EDISON **Scale research report - Initiation**

mVISE

Software & comp services

14 September 2017

In all the right places

mVISE is a German pioneer in the fast-moving market for mobile digitalisation, cloud applications and business integration. It is well-positioned for growth with an orientation to mobility (Industrie 4.0/M2M), cloud computing and security software. The company has an impressive portfolio of blue-chip consultancy clients, including Vodafone, Bosch and Deutsche Telekom, and is currently focused on deepening these relationships to drive growth in product and service revenues. After strong share price gains, mVISE still trades at significant multiple discount, on a current year prospective EV/EBITDA of 15.7x vs its peer group on 34.2x.

Clear strategy taking effect…

A strategic reorientation in 2015 using consulting as a key driver of sales of products and services and focusing the business on mobility, cloud computing and security software led to a sharp upturn in revenues and margins in 2016. This fuelled a 53% increase in consulting revenues in 2016 to €6.1m and an even faster 94% y-o-y increase in products and solutions revenues to €3.1m. This growth continued in H117 with output (revenue including capitalised development costs) up 75%, EBITDA up 51%, after some cost impact from growth and acquisitions.

…supported by acquisitions

The acquisitions of elastic.io and Just Intelligence have strengthened the effectiveness of the group's strategy by increasing the range of cross-selling products on offer. elastic.io's easy-to-use software integration platform and Just Intelligence's ICC platform for call centres should drive recurring product sales to both larger and SME segments. While mVISE's SaleSphere product performed below expectation in 2016, there is also the possibility for it to contribute to stronger growth in 2017 helped by recently increased marketing efforts.

Valuation: Multiples undemanding relative to sector

On a current year prospective EV/EBITDA multiple of 15.7x, mVISE trades at a 63% discount to its peer group. Compared to its closest peers, Seven Principles and SHS Viveon, the stock has a substantially higher level of profitability, reflected in the superior prospective 2017 EV/sales multiple, which nevertheless at 2.4x is 27% below the wider sector average. While a relatively high exposure to consulting brings some business risks, with low gearing and growth supplemented by acquisitions, we see peer comparison as supportive of the share price.

Consensus estimates

Year end	Revenue (€m)	EBITDA (€m)	PBT (€m)	EPS (€)	EV/EBITDA (x)	P/E (x)	Yield (%)
12/15	4.9	(0.8)	(1.4)	(0.05)	N/A	N/A	N/A
12/16	7.9	1.2	0.4	0.05	29.7	82.0	N/A
12/17e	14.4	2.2	1.4	0.12	15.7	34.2	N/A
12/18e	18.0	2.5	0.9	0.08	13.8	51.3	N/A

Source: Edison, Thomson Reuters Eikon

Price	**€4.10**
Market cap	**€34m**

Share price graph

Share details

Code	C1VX
Listing	Deutsche Börse Scale
Shares in issue	8.4m
Last reported net debt at 31 December 2016	€0.2m

Business description

Founded in 2000, mVISE is a pioneer in German mobile software solutions with a large blue-chip client base, including Vodafone, Bosch and Deutsche Telekom. The group specialises in mobile business solutions, virtualisation and cloud-computing, and security software. Consulting revenues contributed two-thirds of revenues in 2016, and act as a driver of additional revenues including own software sales.

Bull

- mVISE is oriented to key growth areas of IoT, mobility, digitalisation, ADAS and security.
- The group's large, blue-chip customer base is driving growth opportunities and stability.
- Recent acquisitions, particularly elastic.io, have boosted the group's product offerings, supporting margin and earnings prospects in 2018.

Bear

- Reliance on project-based consulting revenues and customer concentration are downturn risks.
- Own developed software product SaleSphere has not achieved expectations.
- The ongoing pace of acquisitions gives rise to integration risk.

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Company description: Mobile business solutions

mVISE was founded in 2000. It listed on the entry standard of the Deutsche Börse in 2006 and graduated to the quality “Scale” segment of the Deutsche Börse on 25 July 2017. The company is a pioneer in the German market for SMS and MMS marketing as well as mobile entertainment and content. Its key focus is the mobilisation of business processes, within which it addresses three core areas of the IT market: mobility, virtualisation (remote access)/cloud computing and security.

Mobility, or mobile digitalisation, encompasses software related to mobile internet, mobile apps, m-commerce and mobile CRM and the digitalisation of business processes. It is a key component of a number of major themes in industry: Industrie 4.0, the internet of things (IoT), autonomous vehicles and big data. Virtualisation and cloud computing encompasses the implementation and the operation of back-end solutions on the basis of private and public cloud as well as handling the security aspects of moving to mobile solutions. mVISE provides clients with consulting and complex individual solutions (eg B2B apps) encompassing IoT, and big data and digitalisation/Industrie 4.0.

