EDISON Scale research report - Update

mVISE

Software & comp services

12 November 2021

Planning a game-changing acquisition

Significant changes are afoot at IT consulting company mVISE. Swiftly responding to deteriorating operations (H121 sales down 23% and EBITDA down 50% vs H120), mVISE announced a new strategy focusing on cloud computing (CC) and artificial intelligence (AI). To rejuvenate its growth, mVISE is in advanced discussions to acquire a larger target, with the combination potentially generating c €50m in revenues. The acquisition may boost mVISE's market position and visibility, potentially providing economies of scale and sales synergies. The combined entities' potential for value creation will likely be what drives the share price over the medium term.

H121: Results continue to be affected by COVID-19

The global pandemic continued to affect mVISE's financials, as H121 sales fell 23% y-o-y to €7.9m, with the core consulting business down 29%. Demand for its software solutions began to return, with revenues up €0.5m to €0.8m. The cost-savings plan initiated in Q420 did help return EBITDA margins to positive versus H220, although earnings fell y-o-y. Free cash flow was negative €0.6m, making liquidity a potential issue as gross cash is at c €1.9m including July's equity raise, although management discussed its credit lines for meeting any current obligations.

Pivoting to CC and AI

Responding to the challenging economic environment, mVISE announced its new 'Growth 2021/22' strategy, pivoting its focus to CC and AI. Growth will be driven by a large acquisition and mVISE is in advanced discussions with one of two targets, both of which are larger than mVISE. If completed, the acquisition would likely improve mVISE's visibility and market position, which may significantly boost margins, provide a more diversified customer base and offer cross-selling opportunities. Furthermore, in September mVISE sold its lacklustre performing elastic.io subsidiary for an undisclosed amount, using the proceeds to reduce debt.

Acquisition prospects will likely drive share price

At €1.83, mVISE shares are down 12% over the last 12 months. Shares trade at 13x FY22 EV/EBITDA, a premium over its larger IT service peers. Given the magnitude of the potential acquisition and limited information on the target, it is difficult to accurately forecast the path to growth and profitability. Ultimately, the potential for value creation by a combined entity will likely be the key driver of share price growth and multiple expansion in the short term.

Consensus estimates

Year end	Revenue (€m)	EBITDA (€m)	EBIT (€m)	EPS* (€m)	EV/EBITDA* (x)	P/E* (x)
12/19	21.5	1.4	0.9	(0.0)	15.2	N/A
12/20	19.0	(1.0)	(2.9)	(0.3)	N/A	N/A
12/21e	18.0	1.1	(0.4)	(0.1)	19.2	N/A
12/22e	19.8	1.6	0.4	0.0	13.2	181.5

Source: Company data, SMC Research. Note: *Pro forma, adjusted for July equity raise.

Price	**€1.83**
Market cap	**€18m**

Share price graph

Share details

Code	C1VX
Listing	Deutsche Börse Scale
Shares in issue including the equity raise completed in July	9.8m
Pro forma net debt as 30 June 21 including July equity raise of €1.9m	€3.3m

Business description

mVISE is a consulting firm that offers integrated solutions along the IT and digitalisation value chain. It assists with digital transformation and integration with IT expert services and self-developed software solutions such as SaleSphere. mVISE's core competencies are in the areas of mobile and cloud computing, IT infrastructure and security.

Bull

- Strategy to rejuvenate growth via large M&A.
- Cost-cutting initiatives have improved margins.
- New large steel manufacturer is a reference case for future customers.

Bear

- Potential large acquisition poses execution risks.
- Future capital or debt raise may be required, as we estimate acquisition could have an EV of c €30–39m.
- Evidence of sustained growth and margins needed to demonstrate turnaround from recent business deceleration.

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H121: COVID-19's effect continues

As we detailed in Growth Strategy 2.0, mVISE's FY20 results were affected by COVID-19 restrictions and disappointing product (elastic.io and SaleSphere) revenues. Unfortunately, this trend continued into H121 with sales down 23% to €7.9m versus H120. Professional services revenue, mVISE's core consulting business, came in 29% lower at €7.1m, as the fallout continued from many contracts that were either cancelled or delayed in mid-2020 as the pandemic's effects became more visible on retail, automotive and industry customers. Also, there was a large telecom deal from H120 that did not repeat. Per management, for the first time in mVISE's history, the company applied for Kurzarbeit or short-time work, whereby employee hours were reduced rather than laying them off, with the government providing 'short-term work money' or about 60–67% of their salary. Now consulting business appears to be returning in H221, the need for Kurzarbeit will decrease, although the removal of the subsidies could have an adverse impact on mVISE's financials. Demand for SaleSphere and elastic.io's business, which collapsed in 2020, began to return as the products business improved from €0.3 to €0.8m, although not enough to compensate for the fall in services revenue.

