

m-u-t

Record-beating trajectory continues

Management's focus on high-margin products and services for OEMs across a very broad range of applications in the clean tech, life science and green tech sectors resulted in strong growth in operating profit for m-u-t during H117. This result follows on from a record-beating FY16. The trend is set to continue, with management raising FY17 guidance.

Platform in place to support profits growth

Managements' hard work creating a profitable, cash-generative platform over the last five years is clearly paying off. Group revenues increased by 11.6% year-on-year during H117, to a record €31.4m. This resulted in strong growth in both EBIT (30.5% rise to a record €5.7m) and EPS (25.5% improvement to €0.64/share). EBIT margin rose by 2.6pp to 18.0%, reflecting higher sales at an improved average gross margin on a fairly constant cost base. Net cash increased by €3.2m to €8.4m. Minimal capex was required as the group already has the infrastructure required to support growth. This cash level gives plenty of scope for further acquisitions of small companies such as APOS, which are at the upper end of the value chain.

Industry trends support further growth

Noting out-performance during H117 and a positive outlook for flexible measurement technology, management has raised FY17 EBIT guidance from €7.3m to €8.0-8.5m (FY16 €6.8m actual EBIT) on sales of €56.0m-59.0m, which is a slight increase on FY16 revenues. Revenue guidance was broadly unchanged. We expect this growth to continue. Non-contact measurement is a key element of the remote-controlled continuous online measurement approach that is part of the fourth wave of the Industrial Revolution. By engaging with many OEMs, helping each of them create systems tailored for specific applications, m-u-t is able to benefit from growth in multiple segments as and when individual markets take off. Its unrivalled breadth of product portfolio gives a distinct competitive advantage.

Valuation: Trading at a discount to peers

A comparison of m-u-t's prospective EV/sales, EV/EBITDA and P/E multiples with those in our sample of European listed companies involved in instrumentation shows m-u-t trading at a discount to the sample mean on all metrics (EV/sales 1.1x vs 3.0x for sample, EV/EBITDA 6.7x vs 14.2x for sample, P/E 15.4x vs 23.0x). We note that consensus estimates show m-u-t growing more slowly than most of the sample and that while EBIT margin is improving management's FY17 guidance (c14.4%) is slightly less than the sample mean (16.2%).

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/15	52.1	5.5	0.64	0.0	22.2	N/A
12/16	54.5	6.5	0.76	0.0	18.7	N/A
12/17e	56.5	7.4	0.92	0.0	15.4	N/A
12/18e	58.1	7.5	0.94	0.0	15.1	N/A

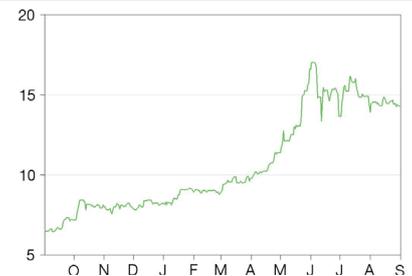
Source: Company data, Bloomberg. Note: *After deducting minority interest

Measurement instruments

04 September 2017

Price **€14.31**
Market cap **€69m**

Share price graph



Share details

Code	M7U
Listing	Deutsche Börse Scale
Shares in issue	4.8m
Last reported net cash as at end June 2017	€8.4m

Business description

m-u-t is an integrated provider of photonics solutions based on a common technology platform. It uses non-contact optical technology to create customised systems for OEMs, which are deployed in the clean tech, green tech and life science sectors.

Bull

- Ability to provide customised solutions for OEMs
- Addresses high-growth emerging markets.
- Multiple sectors give resilience.

Bear

- Dependent on customer activity to drive sales.
- APOS acquisition a drag on margin growth.
- Modest revenue growth guidance.

Analysts

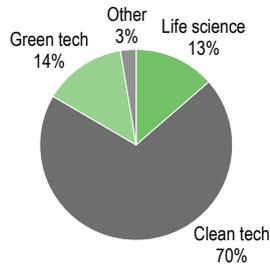
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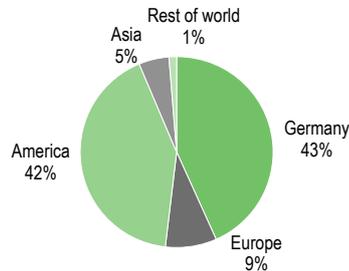
H117 performance further validates strategy

Exhibit 1: Revenues by segment



Source: Edison Investment Research

Exhibit 2: Revenues by geography



Source: Edison Investment Research

Between 2012 and early 2016, management implemented a programme of activities intended to transform m-u-t from a loss-making, debt-laden group of companies into an integrated platform capable of delivering profitable, cash-generative growth. It cut costs throughout the organisation, sold off or closed unprofitable operations and focused activities on providing a full service offer for OEMs in Europe, North America and Asia.