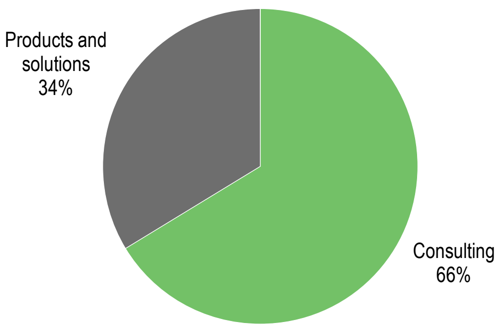
The group also offers its own cloud-based software-as-a-service (SaaS) products. These include mobile sales support SaleSphere, developed in-house and launched in 2016; and workforce management and intelligent data analysis software ICC, which was acquired in 2016 with the acquisition of Just Intelligence GmbH. The acquisition of elastic.io in May added hybrid integration platform services to the mix. The company also resells Amazon Web Services with Consulting Partner status.

Consulting generated 66% (€6.1m) of 2016 revenues before eliminations, while products and solutions generated the remaining 34% (€3.1m) of revenues. With its large blue-chip client base and successful margin expansion efforts, mVISE is also profitable and cash generative at the operating level.

mVISE is active principally in Germany and the EU, where it generated 98% of revenues in 2016. The group currently has 105 employees and offices in Düsseldorf, Frankfurt am Main and Hamburg. Further offices are planned in Southern Germany.

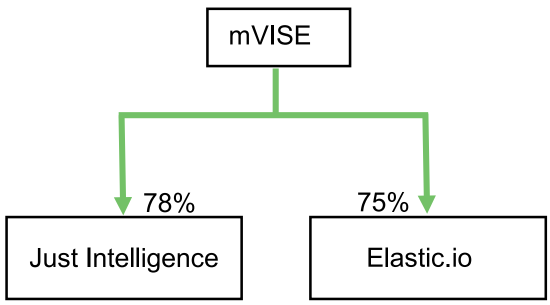
As a mobile software pioneer in Germany, mVISE has a large base of clients in the sectors of telecommunications, finance, industry and trade including many of Europe’s biggest corporate names (see Exhibit 4). The success of the strategy has already been seen in the strong turnaround in both contract and product revenues during 2015 and 2016, and consensus market expectations are for continued double-digit growth out to 2020.

Exhibit 1: Revenues by segment 2016*



Source: mVISE. Note: *Before eliminations.

Exhibit 2: Group structure



Source: mVISE

The shares

The share price has risen 74% over the last 12 months as the successful realisation of the 2015 strategy realignment has paid off in higher revenues and margins. Over the next 12 months, we see the share price as being reactive to the growth of the product division, in particular the potential for elastic.io to benefit from the new reseller agreement with a major international software house and cooperation deals with firms such as Deutsche Telekom and Star2Star. In the consulting business the company faces high demand but employee shortages. Better than expected synergy and cross-selling benefits from integration of recent acquisitions could lead to positive surprises. Another positive surprise would be a potential acquisition of a professional services firm in view of the high level of consulting business in hand and the potential for economies of scale from such an acquisition. European economic prospects are material for the consulting business in the long term.

Group structure – two subsidiaries, three key themes

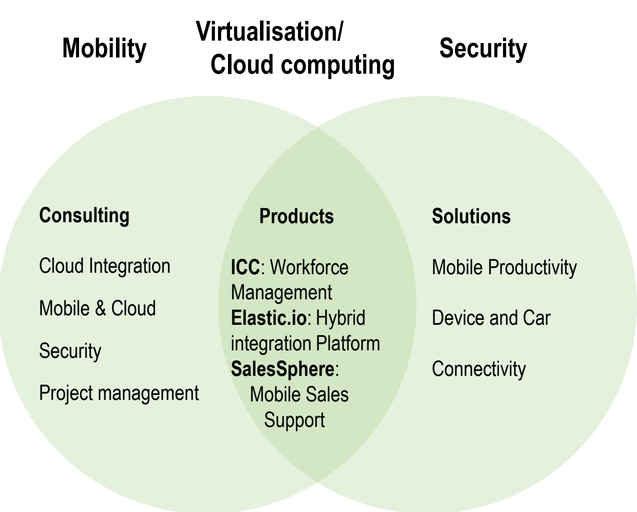
The mVISE group consists of the parent company mVISE, 78%-owned Just Intelligence GmbH and 75%-owned elastic.io GmbH (see Exhibit 2). mVISE's consulting activities and own-product development, eg SaleSphere, are undertaken in the parent company, while the products of the subsidiaries are marketed both by mVISE and the subsidiaries themselves.

Just Intelligence

mVISE built its stake in Just Intelligence to 50.1% over the course of 2015 and 2016, leading it to consolidate the company from 1 October 2016. In January 2017, the group further increased its stake to 78% funded by a private placement of 210,000 shares. As is the case with elastic.io, mVISE has a contract in place giving it the potential to acquire the remainder of the shares.

Just Intelligence GmbH's key IP is **ICC**, an established cloud-based SaaS workforce management system for call centres. The company has 20 employees and an established market for the product. In 2016 Just Intelligence created a partnership deal with 4Com, the market leader in cloud based in- and out-bound solutions in customer service and one of the largest providers of telephone equipment in the call centre market. In addition, ICC is a Gold Certified Microsoft Partner.

Exhibit 3: Products and services



Source: mVISE

Exhibit 4: mVISE's major blue-chip clients

Source: mVISE

elastic.io

mVISE purchased a 75% stake in hybrid integration platform developer, elastic.io GmbH in May 2017. The company was founded in 2013, with offices in Bonn and Kiev and has 20 employees. The company has already achieved strategic partnerships with T-Systems (Deutsche Telekom), as well as All for One Steeb AG, the leading SAP supplier to the mid-market in Germany, and e-commerce software provider, Shopware. The ease of use of the elastic platform gives the group a strong tool to leverage its presence in the SME market as well as tapping into the IoT market.

The acquisition of both companies has added attractive products to the group's product portfolio, in keeping with mVISE's strategy to leverage its consulting business via cross selling of products consistent with the group's three themes of mobility, virtualisation and security.

Strategy – restructured, acquired and three core themes

mVISE launched a new strategy in 2015, setting out the group's three core business "themes" as in growth segments of mobility, virtualisation and security. At this time, the group emphasised the core role of the consulting business, as a means to drive revenues in its own right and as an entrée to new business, especially through the development of complex tailored solutions. Cross selling is principally focused on maintenance, further development projects and sales of products and other services.

Key factors underpinning the success of this strategy are the group's large base of blue-chip clients (see Exhibit 4) and the recent development/acquisition of a range of SaaS-based products for cross selling. Within the consulting segment, the group has also introduced managed services and workshop offerings to further deepen and expand relationships.

A further aspect of the firm's strategy is its focus on product expansion and acquisition in the faster growth areas of Industrie 4.0, internet of things and digitalisation. An example of this is its involvement in the PAKoS research project for mobile driver profiles and the focused acquisitions of digitalisation-oriented elastic.io, ICC and the development of SaleSphere. The group also plans to respond to growing customer demand for it to open new offices in Southern Germany.

Consulting

Two-thirds of mVISE's revenues are currently derived from consulting services. The group's consulting arm offers a range of IT solutions for business projects as well as IT consulting support. The group principally specialises in firms in the telecommunications, financial and automotive/machine sectors. A total of 70 consulting staff work to build "local service provider" relationships with major clients operating from branches in Dusseldorf, Frankfurt and Hamburg. mVISE also has access to three nearshore partners and approximately 35 freelancers.

Exhibit 5: Most important consulting project

Client	Service	Project
Bosch	Software development	Development of mobile app "Bosch Toolbox" with integrated control of Bosch equipment
Vodafone	Managed services	DevOps* and orchestration of internal cloud infrastructure and converged infrastructure
Deutsche Bank	Consulting	Development of a tablet app for bank advisors
Stadtwerke Dusseldorf	Consulting	Security advice for critical infrastructure
Bundesministerium fur Bildung und Forschung	Software development	Development of a mobile app for automatic driving as part of "PAKoS" project with BMW and Robert Bosch
DSV Gruppe (finance)	Managed services	Operation of network and server infrastructure
Abcfinance	Software development	Development of a mobile app for sales partners and employees to manage lease enquiries
Bosch	Software development	Development of a parking place finder app

Source: mVISE. Note: *A software development and delivery process that emphasises better cooperation/communication between units.

Alongside client-specific consulting solutions, the company is rapidly expanding sales of fixed price managed services contracts, which comprised c 25% of consulting revenues in 2016. Management is working to build this part of the business as these services help create stronger client relationships and increase recurring revenue flows. mVISE has also launched new workshop format offerings on the themes of the cloud and security. These are attracting new as well as existing clients and are helping secure new revenues and long-term projects for the group.

In keeping with the group's strategy to employ consulting as a door-opener for other products and services, mVISE has put a particular emphasis on offering clients complex solutions. These often involve completely rebuilding business processes and provide a deep engagement with the client's core system and have strengthened mVISE's exposure to Industrie 4.0 and M2M applications. Shortages in trained staff mean that the group is also on the lookout to expand via acquisition.

PAKoS and OIH government projects: Driverless vehicles and cloud for SMEs

In January 2017 mVISE won a three-year contract from the German government to work with BMW and Tier One group Robert Bosch on the creation of personalised user profiles for fully automated vehicles that can be transferred between cars via smartphones. Its work on the PAKoS project places mVISE at the centre of key trends: driverless vehicles, car sharing and ADAS efficiency. mVISE is also part of the **Open Integration Hub (OIH)** project for the German government Digital Agenda 2020 program. Its aim is to create a complete portfolio of integrated cloud-based solutions for SMEs on an open and vendor-neutral Ecosystem with anti-silo features such as data synchronisation. Work here should boost mVISE's exposure to the fast-growing SME segment.

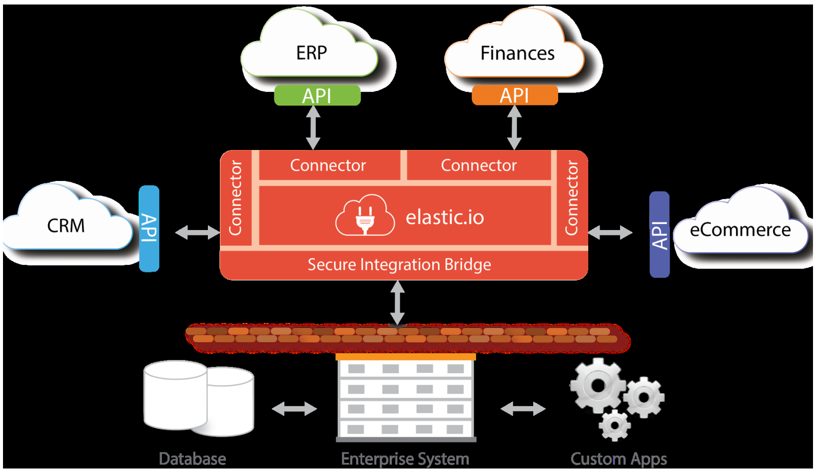
Products

Since June 2016, mVISE has dramatically transformed its product offering with the acquisition of hybrid integration platform service elastic.io, and further expansion into cloud-based Saas products with the launch of digital sales management system SaleSphere and acquisition of Just Intelligence with its ICC workforce management software.

Exhibit 6: elastic.io supported software

Source: elastic.io

Exhibit 7: elastic.io system



Source: elastic.io

elastic.io

elastic.io is a hybrid integration platform in the cloud transformation space, which is sold as iPaas – integrated platform as a service. The advantage of the system is that it enables the simple and secure integration of a wide variety of e-commerce, CRM, ERP, finance, marketing, cloud services and service component products on the one platform. Being sold on a SaaS basis makes it easier for small to medium-sized businesses to afford.

The business model, in addition to the PaaS structure, is for the solution to be offered in white-label form, and for the business to also generate revenues from providing solutions and advice during the integration process.

The target market is system integrators, market place providers, cloud brokers and software producers. The company already has cooperation agreements with Deutsche Telekom and US telecom Star2Star Communications. It also has more than a dozen medium and larger sized clients from a range of countries, including retailer Matalan UK, payments specialist Wirecard, legal firm Tucker Allen and student rental specialist uniplaces. In September elastic.io also signed a highly prospective white-label contract with a major international software house which specialises in complex software integration with clients in over 50 countries.

Competitors in the cloud transformation space include telecoms providers such as Deutsche Telekom, major software houses such as Microsoft, SAP, Software AG, Oracle, IBM, and smaller software providers such as SnapLogic, Scheer E2E, Jitterbit, Talend and Adaptris.

ICC

ICC is a cloud-based workforce management and intelligent data analysis software for call centres offered on a SaaS basis. Similar to InVision's Enterprise solution, the software provides economical resource planning for complex work situations and is currently in use on a SaaS basis by c 14,000 call centre agents in 12 countries. Customers come from a variety of sectors and include Bosch, Bauer, arvato Bertelsmann, Sanvartis and wirecard. The software is highly scalable, serving 5,000 agents at one customer.

SaleSphere

SaleSphere is an integrated cloud-based digital sales management system offered on a SaaS basis that mVISE developed in-house in 2015. It is based on a catalogue app previously developed by mVISE. The system incorporates this product catalogue, and an individual back end system for each client containing content and customer, product and order data. Key strengths are its easy and secure integration into CRM and ERP systems and its adaption for use on smartphones and tablets on both iOS and Android.

mVISE formally launched the product in June 2016 after a soft launch earlier in the year. In Q417 it agreed pilot trials with Austrian coffee supplier Julius Meinl and tool supplier Perschmann and also won an Enterprise Mobility Award. Sales in 2016 lagged management expectations, with client decision-making processes being lengthier than expected. mVISE has increased its marketing effort, in response, which it hopes to translate to higher sales this year. The company is to bring a free test version to the App Store in early autumn 2017 which should have a positive impact on demand.

Market overview

The IT sector in Germany is growing strongly at present, helped by growth in investment and ongoing spending in cloud computing, digitalisation, mobility, Industrie 4.0 and IoT, which are requiring businesses to invest more heavily in IT to remain competitive.

German government research institute Bitkom forecasts revenues from the IT sector in Germany to rise 3.6% this year, well in excess of OECD forecasts of German economic growth of 2.0%. After two years of c 6% pa growth, software revenues are expected to grow 6.2% to €21.6bn in 2017 helped by the above-mentioned factors as well as ongoing migration to SaaS. Revenues in the larger IT services market are forecast to grow 2.3% to €39.0bn, slowing from 2.7% in 2016, as overall growth in IT demand is partly offset by increased standardisation of software and the range of complete business solutions on offer. For the IT sector as a whole, medium-sized firms, or the IT-Mittelstand (200-1,000 employees), are forecast to achieve 8% revenue growth to €62bn, versus larger firms with over 500 employees forecast to see 2% revenue declines.

mVISE is a small player in the overall German IT market, with an overall market share of less than 0.1% in IT services and software sales. Its key competitors are medium-sized software companies, including consulting oriented firms Seven Principles, SHS Viveon and unlisted TibCo.