However, the company's cost-savings plan initiated in Q420 did begin to bear fruit, as gross margins improved 90bp and 40bp over H220 and H120, respectively, and EBITDA margins returned to a breakeven EBITDA margin from a negative margin in H220, although it did fall 110 bp year-on-year. Cost reductions were seen across the company, including admin staff, travel spending, office space reduction and in-house IT. Ultimately, the cost savings were not able to offset the impact of lower revenues, with EBITDA down 50% and EPS falling €0.4 further to a €0.9 loss. SG&A expenses were down 14% versus H220, improving from 54.7% to 51.6% of revenues, or €4.1m. Management believes the savings plan is essentially complete and costs should be stable in H222.

Cash and liquidity could become a near-term concern for mVISE, as free cash flow came in at a loss of €0.60m and the pro forma cash balance is at c €1.9m, including July's equity raise of 0.9m shares for €1.9m. Operating activities consumed €0.1m net cash, capex outflows were €0.5m and short-term debt increased by €0.73m. Two factors could help address this issue: mVISE has credit lines at various institutions, which could be used for liquidity, and its September sale of elastic.io to Cogia AG, whereby the proceeds were applied to repay an mVISE loan, although we do not know how much was received from the sale. Cash bears watching, as further debt or equity raises may be needed if operating cash is not sufficient to fund further capex and the potential acquisition.

Pivoting towards CC and AI

In response to a challenging economic environment, mVISE is taking several concrete actions. First, as part of its 'Growth 2021/22' initiative, mVISE will transition away from a focus on products and services towards that of CC and AI. In the rapidly growing CC and AI space, it will target four key areas, technology, finance, banking and insurance, all of which have considerable potential. The goal is for mVISE to be known as a German hybrid cloud specialist, creating value through its technology, highly skilled consultants and speed of implementation.

Second, in April 2021 it hired a sales director, Arnaud Becuwe, with the goal to integrate the sales activities of its service and product activities. Per management, the sales pipeline is filling and new customers are being added, including several small ones that have the potential to grow into much larger customers. For instance, mVISE signed a contract with a large German steel manufacturer, selling both consulting services and software licenses. The project is to integrate SaleSphere into the customer's systems and there is a significant amount of further potential business. This customer will also serve as a pilot customer for business development.

Third, as part of this shift to CC and AI, in September mVISE announced the sale of its elastic.io subsidiary to Cogia, listed on Frankfurt am Main. Elastic.io was taken over by mVISE in May 2017 with the goal of connecting its iPaas integration platform to mVISE's IT consulting platform and generate cross-selling opportunities. Unfortunately, this was not successful and by 2020, elastic.io was only generating 5% of group sales. While the purchase price was not disclosed, management indicates it was higher than the equity investment (which was also not specified).

Growth driven by acquisition

Lastly, mVISE in June announced that Growth 2021/22 will be driven primarily by acquisition. It is looking to acquire or merge with a larger target, whereby the combination of two would generate c €50m in annual revenues. So far, it has been evaluating two targets and is in advanced discussions with one. Management is optimistic it will have an agreement by its annual meeting on 17 December. With FY22 consensus revenue at €20m, one can infer that the target is estimated to bring c €30m in revenues. Notably, management believes the acquisition would have a significant accretive impact on margin, as the likely target has larger, strategic customers than does mVISE, with higher project EBITDA margins. According to mVISE management, the target could offer economies of scale, provide a more diversified customer base, and offer numerous opportunities for cross selling. However, much of this is speculation, as we do not have concrete details on the target itself aside from management's comments.

According to management, the acquisition will be partially funded by the equity raise announced in June (completed in July), where mVISE issued 0.9m shares (the maximum number of shares available under existing authorisations) for €1.9m in gross proceeds. Management also postponed the 2021 AGM so it can be held after terms are finalised and to give investors the opportunity to approve the acquisition. So far, few financial details have been provided and management has not disclosed the size of a potential transaction. Based on an analysis in our Growth strategy 2.0 note, the transaction could have an EV of c €30–39m, implying a further debt or equity capital raise would likely be needed, especially in light of the low cash balance and the relatively small amount of funds from the equity raise.

Acquisition prospects will drive share price and multiples

mVISE's share price has fallen 12% over the last 12 months, although its 13x FY22e EV/EBITDA is a slight premium over larger IT service peers. Consensus is forecasting FY21 revenues to fall 5% to €18m, with EBITDA turning positive at €1.1m or 6% in FY21. FY22 revenues are predicted to return to growth at 10%, with EBIT and EPS also returning to profitability. However, it is difficult to accurately forecast the path to growth and profitability given the magnitude of the potential acquisition and, justifiably, the dearth of information provided on the targets, although evidence of sustained growth and margins would support a share price recovery. Ultimately, the potential for value creation by a combined entity will likely be the key driver of share price growth and multiple expansion in the short term.

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