

Mensch und Maschine

Software
18 March 2021

Growth in profits despite tough year

Mensch und Maschine (M+M) reported 12.5% growth in EPS despite a 0.8% decline in revenues in FY20. Reduced spend on travel and events combined with selective use of furlough benefits more than offset the decline in demand during Q2–Q4. The company expects its normal growth trajectory to resume from Q221 and has published its outlook for EPS and DPS growth in the short and medium term.

FY20: Profit growth despite small revenue decline

M+M reported record operating profit (+14% year-on-year) and record net income (+12% y-o-y) despite a small decline in group revenues. The Software business started to see the resumption of y-o-y growth from Q420, reporting 0.7% revenue growth for FY20 and EBIT growth of 10%. The VAR business declined 1.5% in FY20, whereas EBIT increased 21%. Net debt (excluding leases) reduced by 70% in the year as the company saw double-digit cash generation. The company announced a €1.0 dividend for FY20.

FY21: Resumption in growth expected from Q221

While the company expects trading in Q121 to improve on Q420, it expects a normal growth path to be resumed from Q221. In the medium term, it is targeting group revenue and gross margin growth of c 8–12% per year and an EBITDA margin of 20%, which compares to the 16.5% reported in FY20. It expects EPS of €1.25–1.35 for FY21 and for this to increase by c 18–24c pa from FY22, and DPS of €1.15–1.20 for FY21, increasing by c 15–20c pa from FY22. Consensus forecasts are at the lower end of the range.

Valuation: Trading in line

The stock trades at a discount to peers on EV-based valuation metrics and essentially in line on a P/E basis, in our view reflecting the fact that its operating margins are at the lower end of its peer group. The stock is supported by a dividend yield of c 2%, which is at the top end of its peer group.

Consensus estimates						
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/19	245.9	26.3	0.99	0.85	56.5	1.5
12/20	244.0	29.8	1.12	1.00	50.2	1.8
12/21e	255.0	34.4	1.28	1.15	43.8	2.1
12/22e	282.4	40.8	1.52	1.30	36.8	2.3

Source: Company reports, analyst reports on M+M investor relations page.

Price €56.0
Market cap €943m

Share price graph



Share details

Code MUM
 Listing Deutsche Börse Scale
 Shares in issue 16.8m
 Last reported net debt as at end FY20* €3.2m
*Excludes lease liabilities

Business description

Mensch und Maschine Software (M+M) sells proprietary and Autodesk CAD/CAM software. It reports across two business lines: M+M Software (FY20 31% of revenues, 62% of EBIT) and VAR (FY20 69% of revenues, 38% of EBIT). The company has operations in Europe, the US and Asia-Pacific.

Bull

- Largest European Autodesk value-added reseller.
- High-margin, internally developed software.
- Loyal workforce.

Bear

- Reliant on Autodesk's technology development and channel strategy.
- Management owns more than 50% of the company.
- Large exposure to DACH economies.

Analyst

Katherine Thompson +44 (0)20 3077 5730

tech@edisongroup.com
[Edison profile page](#)

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Review of FY20 results

Exhibit 1: FY20 results highlights			
€m	FY19	FY20	y-o-y
Revenues	245.9	244.0	-0.8%
Gross profit	127.9	128.0	0.1%
EBITDA	36.5	40.3	10.3%
Operating profit	27.2	31.0	14.1%
Net income after minority interest	16.7	18.7	12.3%
EPS (€)	0.99	1.12	12.5%
Net debt (excludes lease liabilities)	10.5	3.2	-70.0%

Source: Mensch und Maschine

The company had already reported headline figures in February, so these results were in line with consensus estimates.

In FY20, the group saw a small revenue decline y-o-y; after a strong Q120, COVID-19 suppressed demand for the remainder of the year, although the Software business did see a small uptick in revenues in Q420 (+1.6% y-o-y). Staff costs increased in the year as headcount was marginally higher, but reductions in other costs plus the use of furlough benefits combined to drive a 14.1% increase in operating profit y-o-y. This translated to a 12.5% increase in EPS. The company announced a €1.00 dividend for the year, in line with expectations.

Net debt reduced by 70% y-o-y to €3.2m. Cash flow from operations of €33.7m was boosted by a positive inflow from working capital of €1.5m. The company spent €5.9m on capex, €16.0m on dividends and paid down €5.3m of debt.

Divisional performance

The **Software** business saw 0.7% revenue growth in FY20, while gross profit declined by 1.2%. Software EBIT increased 10.2% y-o-y, with the margin expanding 2.2pp, mainly due to a reduction in other operating costs of 22.6% (reduced travel and marketing costs) more than offsetting a 2.7% increase in staff costs. The division saw strong revenue growth of 11% y-o-y in Q120 (see Exhibit 3) before a 9% decline in Q2. Revenues stabilised in Q320 before returning to modest growth in Q420.

The **VAR** business saw a 1.5% revenue decline in FY20 and a 1.6% increase in gross profit. As for the Software division, a 20.4% reduction in other operating costs resulted in a 21.1% increase in EBIT y-o-y and 1.3pp margin expansion. The division saw exceptional growth of 30% y-o-y in Q120, mainly due to customers taking advantage of Autodesk's maintenance to subscription offer before it expired in May 2020, before three quarters of year-on-year declines as the pandemic made it harder to sign new business.

