

## mVISE

### Strategy and acquisitions driving growth

mVISE is a fast-growing German IT firm with a focus on the high-demand area of digital transformation. Management has been active over the last 12 months with the highly promising autumn 2017 acquisition of a consulting business of SHS Viveon, new marketing partnerships with Magic Software and Deutsche Telekom to sell the elastic.io platform and a new Strategie 2018+. Helped by this, we believe the group is well placed to achieve its three-year target of doubling revenue and c 7pp EBIT margin expansion through higher sales of high-margin products, employee efficiencies of scale and increased pricing power.

### SHS Viveon team and marketing partnerships

The recent acquisition of the consulting business of SHS Viveon is a major step forward for the group. The 50% increase in specialist IT consulting staff for a low 3x EV/EBITDA outlay has boosted customer numbers, market shares in telecoms and finance, and the capacity to take on digital transformation projects. At the same time, new marketing partnerships with a major telco and Magic Software should lead to increased volumes of higher-margin product sales.

### Strategie 2018+: Management goes for growth

mVISE management launched a new 2018+ strategy in March. Its target is a 33% CAGR in revenue growth to 2020 and a close to trebling in the adjusted operating margin via a series of measures including higher-margin product sales, achieving employee efficiency gains and a near doubling in skilled staff. We believe the group should be able to achieve these goals, with the key risks being employee cost inflation in a tight market and reliance on third-party platforms.

### Valuation: Substantial re-rating potential

If mVise achieves targeted revenue growth and margin expansion by 2019 the group will achieve a 62% narrowing in its EV/EBITDA multiple to 8.5x and a 47% reduction in P/E multiple to 16.2x in 2019. This compares favourably with prospective peer averages of 40.8x and 25.3x as well as with peer medians (given a high number of outliers) of 13.3x and 16.4x. Taking into account the high multiples awarded to product-oriented peers we see the potential for a re-rating of the stock over the next 12–24 months if the group can achieve its target of substantially increasing the share of higher-margin product sales in total revenues.

#### Consensus estimates

Year end	Revenue (€m)	EBITDA (€m)	PBT (€m)	EPS (€)	EV/EBITDA (x)	P/E (x)	Yield (%)
12/16	7.9	1.2	0.4	0.05	37.1	93.8	0.0
12/17	14.8	2.0	0.3	0.15	22.1	31.3	0.0
12/18e	24.3	3.8	0.3	0.15	11.4	31.3	0.0
12/19e	29.2	5.1	3.3	0.29	8.5	16.2	0.0

Source: mVISE, SMC Research

#### Software and comp services

2 May 2018

Price €4.69

Market cap €40m

#### Share price graph



#### Share details

Code	C1VX
Listing	Deutsche Börse Scale
Shares in issue	8.5m
Last reported net debt (€m) 31 December 2017	4.0

#### 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.
- New strategy to boost margins via greater high-margin product sales and employee efficiency.
- Recent acquisitions, particularly elastic.io, have boosted the group's product offerings, supporting margin and earnings prospects.

#### Bear

- High project-based consulting revenues leads to potential risk of skilled employee cost inflation.
- Own-developed software product SaleSphere has not achieved expectations.
- The ongoing pace of acquisitions gives rise to integration risk.

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## Executive summary

mVISE has reported strong growth in 2017 earnings, with revenues expanding 88% and a doubling in operating profit before acquisition expenses from a low base. Management has been very proactive in recent months. The team launched a new strategy in March with a target of achieving 33% CAGR in revenue growth to 2020 and close to a trebling in operating margins through a series of measures, including focus on driving higher-margin product sales, achieving employee efficiency gains and a near doubling in skilled staff. The group also completed the purchase of a consulting business of a team of 40 highly skilled IT consultants from SHS Viveon for €3.25m plus earnouts, representing a 3x EV/EBITDA acquisition multiple. The deal has given rise to cross-selling opportunities and entrees into more highly specialised sectors.