The H117 results clearly demonstrate the success of this strategy. Group revenues increased by 11.6% year-on-year to a record €31.4m. Clean tech sales jumped by 42% because of a spectroscopy application in the semiconductor segment, which was also behind a 57% hike in sales to North America. This positive effect offset an anticipated 37% drop in life science sales that resulted from some customers destocking and a side-effect from the disposal of the 'direct-to-customer' laboratory automation business in November 2015, because some revenues associated with this operation were received in H116. The 13% decline in green tech sales was caused by some revenues moving from H117 into H217. The ability to achieve revenue growth at group level, despite short-term setbacks in two of the divisions, highlights the importance of engaging with multiple OEMs across a wide range of market segments. Importantly, the revenue growth resulted in much stronger growth in both EBIT (30.5% rise to a record €5.7m) and EPS (25.5% improvement to €0.64/share). EPS growth was held back by a higher proportion of profits attributable to non-controlling interests. EBIT margin rose by 2.6pp, reflecting higher sales at an improved average gross margin on a cost-base that was fairly constant, despite absorbing the additional staffing costs associated with acquiring a stake in APOS, which is effectively a start-up, in August 2016. Management is hoping to improve margins further by selling more branded product and focusing on scalable products.

The group was highly cash-generative during the period because the group already has the infrastructure it needs to support good growth. On top of record operating profits, only €0.4m was required for office and operating equipment (less than the €0.5m charge for depreciation and amortisation). Net cash increased by €3.2m to €8.4m. This level of cash gives plenty of scope for management to continue with the 'buy-and-build' strategy it has pursued since 2007.

Favourable outlook supported by industry trends

Noting out-performance during H117 and a positive outlook for flexible measurement technology, management has raised FY17 EBIT guidance from €7.3m to €8.0-8.5m (FY16 €6.8m actual EBIT) on sales of €56.0m-59.0m, which is a slight increase on FY16 revenues. Revenue guidance was broadly unchanged.

We expect this growth to continue. Non-contact measurement is a key element of the remote-controlled continuous online measurement approach that is becoming increasingly prevalent. The information obtained by m-u-t's spectroscopy systems is used to determine the quality of coatings on glass, plastic foils or metal sheets, film thickness, moisture concentration, sheet resistance and colour, the concentration of gases and surface temperature. m-u-t creates customised turnkey system solutions that are used by a wide range of industrial producers and plant operators to optimise processes and generate sustainable cost savings. These include production control of integrated circuits, LEDs and displays; in-line measurement of coatings on photovoltaic cells; monitoring biogas plants; purifying water in the third world; monitoring and regulating UV light sources used to cure inks; measuring the thickness and electrical property of individual layers during the manufacture of photovoltaic cells; detecting counterfeit or adulterated gasoline; monitoring the quality of recycled water; checking for bacteria and toxins in food; and saving water when operating sanitary facilities in railway trains. The technology is also applicable to smart farming, where it is used to check the nutritional content of freshly harvested crops and to calculate the amount of fertiliser to apply and to point-of-care medical diagnostics.

By engaging with many OEMs, helping each of them create systems tailored for specific applications, m-u-t is able to benefit from growth in multiple segments as and when individual markets take off. No single competitor has the same breadth of product portfolio or ability to provide customised solutions for customers, giving m-u-t a distinct advantage when addressing these emerging opportunities.

Valuation

Although the shares have dropped back from a peak of €17.6 in June, they are still more than double the price they were a year ago. A comparison of m-u-t's prospective EV/sales, EV/EBITDA and P/E multiples with those in our sample of European listed companies involved in instrumentation shows m-u-t trading at a discount to the sample mean on all metrics. We note that consensus estimates show m-u-t growing more slowly than most of the other companies in our sample and that while EBIT margin is improving management's FY17 guidance (c 14.4 %, which is ahead of consensus estimates), it is slightly less than the sample mean (16.2%).

Exhibit 3: Listed peers

Name	Market cap (\$m)	EV/sales 1FY (x)	EV/sales 2FY (x)	EV/EBITDA 1FY (x)	EV/EBITDA 2FY (x)	PE 1FY (x)	PE 2FY (x)	Year 1 EBIT margin (%)	CAGR (%)
Halma	5,342	4.2	4.0	17.3	16.2	25.0	23.3	21.0	6.5
Hexagon Ab-B	17,618	5.0	4.7	16.3	14.2	23.4	20.9	23.2	6.3
Isra Vision	747	4.4	4.0	14.9	13.4	31.3	27.3	20.7	10.8
Jenoptik	1,678	1.9	1.8	13.2	12.1	23.1	20.7	10.3	6.8
Oxford Instruments	783	2.2	2.1	13.3	12.9	19.6	18.2	13.8	-1.1
Spectris	3,563	1.9	1.9	12.2	11.0	17.2	15.3	13.2	5.9
Vaisala	854	2.0	1.9	13.3	11.7	24.1	19.8	11.8	4.6
Viscom	257	2.3	2.0	12.7	11.6	20.6	18.8	15.8	12.2
Mean		3.0	2.8	14.2	12.9	23.0	20.5	16.2	6.5
m-u-t*	81	1.1	1.1	6.7	6.5	15.4	15.1	14.0	3.7

Source: Bloomberg. Prices at 4 September 2017. Note: *based on consensus estimates.

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