Digitisation/Industrie 4.0: Increasing interest

In recent years, German business has rapidly moved to adopt digitalisation (or Industrie 4.0) strategies. The number of companies responding to a Bitkom survey saying that they had adopted digitalisation as part of their strategy increased from 50% in 2016 to 76% this year, while over 90% of firms see digitalisation as presenting an opportunity for their business. Smaller firms have been slower than larger firms to move into the sector, with investments required and lack of qualified staff being the major factors holding them back.

In coming years we see growth in demand for digitalisation as moving to the SME market segment. We therefore see Cloud Computing software, such as mVISE's SaleSphere and elastic.io platforms, driving sales revenue forward, driven by their ability to enable non-technical staff to digitise businesses at low cost.

Cloud computing: Overall growth likely to slow, but smaller company take-up strong

The proportion of German firms employing more than 20 staff using cloud services reached the half-way mark (at 54%) for the first time in 2015 and grew to 65% in 2016, according to joint research from KPMG and Bitkom. Key draws to taking up cloud services were perceived efficiency gains and the cloud's role as an enabler to digitalisation. With the proportion of businesses now looking to also move to the cloud declining as it approaches 100% (see Exhibit 9), we expect the growth derived from cloud computing to move from larger to smaller firms, to assisting firms to transfer more business functions to the cloud as well as improving data security and compliance. Demand for integration platforms is also growing strongly from a low base with a Gartner report from 2016 forecasting market growth of 61% in 2016.

m-commerce: A coming revolution forcing businesses to invest

With the ongoing expansion of e-commerce and the even faster growth of mobile commerce and mobile device use in business as well as private life, demand for m-commerce related software is set to grow. According to eMarketer forecasts from February 2017, sales via both smartphones and tablets are expected to boost German retail m-commerce by 23% this year to give rise to a total market of $23.5bn. Even then, however, m-commerce is still forecast to account for only 2.9% of German retail sales versus 7.6% in the UK, giving rise to further long-term growth potential.

Management, organisation and corporate governance

mVISE was founded in September 2000. The Supervisory board is chaired by Achim Plate, who is joined by Malte-Matthias von der Ropp, Franziska Oelte and Henning Soltau.

The management board consists of Manfred Götz, in charge of services and finance, and Ranier Bastian, in charge of products and administration. Manfred Götz's has spent over five years with IT advisory firms, including Seven Principles and Pronovit in the areas of Infrastructure, security and telecommunications. Prior to this, he was at Vodafone and Deutsche Bank for 12 years as a project manager. Ranier Bastian's background includes lecturing for application programming at the Control Data Institute, area manager positions at Avinci AG, Unilog and LogicaGMG, managing director of 7P Mobile GmbH and responsibility for knowledge management and strategic sales at Seven Principles AG.

Shareholders and free float

Hamburg-based, owner-management investment company SPSW is the largest investor in mVISE with a 18.6% stake. The second largest shareholder with 14.4% is venturecapital.de (VCDE), an investment vehicle funded by 150 European tech entrepreneurs, founders and industry veterans. The management of VCDE Venture Partners are based in Frankfurt.

Financials

Exhibit 8: Financial summary

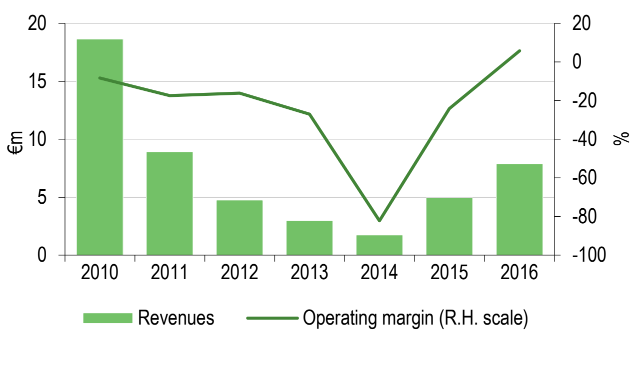
Year end 31 December	€m	2012	2013	2014	2015	2016	2017e	2018e
		HGB	HGB	HGB	HGB	HGB	HGB	HGB
Income statement								
Revenue*		**4.76**	**3.00**	**1.75**	**4.94**	**7.88**	**14.40**	**18.00**
EBITDA		(0.77)	(0.69)	(1.24)	(0.76)	1.16	2.20	2.50
EBITDA margin		-16.2%	-23.0%	-70.9%	-15.4%	14.7%	15.3%	13.9%
EBIT		(0.77)	(0.81)	(1.44)	(1.19)	0.46	1.40	1.10
EBIT margin		-16.2%	-27.0%	-82.3%	-24.1%	5.8%	9.7%	6.1%
Profit before tax (as reported)		(0.77)	(0.82)	(1.47)	(1.37)	0.42	1.40	0.90
Net income (as reported)		**(0.77)**	**(0.85)**	**(0.53)**	**(0.40)**	**0.63**	**1.10**	**0.70**
EPS (as reported) (€)		**(0.16)**	**(0.16)**	**(0.08)**	**(0.05)**	**0.05**	**0.12**	**0.08**
Dividend per share (€)		**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Balance sheet								
Total non-current assets		0.26	0.41	1.70	3.43	5.20	8.10	7.80
Total current assets		1.28	1.16	0.56	1.30	1.74	4.20	6.30
Total assets		1.54	1.57	2.26	4.73	6.94	12.30	14.10
Total current liabilities		1.05	1.41	1.44	1.85	2.21	5.40	2.50
Total non-current liabilities		0.19	0.16	0.27	0.61	1.46	2.10	2.90
Total liabilities		**1.24**	**1.57**	**1.71**	**2.46**	**3.67**	**7.50**	**5.40**
Net assets		0.30	0.00	0.55	2.27	3.27	4.80	8.70
Net cash (debt)		**0.07**	**0.07**	**0.01**	**0.07**	**(0.15)**	**(0.83)**	**0.97**