The group has also begun sales of its elastic.io integration platform on the IT sales platforms of a major German telecom company and Magic Software. The online retail platform SalesSphere has not performed as strongly as management had hoped over the last year. Management plans to attract a new entrepreneur shareholder to reinvigorate the product and the SalesSphere brand.

We see good potential for strong earnings growth to drive the valuation higher over the next 12 months and a likelihood for a re-rating of the stock over the next 12-24 months if the group can demonstrate its potential to substantially increase the share of product sales in total revenues, based on the high multiples awarded to product-oriented peers.

## FY17 results: Third year of rapid earnings growth

Exhibit 1: mVISE results summary				
	2016	2017	2018e	2019e
Year end 31 December (€m)	German GAAP	German GAAP	German GAAP	German GAAP
<b>Income statement</b>				
Revenue	7.88	14.78	24.30	29.20
EBITDA	1.16	1.96	3.80	5.10
EBITDA margin	14.8%	13.2%	15.6%	17.5%
EBIT*	0.46	0.54	2.00	3.40
EBIT margin	5.9%	3.7%	8.2%	11.6%
Profit before tax	0.42	0.29	0.31	3.30
Net profit after minorities*	0.63	1.29	1.31	2.70
EPS (as reported) (€)	0.05	0.15	0.15	0.29
Dividend per share (€)	0.00	0.00	0.00	0.00
<b>Balance sheet</b>				
Total non-current assets	5.20	14.19	7.80	8.80
Total current assets	1.74	4.57	8.30	12.30
Total assets	6.94	18.76	16.10	21.10
Total current liabilities	2.21	11.26	9.70	10.10
Total non-current liabilities	1.46	2.46	2.60	2.70
Total liabilities	3.67	13.72	12.30	12.80
Net assets	5.04	4.90	8.80	11.90
Net cash (debt)	-0.15	(3.98)	(1.88)	1.62
<b>Cash flow</b>				
Net cash from operating activities	1.16	0.05	3.40	4.80
Net cash from investing activities	(1.77)	(3.68)	(1.30)	(1.30)
Net cash from financing activities	0.82	5.90	(0.10)	0.00
Net cash flow	0.21	2.27	2.00	3.50
Cash & cash equivalent end of year	0.27	2.54	4.54	8.04

Source: mVISE, SMC Research. Note: \*Not adjusted for €0.4m acquisition costs in 2017. Edison does not undertake financial forecasts for mVISE. SMC Research data is used for the purposes of consensus data in the absence of any other publicly available data.

mVISE reported rapid growth in its 2017 earnings, with revenue up 88% to €14.78m, and unadjusted EBITDA and net profit rising 68% and 102% to at €1.96m and €1.29m, respectively. EBIT, after adjusting for €0.4m in acquisition expenses, rose 100% to €0.92, while net profit on the same basis grew 164% to €1.69m.

Consensus forecasts were for revenue of €14.73m (0.3% below actual), EBITDA of €0.92m (in line) and unadjusted net profit of €1.15m (11% below reported).

The results were boosted by recent acquisitions including elastic.io, Just Intelligence and the advisory team at SHS Viveon. The latter was reported to have added a little over €1.0 to Q417 revenues and helped revenues from consulting services to rise by 92% to €11.6m. The acquisition of elastic.io, which has an integration platform, also helped the group to increase software product sales by 26% to €3.9m.

The results represent the continuation of rapid growth over the last three years, which has seen revenues increase eightfold since 2014 and the group emerges from a 2014 EBITDA loss of €1.2m to profits at the EBITDA level of €1.96m excluding acquisition expenses with an EBITDA margin of 13.2%, which is healthy on industry comparison (see Exhibit 3).

## Business update

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### New marketing partnerships: Sales boosters

In late 2017 mVISE concluded two partnership deals to market SaaS subscriptions for the group's elastic.io integration platform software on major established software platforms. The first was concluded with a large German telecommunications operator, whose platform markets software to enterprises and individuals. The second was with the software group Magic Software. Headquartered in Israel, Magic Software has a presence in more than 50 countries with regional bureaus in 14 countries including the US, India, Japan, Germany, UK and South Africa, with revenues forecast at \$286m this year.

These partnerships are part of the group's strategy to accelerate elastic.io's penetration of the software platform market and thereby increase higher-margin product sales. It also enables mVISE to step back from front-line marketing and focus on its core strengths of software development and integration.

As part of its ongoing marketing partnership strategy, mVISE offers its elastic.io platform on a white-label and branded basis. While the major German telecom operator elected to marketing the product under the elastic.io brand, Magic Software rebranded Elastic.io to its own label. It undertook a comprehensive review of the product and paid for mVISE's Kiev-based software team to execute enhancements, some of which mVISE has also incorporated into the branded product, improving its sales prospects. The two partnerships went live relatively recently – Magic Software commenced sales in January 2018 and the telecom operator launched the product on its platform in April. In both cases, the operators must achieve minimum sales targets of €1m in the first year and revenues are split 50:50 with the only outlays by mVISE arising from the work undertaken by elastic.io's dedicated integration team in Kiev, the bulk of which should be billable to clients or useful to improve the marketability of the platform.

In addition to looking for further marketing deals for elastic.io, mVISE aims to sign up partners for ICC Cloud, which offers integrated call centre management, and SaleSphere, which provides SaaS-based marketing and other services.

## **New SHS Viveon consulting team a major boost to business**

In October 2017 mVISE announced the acquisition of the professional service customer value division of competitor, SHS Viveon. The acquisition brought the group 40 new highly skilled IT consulting staff, located in Dusseldorf and Munich, increasing the group's consulting force to 120.

The new team has also greatly enhanced the group's existing competence in the areas of software-integration, data insight, data warehouse, business intelligence, big data and predictive analysis. Staff with specialist knowledge of complex businesses such as the insurance and finance industries has also expanded the group's cross-selling abilities. A further advantage has been the fulfilment of one of the group's key strategic goals to strengthen its operations in Southern Germany.

The acquisition also resulted in the transfer of contracts with major firms including Deutsche Telekom (telecoms), Media Saturn (consumer electronics), HUK Coburg (insurer), BMW (auto), MBW Bank (finance), Hyundai (auto), Fidor Bank (finance), Wirecard (finance), SV Informatik (IT), DePauli (retail), ProSieben (media) and Zalando (retail). Of these contracts, 10 are from clients that are new to the mVISE group giving rise to cross-selling opportunities.

With an outlay of €3.25m plus earn-outs, mVISE was able to agree a low 3x EV/EBITDA acquisition multiple, with finance fully provided by a convertible bond issue in September. Management is looking for the acquisition to add €6m to 2018 revenues and substantially increase the group's already large telecom market share while more than doubling its exposure to the finance sector. Funding for the acquisition has been provided by a €3.4m five-year convertible bond issued in September and bearing an interest rate of 3.75% and conversion price of €4.16.

## **New entrepreneur shareholder to reinvigorate SalesSphere**

Online retail platform SalesSphere was launched with new expanded functionality on Apple App Store and Google Play in December, but the group has found it difficult to gain traction with the product, given the highly developed nature of the retail platform market. mVISE plans to recruit a new entrepreneur shareholder (to take a minority stake in the company) to inject specialist retail knowledge and new life into the product.

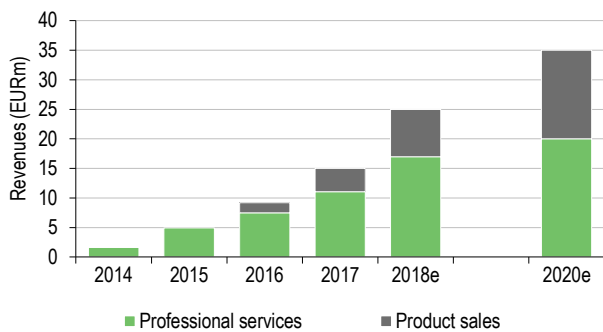
## **Strategie 2018+: A blueprint for growth**

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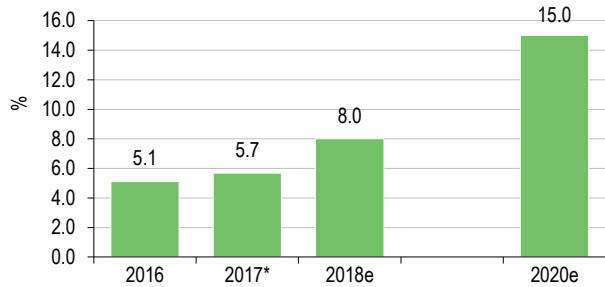
### **New 2020 targets for a transformed business**

In March mVISE management released details of its new Strategie 2018+ covering the 2018-2020 period. Through a range of measures, it targets achieving the following in or by 2020:

- Inclusion in the top-20 Mittelstand IT firms in the area of digital transformation;
- a 33% CAGR in group revenues to €35m;
- an expansion in EBIT margins from a pre-acquisition-cost 5.7% in 2017 to c 15% in 2020, driven by a considerable expansion of higher margin product sales; and
- the addition of 100 new positions in Düsseldorf, Hamburg, Bonn, Frankfurt and Munich to achieve close to a doubling in staff numbers.

**Exhibit 2: mVISE revenue targets, March 2018**


Source: mVISE

**Exhibit 3: mVISE EBIT margin\*\* targets, March 2018**


Source: mVISE. Note: \*Excluding effect of €0.4m in acquisition costs. \*\*EBIT margin based on total performance measure of revenues.

## The strategy has five key themes

Management has set out five action points aimed at achieving the above goals:

- Sales partnerships and cross-selling to drive sales growth.
  - To create more new marketing partnerships
  - To exploit cross-selling opportunities, including those presented by the addition of close to 10 new clients via the SHS Viveon acquisition
- Margin expansion: focus on higher-margin product sales, efficiency, pricing.
  - Work to increase on product sales to boost margins: helped by a high degree of scalability, margins on products are typically upwards of 30%, whereas those on services are typically below 50%, with the potential for unexpectedly high labour intensive integration and consulting projects to result in a loss.
  - Employee efficiency: the group is achieving higher margins from employees as the team grows. mVISE has seen a substantial increase in the number of employees. With the integration of the team from SHS Viveon, the group was able increase overall productivity because the staff increase came without a material increase in overheads.
  - Increased day rates with greater market power/more prominent market position
- Employer rebranding to aid with increased recruitment of the right staff.
  - Increased recruitment: helped by a planned rebranding of the group as an employer. In practice this includes measures to improve 'soft' benefits by such means as offering involvement in cutting-edge research, such as the PaKOS auto-project.
- Positioning: digital transformation.
  - Continue to exploit ongoing strong growth in demand for digitalisation services across Europe.
- Restructuring the business to maintain agility and efficiency.
  - The group is looking to improve its processes to remain flexible in its new 200+ employee size.

We see the group's plans as providing significant scope for earnings upside. In our view, the key sensitivities of the plans revolve around the aim to rapidly increase employee numbers, which could drive up overall costs unexpectedly given the tightness of the German IT skills market. We also see the potential for disappointment in the area of sales on third-party platforms, given that the product can be one of a number of similar products on offer and group lacks control over marketing of the product within the platform. Nevertheless, in the case of the Magic Software platform, we believe the work undertaken by the software reseller to bring the platform into its brand family and add to and improve the product indicates a strong desire to achieve significant sales. From that perspective, we again see good prospects of success.

## Share price performance

Since our [initiation report on 14 September](#), the share price has rallied 13.2% from €4.10 to €4.69. The stock can be considered to have had three phases during this period: a rally from €4.10 on 14 September to €4.46 on 6 October, a falling back to €3.72 on 14 December, then a recovery to the current level. The 16.6% decline starting 6 October, when the TecDAX index gained 1.7%, coincided with the release of news of the planned acquisition of the SHS Viveon professional service customer value consulting team on 10 October. The release of the Strategie 2018+ document containing management's 2018 earnings forecasts (16 March) helped provided further stimulus for the stock to move to its current level of €4.69.

