EDISON

Scale research report – Update

mic

Financials

20 October 2017

Clean-up continues

The latest filings show an improved H117 and a strengthened balance sheet. Liquid funds of €175k in late September stand against target monthly fixed costs of €35k due to be reached in November 2017. The key driver for the share price will be the outcome of refinancing talks, described as being at an advanced stage. Given the scale of the difficulties mic encountered, we see potential for large-scale dilution of existing holders' interests.

Improved profits and no more write-downs

The company has released long-delayed accounts for 2016 and a balance sheet as at end June 2017. It has given some indications of profitability in the first half of the year with an improvement in both the gross profit (€0.92m compared to €0.14m in H116) and the net profit (€93k vs a €15.2m loss in H116) against the backdrop of the significant write-downs in 2016 that marked the first phase in shrinking and cleaning up the business.

Scale of increase in cost cuts spelled out

Management has given a figure of 85% for targeted reduction in fixed costs, which should be reached in the course of November. The chief source of this appears to be reduction in headcount. This compares with a 30% cut in costs targeted by the previous management. It is unclear whether the company will incur further one-off costs in securing these cost-savings.

Balance sheet improves; refinancing is key

In addition to the full disposal of Lifespot Capital AG in the early part of the year, further liquidity has been raised by the sale of part of the quoted micData subsidiary. Together these have brought the net external liabilities down to €0.39m (as at end September 2017), although there has been no significant impact on the P&L. Management has set a date of Q118 for the completion of the remainder of the disposal programme, which will leave mic focused on the three subsidiaries with good potential.

Historical financials

Year end	Net profit (€m)	Total equity (€m)	EPS (€)	NAV/share (€)	P/E (x)	P/NAV (x)
12/13	(4.69)	34.25	(0.68)	4.99	N/A	0.14
12/14	1.27	39.03	0.16	5.05	4.3	0.14
12/15	1.42	45.40	0.14	4.44	4.9	0.16
12/16	(29.7)	20.90	(2.14)	1.51	N/A	0.46

Source: mic data

Price	**€0.69**
Market cap	**€10m**

Share price graph

Share details

Code	M3BG
Listing	Deutsche Börse Scale
Shares in issue	13.87m
Last reported equity ratio at 30 June 2017	89%

Business description

mic is a diversified technology investment company focused on large-scale data handling, automated optical inspection systems for the automotive industry and acoustic and strain monitoring over fibre-optic networks. It holds majority stakes in companies through intermediate holding companies.

Bull

- Comfortable stated equity ratio.
- Radical strategic refocus in progress.
- Prospects for new technology businesses.

Bear

- Risk of dilution from refinancing.
- Balance sheet uncertainty.
- Divestitures not completed.

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Full cost-cutting mode

Mic has published its long delayed annual accounts for 2016 and almost simultaneously a full balance sheet for end June 2017. Neither adds very greatly to our knowledge after the release of preliminary figures for 2016. There was no half year P&L, although management did give some indications in its statement. Together with the new management's statements this underlines the volume of work that the company has yet to do.

Improvement in first half profits

The company turned round to a small after tax profit of €93k in the half year after a loss in the comparable period of €15.2m. The 2016 loss was essentially the result of the first tranche of the massive write-downs on mic's investments of €14.7m. Gross income improved to €918k from €142k a year earlier, although no detail was given on how this was achieved; the 2015 H1 report merely gave the figure with no further detail. Management ascribed the improvements in profits to cost-cutting. In H116, the payroll cost was €608k, but as the process of reducing overheads did not get under way until the summer it would seem that other factors were involved.

Improving balance sheet

The process of paring mic back to a sustainable business was already underway when the company's former management sold the entire participation in the healthcare business held through Lifespot Capital AG, one of the four "theme AG" intermediate holding companies that serve or served as focused holding companies for its investments.

The proceeds from the sale of Lifespot Capital AG were the chief contributor to the improvement in the balance sheet at the end of June. Total liabilities at that date were down to €2.4m (including €0.63m in related company liabilities) compared to €7.6m a year before. The holding was sold at approximately book value so there was a minimal effect on the P&L in contrast to the effect on the balance sheet. Since the end of the half year the exit from Aifotec AG brought in further liquidity.

Even after the massive €27m write-downs on investments taken in 2016, it might be premature to assume that the accounting clean-up has entirely run its course.

One striking feature of the 2016 accounts was the sharp deterioration in the value of one of the three remaining "theme AGs", 4Industries AG. After a declared net loss of €6.6m, the book value of 4Industries AG fell to a negative €4.8m from a positive €1.8m at the end of 2015. 4Industries covers mic's investments in modern manufacturing technology, loosely grouped under the term Industry 4.0. It holds a stake in SHS, which makes automated optical inspection systems for automotive bodywork inspection, and in 3Edge, which make optical measuring systems.

It might also be noted that a number of mic's investments had yet to provide full 2016 accounts at the time that mic's balance sheet was drawn up and the data for 2015 was shown. These include SHS and dimensio inform (in the big data handling segment), which are part of mic's long-term investment base, and Wearable Technologies AG, a conference organisation business. We believe mic's minority holding in Wearable Technologies AG is slated for disposal.

Loans to related companies by the parent mic were given as €10.7m in the June 2017 balance sheet, fractionally up on the €10.2m shown at the end of 2016. This might give some indication of the financing requirements of the company's operating subsidiaries, which are at an early stage of development.

Disposals continuing

As we discussed in our last update, the disposal programme continued, with the full divestment of Aifotec AG in August for €710k at a small book profit. The company has also been selling down its holding in the separately quoted "theme AG" micData AG. This sale was at roughly book value and there will be no material effect on the P&L. Together these transactions have brought in some €1.6m. Liquid funds stood at €175k in late September, which provides the company with a degree of breathing space.

As at the date of the publication of the half yearly results in September, mic's net external liabilities had fallen to €390k. It is not clear how much of this is interest bearing.

Sharp cuts in current expenditure

The company's intensive cost-cutting programme, first flagged at the time of the change in management in August, is continuing. This features a sharp reduction in headcount and the move away from expensive office premises. The recent statements referred to headcount levels but there was no reference to premises, so discussions may still be ongoing.

By the beginning of October, management targets monthly fixed costs of €35k, an 85% reduction compared to the level of the previous 12 months. This compares with a reduction of 30% targeted by the previous management. Provided that there are no significant one-off cost to bear in connection with the cost-cutting programme, this should allow the company to operate for some months even without any further proceeds from divestments.

Focus on core investments; refinancing is key

The sole director of the company has decided formally to dispose of a further nine direct and indirect investments by the first quarter of 2018. This should leave mic focused on the three potential growth subsidiaries that are reckoned to have the best prospects: data bank solutions using cutting-edge technologies, automated optical inspections systems for bodywork in the automobile production industry and systems that utilise existing fibre-optic networks to provide acoustic monitoring of pipelines and railways. We expect, though, that there will be some ongoing financing requirement at the two latter subsidiaries, which have yet to reach full commercial stage.

The key development for the future of the company will be the outcome of the talks on refinancing, which were described in the latest filings as being at an advanced stage. Clearly, the outcome will have major implications for the value of the business to current shareholders.

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