EDISON

Scale research report - Update

mVISE

Software & comp services

13 July 2021

Growth strategy 2.0

Following a disappointing FY20, mVISE is planning to reinvigorate its growth via acquisition. A small (€1.9m) capital increase has already been undertaken but a further (much larger) raising is expected and consequently the company has delayed its AGM. The financial performance of the core professional services businesses appears to have stabilised in 2021 so far and there are some signs of progress in products also. Consensus forecasts imply a 10% organic revenue growth and EBITDA margin in FY22 and an FY22e EV/EBITDA multiple of 13.0x.

A weak 2020, stabilisation in FY21

Reported results (29 June) highlighted that financial performance deteriorated significantly in H220 following a robust start to the year. FY20 revenue fell 11.8% y-o-y (including a 26% y-o-y decline in H2) and EBITDA turned negative (loss of €1.0m in FY20 vs earnings of €1.4m in FY19). However, the performance appears to have stabilised in FY21 due to the generally improving macro environment and action by management to cut costs. Management indicates that H121 has seen high levels of utilisation and the business has been EBITDA positive.

Shifting to an M&A driven growth strategy

More significantly, with product growth continuing to underwhelm, in June mVISE announced 'Growth 21/22', a new growth strategy primarily driven by acquisition. It is currently evaluating two potential targets, both of which are larger than itself, with the aim of acquiring one. The company has indicated that either would create a combined entity with c €50m of annual sales post consolidation. It believes this entity would enhance its profile and create synergies that would substantially improve profitability. mVISE is looking to fund the acquisition with an equity raise and has delayed the AGM to enable shareholders to approve the deal.

Valuation: M&A prospects likely to drive share price

mVISE is understandably not providing further details about these potential targets at this point, and without these details it is difficult to comment on the likely success of its new strategy. Given the significant size of the pending deal, the prospects for value creation through acquisition are likely to largely drive share price performance over the next few months at least in our view. At €2.01, its share price (including €11.4m of net debt) implies an FY22e EV/EBITDA multiple of 13.0x based on consensus forecasts, an 8% premium to the average of larger IT services peers. These forecasts imply organic revenue growth and an EBITDA margin of 10% in FY22 (compared to 8% and 17% respectively for larger IT services peers).

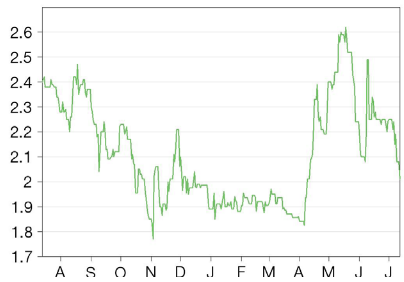
Consensus estimates

Year end	Revenue (€m)	EBITDA (€m)	EBIT (€)	EPS (€)	EV/EBITDA (x)	EV/EBIT (x)	P/E (x)
12/19	21.5	1.4	0.1	(0.03)	21.4	299.7	N/A
12/20	19.0	(1.0)	(2.9)	(0.33)	N/A	N/A	N/A
12/21e	21.9	1.5	(0.1)	(0.05)	20.0	N/A	N/A
12/22e	24.0	2.3	0.8	0.04	13.0	37.5	50.3

Source: Company data, Refinitiv (based on one estimate)

Price	**€2.01**
Market cap	**€20m**

Share price graph



Share details

Code	C1VX
Listing	Deutsche Börse Scale
Shares in issue (including recent capital increase)	9.8m
Last reported net debt as at 31 Dec 2020	€10.2m

Business description

mVISE's core competencies are IT infrastructures and integration, combined with data management and analytics. With 130 FTE staff, mVISE supports digitisation projects and offers cloud products such as integration platforms-as-a-service elastic.io and SaleSphere.

Bull

- Well placed to benefit from digital revolution with orientation to the Internet of Things, digitalisation, integration, data science and security.
- Strategy to reinvigorate growth via M&A.
- Growth in software products can boost margins and earnings growth.

Bear

- M&A strategy creates additional execution risks.
- Own-developed software products (elastic.io and SaleSphere) have not achieved expectations.
- Net debt is currently €10.2m, 34% of EV.