Source: mVISE accounts, Thomson Reuters consensus estimates. Note: *Excluding capitalised own costs.

Income statement: Recovery driven by strategy revamp

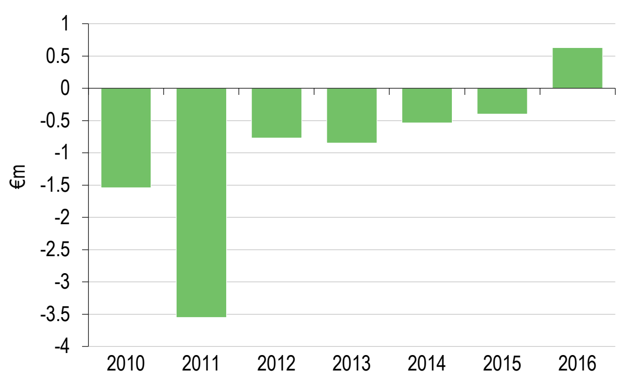
Between 2010 and 2014, mVISE experienced a sharp decline in consolidated revenues and margins as strong competition and price erosion in the mobile app business had a negative impact on results. Over the period, the group experienced a 91% decline in revenues to €1.8m, and generated net losses totalling €7.2m.

Exhibit 9: Revenue and margin progression



Source: mVISE accounts

Exhibit 10: Net profit progression*



Source: mVISE accounts. Note: *Before extraordinary items.

With the help of its new strategy (see Strategy discussion above) in 2015, mVISE revenues and margins have risen sharply over the last two years. The focus on generating increased overall goods and services revenues by increasing focus on consulting activities successfully fuelled a

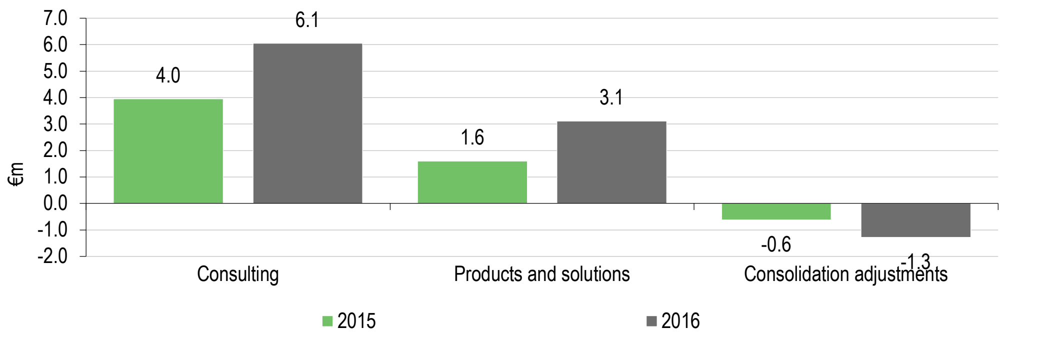
53% increase in consulting revenues in 2016 to €6.1m. Products and solutions revenues grew even more strongly, up 94% to €3.1m. Netting out consolidation adjustments, total revenue was €7.88m.

During 2016 in its consulting business the group was able to add a second major banking customer and it also deepened its working relationship with a major German telecom service provider, concluding a new framework agreement to become a direct supplier. In total during the year the consulting division attracted €7.36m in new orders, in excess of a planned €6.0m, to end the year with a €2.85m order backlog, equivalent to four to five month's work.

In Solutions and Products, revenues in 2016 were below expectation due to weaker than expected results from the launch of SaleSphere software in June.

H117 output (revenue plus capitalised own development) continued the growth trend, up 75% y-o-y to €6.4m, with EBITDA up a lower 51% y-o-y to €255k, after heavy acquisition related and staff recruitment and training costs. The group was able to report an order backlog of over €3m, up from €2.0-2.5m the previous year.