Exhibit 2: Divisional performance, FY19-20							
€m	FY19	FY20	y-o-y		FY19	FY20	y-o-y
Revenues				EBIT			
Software	75.1	75.6	0.7%	Software	17.4	19.1	10.2%
VAR	170.9	168.4	-1.5%	VAR	9.8	11.9	21.1%
Total	245.9	244.0	-0.8%	Total	27.2	31.0	14.1%
Gross profit				EBIT margin			
Software	69.7	68.8	-1.2%	Software	23.1%	25.3%	2.2%
VAR	58.2	59.1	1.6%	VAR	5.7%	7.1%	1.3%
Total	127.9	128.0	0.1%	Total	11.1%	12.7%	1.7%
Gross margin							
Software	92.8%	91.1%	-1.8%				
VAR	34.1%	35.1%	1.1%				
Total	52.0%	52.4%	0.4%				

Source: Mensch und Maschine

Exhibit 3: Quarterly divisional revenues, FY20

€m					Y-o-y growth			
	Q120	Q220	Q320	Q420	Q120	Q220	Q320	Q420
Software	20.5	17.4	17.1	20.7	11.3%	-9.0%	-0.9%	1.6%
VAR	58.2	34.4	33.2	42.7	29.9%	-9.4%	-10.0%	-16.8%
Total	78.6	51.8	50.2	63.4	24.5%	-9.3%	-7.1%	-11.6%

Source: Mensch und Maschine

Outlook and consensus estimates

The company expects trading in Q121 to be better than Q420, but still below the record revenues reported in Q120. It expects to return to its normal growth mode from Q221 and to report EPS of €1.25–1.35 and a dividend of €1.15–1.20 for FY21. From FY22, management expects revenues and gross profit to increase by c 8–12% pa, with an incremental 18–24c of EPS and growth in the dividend of 15–20c each year. The company has a medium-term EBITDA margin target of 20%, compared to the 16.5% achieved in FY20.

The table below shows current consensus forecasts, which are towards the lower end of company guidance.

Exhibit 4: Consensus forecasts

€m	FY21e	FY22e
Revenues	255.0	282.4
Revenue growth	4.5%	10.7%
EBITDA	46.0	52.0
EBITDA margin	18.0%	18.4%
EBIT	35.4	41.5
EBIT margin	13.9%	14.7%
EPS	1.28	1.52
DPS	1.15	1.30

Source: Analyst reports on M+M investor relations page (as at 16 March)

Valuation

12 months ago, the stock was trading at €32.8, its COVID-19 induced low. The stock has gained 66% from that point but is down 6.5% year to date. The shares trade at a discount to peers on EV-based valuation metrics and essentially in line on a P/E basis, in our view reflecting the fact that the company's operating margins are at the lower end of its peer group. The stock is supported by a dividend yield of c 2%, which is at the top end of its peer group.

Exhibit 5: Peer valuation metrics

Company	Quoted ccy	Share price	Market Cap	EV (rep ccy)	EV/Sales (x)		EV/EBIT (x)		P/E (x)		Div yield (%)		EBIT margin (%)	
					CY	NY	CY	NY	CY	NY	CY	NY	CY	NY
MENSCH UND MASCHINE SOFTWARE	EUR	56.0	943	946	3.7	3.3	26.8	22.5	43.8	36.8	2.1	2.3	13.9	14.9
AVEVA GROUP	GBp	3424	9892	9848	12.3	11.0	46.6	40.9	42.2	39.9	1.1	1.1	26.5	26.9
CENIT	EUR	13.6	114	99	0.6	0.6	20.4	12.3	38.0	22.8	2.2	2.9	3.1	4.9
NEMETSCHKE	EUR	51.7	5987	6087	9.4	8.5	41.8	35.1	53.0	45.0	0.7	0.7	22.5	24.1
RIB SOFTWARE	EUR	27.5	1435	1258	3.6	2.8	19.4	14.3	35.3	26.7	0.9	1.3	18.7	19.8
AUTODESK	USD	268.1	58955	58735	13.6	11.5	43.2	30.7	54.0	38.6	0.0	0.0	31.5	37.3
DASSAULT SYSTEMES	EUR	173.2	45878	47964	10.0	9.2	35.6	31.6	42.2	37.8	0.5	0.5	28.2	29.2
HEXAGON	SEK	763.4	269598	28799	7.1	6.7	26.0	24.1	31.1	29.0	0.9	1.0	27.3	27.8
PTC INC	USD	132.2	15441	16030	9.4	8.5	30.7	26.7	41.8	34.6	0.0	0.0	30.5	31.8
Average					8.3	7.3	32.9	27.0	40.5	33.7	0.8	0.9	23.5	25.2
Median					9.4	8.5	33.2	28.7	42.0	36.2	0.8	0.9	26.9	27.4

Source: Refinitiv (as at 15 March)

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Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia