, stating thus a further price potential of 20 percent in spite of the share's excellent performance.

Mensch und Maschine has a strong market position, pursues a conclusive growth strategy, is exposed to only moderate risks, convinces with its remarkable forecast reliability and offers a considerable dividend yield. The overall picture is coherent, our rating remains "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	62.0	62.8	62.6	62.5	62.6	62.9	63.1	63.5	63.9
1. Intangible assets	42.9	42.3	41.5	40.7	40.1	39.6	39.2	38.8	38.4
2. Tangible assets	13.2	14.7	15.3	16.0	16.7	17.4	18.1	18.9	19.7
II. Total current assets	38.6	38.1	42.0	46.1	50.9	56.4	65.5	75.2	88.6
<b>LIABILITIES</b>									
I. Equity	40.6	44.1	48.3	53.2	59.6	67.3	75.8	85.1	95.6
II. Accruals	8.8	9.6	10.5	11.4	12.3	13.2	14.1	15.1	16.1
III. Liabilities									
1. Long-term liabili-	27.2	22.5	19.7	16.4	12.5	8.1	6.2	3.7	3.7
2. Short-term liabili-	24.0	24.7	26.2	27.7	29.2	30.7	32.6	34.8	37.1
<b>TOTAL</b>	<b>100.5</b>	<b>100.9</b>	<b>104.6</b>	<b>108.6</b>	<b>113.6</b>	<b>119.3</b>	<b>128.7</b>	<b>138.7</b>	<b>152.5</b>

## P&L estimation

m Euro	12 2016	12 2017	12 2018	12 2019	12 2020	12 2021	12 2022	12 2023	12 2024
Sales	167.1	168.7	185.6	203.2	222.6	243.7	266.8	292.2	318.5
Gross profit	91.4	99.2	110.5	121.5	133.4	146.6	161.0	176.3	192.2
EBITDA	15.8	18.2	22.8	27.0	30.9	34.8	38.6	42.3	46.2
EBIT	12.5	15.8	19.6	23.7	27.7	31.5	35.3	38.9	42.6
EBT	11.1	14.4	18.3	22.6	26.7	30.9	35.0	38.8	42.8
EAT (before minori-	7.0	9.4	12.2	15.1	17.9	20.7	23.5	26.0	28.7
EAT	6.6	9.0	11.8	14.5	17.1	19.9	22.5	25.0	27.5
EPS	0.39	0.54	0.70	0.87	1.03	1.19	1.35	1.50	1.65

## 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
<b>m Euro</b>	14.6	13.8	15.5	18.2	20.6	23.3	25.9	28.3	30.7
CF operating	-3.4	-3.1	-3.1	-3.2	-3.4	-3.5	-3.6	-3.8	-3.9
CF from investments	-14.5	-11.5	-11.2	-13.9	-15.8	-18.0	-17.2	-19.1	-18.3
CF financing	9.6	6.4	5.5	6.8	7.9	9.3	11.1	16.2	21.6
Liquidity beginning of	6.4	5.5	6.8	7.9	9.3	11.1	16.2	21.6	30.1

### Key figures

Percent	12 2016	12 2017	12 2018	12 2019	12 2020	12 2021	12 2022	12 2023	12 2024
Sales growth	4.2%	1.0%	10.0%	9.5%	9.5%	9.5%	9.5%	9.5%	9.0%
Gross profit growth	8.2%	8.4%	11.5%	9.9%	9.9%	9.9%	9.9%	9.5%	9.0%
Gross margin	54.7%	58.8%	59.6%	59.8%	60.0%	60.2%	60.4%	60.3%	60.3%
EBITDA margin	9.4%	10.8%	12.3%	13.3%	13.9%	14.3%	14.5%	14.5%	14.5%
EBIT margin	7.5%	9.4%	10.6%	11.7%	12.4%	12.9%	13.2%	13.3%	13.4%
EBT margin	6.7%	8.5%	9.8%	11.1%	12.0%	12.7%	13.1%	13.3%	13.4%
Net margin (after mi-	3.9%	5.3%	6.3%	7.1%	7.7%	8.2%	8.4%	8.6%	8.6%



# Disclaimer

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## Charts

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

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

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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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October 27th, 2016	Buy	14.80 Euro	1), 3), 4)
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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