Exhibit 11: Segment revenues 2015-16

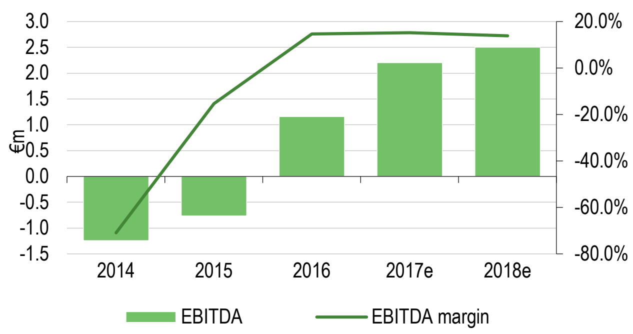


Source: mVISE

Management guidance for strong revenue growth and widening margins

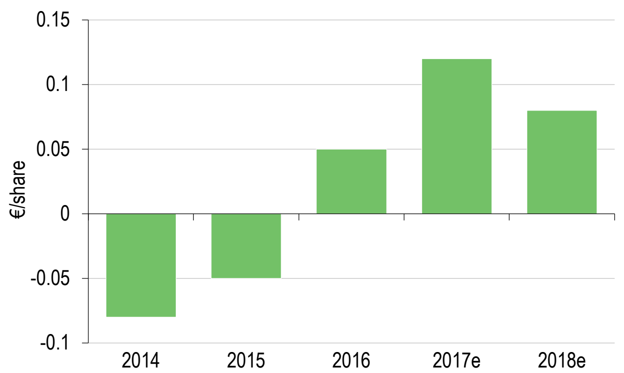
Under expected conditions of a stable competitive environment and market prices, management guides for output (revenues including capitalised own costs, which were €1.3m in 2016) to grow 56% to €14.0m in 2017. It further expects recent acquisition Just Intelligence to contribute 10-15% (€1.4-2.1m) to group revenues, after its first contribution of €0.6m in Q416. Management is also looking for consulting to be the key driver of revenues in the face of low growth in product revenues. EBITDA margin is guided to reach 15-20% (2016:14.7%). For 2018 management is looking for revenues of €19.5-20.0m with EBITDA margin again in the 15-20% range. Further out, excluding the impact of acquisitions, EBITDA margins are expected to widen with growth in product revenues.

Exhibit 12: EBITDA and EBITDA margin forecasts



Source: mVISE accounts, Thomson Reuters Eikon consensus

Exhibit 13: EPS progression



Source: mVISE accounts, Thomson Reuters Eikon consensus

Consensus data in the market (produced solely by broker SMC Research) is for current year revenues – ie output excluding capitalised own costs – to grow 83% to €14.4m, and an EBITDA margin of 15.3%. This growth should be underpinned by both the full year inclusion of Just Intelligence (consolidated Q416) as well as the consolidation of elastic.io from the start of May.

For 2018, the consensus forecast is for a 25% increase in revenues but a slight easing in the EBITDA margin to 13.9% to give rise to EBITDA of €2.5m.

The consensus forecast is for a flattening in the EBITDA margin in 2018, which together with slower revenue growth results in a 14% increase in EBITDA, but a 21% decline in operating profit and a 36% decline net profit, taking higher D&A and finance costs into account.

Balance sheet and cash flow: Low gearing, strong cash generation

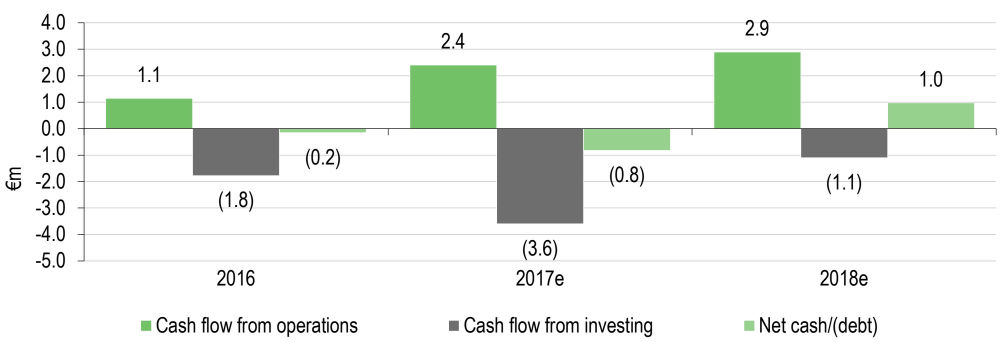
mVISE finished 2016 with net debt of €0.1m, comprising cash reserves of €0.3m and amounts owing to credit institutions of €0.4m.

On 8 May 2017, the company acquired 75.1% of elastic.io, with a cash payment for an undisclosed price. To fund the purchase mVISE issued a three-year €3m convertible bond carrying a 4% interest rate and converting into mVISE shares at €3.75 bond face value per share.

Including this acquisition, consensus estimates are for cash flows from investment for 2017 of €3.6m. With the €3.0m funding from the convertible bond issue, and the forecast of €2.4m cash flow from operations, net debt is forecast at €0.8m at year-end, with increased cash reserves of €2.6m.

In 2018, again according to consensus, cash flow from operations of €2.9m is forecast to finance €1.1m in investments and allow for a cash balance at end-year of €4.3m, which suggests that the group is not expected to require any further equity financing during the year. With the business still on a strong growth trajectory, market consensus is that the group will continue to not make dividend payments in 2017 and 2018.