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Edison profile page

FY20: H2 deterioration offsets robust H1 performance

In our note Resilient in the downturn, we highlighted the strong performance of mVISE's professional service businesses in H1 in the face of COVID-19 restrictions. Unfortunately, this resilience did not continue into H2. After a record Q1, the impact of lower orders and project cancellations prompted by the onset of COVID-19 began to feed into low utilisation, resulting in year-on-year professional services growth falling from 5.6% in H1 to -20.6% in H2. Product sales did improve sequentially (from €0.3m in H1 to €0.5m in H2) but were still down year-on-year and insufficient to make up the shortfall in service revenue. Revenue for year fell by 11.8% (to €19.0m).

As a result of the revenue shortfall, losses increased. The company reported an EBITDA loss of €1.0m for FY20 (vs positive €1.4m in FY19), implying a -15% margin in H2. Amortisation of intangibles of €1.8m (including a €0.4m write-down for SaleSphere) resulted in a reported net loss for FY20 of €4.1m (FY19 loss: €0.3m). Free cash flow (operating cash flow – capex) of €0.2m was boosted by a €3.3m working capital inflow. Net debt rose to €10.2m.

In Q420, management acted to improve the financial performance. Personnel costs, largely in product development at elastic.io, were reduced by €0.8m (9.3%) and other operating expenses were cut by €0.8m (20.1%). The total reduction of annualised costs of €1.6m represents 8% of sales. A new sales director, Arnaud Becuwe, started in April 2021 with the aim of more deeply integrating the sales activities of the product and service businesses.

Improvement in trading and profitability in FY21 (so far)

The financial performance appears to have improved substantially in FY21. mVISE indicates the professional service business was at nearly full utilisation in Q1 and utilisation has remained high into Q2. In addition, elastic.io has secured three new white-label customers: Infobip, Mambu and Tata Consulting. As a result of the improved revenue and the cost reduction measures taken in Q420, mVISE was EBITDA profitable in Q1 and expects to report positive EBITDA in H1.

Growth strategy 2.0

mVISE has a track record of strong revenue growth historically. Between 2014 and 2018, sales grew from €1.8m to €22.5m (a 90% CAGR). In March 2018 it set out its 2018+ Strategy designed to sustain this rapid growth (it targeted sales of €33–35m in 2020, a 33% CAGR) fuelled predominantly by its investments in high-margin elastic.io and SaleSphere software products. mVISE continues to believe these products will grow and both are profitable; however, with combined sales of just €0.8m in FY20, performance has clearly fallen well below its original expectations.

Consequently, mVISE is now looking at a new strategy to sustain its growth. In June it adopted a 'Growth 2021/22' strategy designed to 'accelerate the growth… through integration or merger with a value-creating acquisition in the second half of 2021, thereby expanding the strategic positioning…and achieving significant earnings growth.'

The company has indicated that it is currently evaluating two potential acquisition targets and is looking to acquire one. Both are larger (in value) than itself and would more than double its current revenue base to c €50m. According to the company, consolidation with either would raise mVISE's profile and lead to synergies that would substantially improve the profitability of the combined entity.

mVISE is looking to fund these acquisitions at least in part by raising equity. In June, following the announcement of the new strategy, the company also issued an additional 0.9m shares (10% of the existing share count, the maximum number of new shares that can be issued under existing authorisations) at €2.1 per share raising €1.9m (gross). Due to the impending transaction the company postponed the 2021 AGM so that it can be held after the terms of the acquisition are established, thus giving investors the opportunity to approve the transaction.

Ahead of any transaction, mVISE is understandably not providing any further details about these potential targets and without these details it is difficult to comment on the likely success of its new strategy. However, making some relatively simple assumptions, it is possible to estimate how much mVISE may have to invest in this strategy. A combined revenue base of over €50m implies the acquisition is generating at least €30m in annual revenues. Assuming a 10% EBITDA margin, consistent with mVISE's historical (pre 2020) average and the bottom of the professional services peer group range (10–18%), suggests an average business of this size may generate c €3m in EBITDA. Applying a 13x FY21 multiple to this figure, in line with large professional consulting peers and mVISE's own current FY22 multiple, implies a €39m enterprise valuation (EV). A 10x multiple, arguably more appropriate to smaller peers, would suggest a €30m valuation. Compared to mVISE's existing €30m enterprise valuation, both figures potentially suggest a substantial capital raising.

We believe the prospects for value creation from this deal are likely to largely drive mVISE's share price performance over the next few months. The question is whether the potential synergies from the combination will create upside to mVISE's current share price and justify the execution risks.

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