## Valuation

Since our valuation update on 14 September, the shares of several peers have performed strongly, most notably product-oriented companies Mulesoft and Atlassian, up 103% and 59%, and consulting-oriented Adesso, up 27%. These gains look to have been supported by model rotation and increased EBITDA forecasts, with the FY1 EV/EBITDA average multiple falling 7% to 39.4x.

At the current share price mVise trades at parity with the median of its peers on FY1 EV/sales and P/E multiples, but we note the downward skewing of the median P/E by the high number of negative multiples, which are excluded from the count as well as the high number of high outliers. Against sector averages these multiples show a 60%+ discount to both the FY1 multiples, which is difficult to justify in view of the group's healthy margins, balance sheet and earnings prospects.

With mVISE enacting its new strategy, we see potential for the stock to generate above sector earnings growth and achieve multiple expansion if it is able to realise the increase in its exposure to higher-margin product revenues. Doing so would position it closer to stocks with product orientations, which attract higher multiples from the market, rather than consulting-oriented businesses. Helped by this and the potential catalysts of additional revenue growth from the start of sales on the two new platforms in Q118, we see considerable rerating potential for the shares over the next 12-24 months.

### Exhibit 4: Peer group comparison

Name	Price (reporting currency)	Market cap m (\$)	Sales FY1 (m)	EBITDA margin FY1 (%)	EV/Sales FY1 (x)	EV/Sales FY2 (x)	EV/EBITDA FY1 (x)	EV/EBITDA FY2 (x)	PE FY1 (x)	PE FY2 (x)	Div yield last (x)
MVISE	4.64	47.1	24	15.6	1.8	1.5	11.4	8.5	31.6	16.0	0.0
<b>Consulting orientation</b>											
7 Principles	11.4	52	101	1.7	0.4	0.4	25.6	15.6	380.0	30.0	0.0
SHS Viveon	4.0	10	N/A	2.3	3.4	3.2	145.3	48.4	neg.	15.4	0.0
Adesso	56.9	426	355	8.0	1.0	0.9	12.4	11.1	24.6	21.5	0.6
Capgemini	113.6	23,229	12,979	14.1	1.6	1.5	11.1	10.4	18.6	16.8	1.5
<b>Product orientation</b>											
Mulesoft	44.4	5,933	411	(5.0)	13.9	10.5	neg.	186.6	neg.	neg.	0.0
Magic Software Enterprises	8.3	369	286	N/A	1.2	1.1	N/A	N/A	13.4	9.3	0.0
Atlassian Corp	55.4	12,871	863	28.4	14.0	10.9	49.3	38.3	116.2	82.7	0.0
Invision	25.2	68	16	16.7	3.6	2.5	21.4	7.9	45.8	10.5	0.0
<b>Consulting averages</b>			<b>4,478</b>	<b>6.5</b>	<b>1.6</b>	<b>1.5</b>	<b>48.6</b>	<b>21.4</b>	<b>141.1</b>	<b>20.9</b>	<b>0.5</b>
<b>Product averages</b>			<b>394</b>	<b>13.4</b>	<b>8.2</b>	<b>6.3</b>	<b>35.4</b>	<b>77.6</b>	<b>58.5</b>	<b>34.1</b>	<b>0.0</b>
<b>All-peer average</b>			<b>1,879</b>	<b>10.2</b>	<b>4.5</b>	<b>3.6</b>	<b>39.4</b>	<b>40.8</b>	<b>90.0</b>	<b>25.3</b>	<b>0.2</b>
<b>All-peer median</b>			<b>320</b>	<b>11.0</b>	<b>1.7</b>	<b>1.5</b>	<b>21.4</b>	<b>13.3</b>	<b>31.6</b>	<b>16.4</b>	<b>0.0</b>
mVISE premium (discount) to average (%)					(62.2)	(60.5)	(72.3)	(80.0)	(64.9)	(36.7)	(100.0)
mVISE premium (discount) to median (%)					0.0	(4.1)	(48.8)	(38.9)	0.0	(2.4)	N/A

Source: Bloomberg, Thomson Reuters. Note: Prices at 30 April 2018.



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