Exhibit 14: Cash flow and net debt outlook



Source: mVISE, consensus data

Valuation

Based on consensus forecasts, mVISE shares trade on prospective current year EV/sales and EV/EBITDA multiples of 2.4x and 15.7x, putting them at significant discounts to their peer group of 27% and 63%, respectively (see Exhibit 15). Similarly, on a P/E comparison the stock trades at a 22% discount to the sector on current year multiples.

mVISE's closest peers in terms of its consultancy business are Seven Principles and SHS Viveon (SHS), with all three companies having a significant consultancy orientation and operations focused on the DACH (German/Swiss/Austrian) area. mVISE generates 66% of revenues from consulting and solutions in 2016, while Seven Principles and SHS generated 50% (71% including software-related consulting) and 72% from this area, respectively. Access to consulting gives rise to cross-selling potential, but also can result in customer concentration and significant individual loss-making contracts as well as the potential for client spending cutbacks driven by economic downturns.

Helped by its blue-chip customer base, new strategy and strength in complex solutions, mVISE's operations are performing much better than Seven Principles and SHS. The group is forecast to achieve an EBITDA margin of 15% this year vs c 1% at both Seven Principles and SHS. mVISE also generated a positive net result in 2016 and is forecast to remain profitable for at least the next two years, whereas both Seven Principles and SHS have experienced net losses over the last two years and are forecast to first emerge into profits in 2018 according to consensus data. These qualitative differences look to support mVISE's higher EV/sales multiple of 2.4x prospective 2017 vs 0.3x at Seven Principles and 1.2x at SHS and 1.0 for the consulting sector as a whole including Adesso AG and CapGenimi SE.

In the faster-growing product side of the business, it is also worth highlighting comparison with MuleSoft for potential upside to the valuation. Its Salesforce integration solution Anypoint Platform is similar in scope and scalability to elastic.io's hybrid integration platform, but MuleSoft is rated on a current year EV/sales of 9.1x vs 2.4x at mVISE. Similarly Invision, a competitor in workforce management software trades at a substantial premium to mVISE on an EV/sales of 4.2x.

Exhibit 15: Peer group comparison

Name	Price (reporting currency)	Market cap m ($)	Sales FY1 (m)	EBITDA margin 1FY (%)	EV/Sales 1FY (x)	EV/Sales 2FY (x)	EV/ EBITDA 1FY (x)	EV/EBIT DA 2FY (x)	PE 1FY (x)	PE 2FY (x)	Div yield last (%)
MVISE AG	4.1	41	14	15.3	2.4	1.9	15.7	13.8	34.2	51.3	0.0
Consulting orientation											
7 Principles	7.7	35	92	0.8	0.3	0.3	42.5	12.9	neg.	25.8	0.0
SHS VIVEON AG	3.9	10	N/A	0.8	1.2	1.1	148.7	33.0	neg.	27.9	0.0
ADESSO AG	44.8	329	305	7.5	0.9	0.8	12.2	10.2	28.5	20.7	0.8
CAPGEMINI SE	92.9	18,701	12,827	13.4	1.4	1.3	10.3	9.5	15.7	14.5	1.7
Product orientation											
MULESOFT INC -A	21.9	2,819	280	(18.8)	9.1	6.8	neg.	neg.	neg.	neg.	0.0
MAGIC SOFTWARE ENTERPRISES	7.8	348	253	N/A	1.3	1.2	N/A	N/A	13.9	11.7	2.3
ATLASSIAN CORP PLC-CLASS A	34.9	7,764	830	25.7	8.7	6.9	33.9	26.3	80.0	59.7	0.0
INVISION AG	27.3	73	14	12.3	4.2	2.2	34.0	7.8	91.0	10.7	1.8
Consulting averages			**4,408**	**5.6**	**1.0**	**0.9**	**53.4**	**16.4**	**22.1**	**22.2**	**0.6**
Product averages			**344**	**6.4**	**5.8**	**4.3**	**34.0**	**17.1**	**61.6**	**27.3**	**1.0**
Average			**1,827**	**7.1**	**3.3**	**2.5**	**42.5**	**16.2**	**43.9**	**27.8**	**0.7**
mVISE premium (discount)					(27.0)	(23.8)	(63.1)	(14.9)	(22.1)	84.5	(100.0)

Source: Bloomberg, Thomson. Note: Prices as at 11 September 2017.

Sensitivities

The group's business, most particularly its consulting business, is sensitive to corporate investment in IT and new processes. The group is nevertheless also exposed to the ongoing developments in business digitalisation as well as spending on IT security, which we see as relatively insulated from economic trends. The relative concentration of the consulting base is a potential source of revenue and earnings volatility.

Sector-specific sensitivities are the tight labour market, which combines with a high level of labour intensity in the consulting business, which may curtail business growth or put pressure on margins. The rapid pace of acquisition, particularly of heavily scalable businesses, brings the potential for rapid margin growth but also for added costs and/or write-offs if the group lacks sufficient capacity to integrate and properly manage the businesses.

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