mVise

Software and comp services

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Focus on digital transformation and synergies

In recent quarters mVISE has completed the acquisition of a consulting team from SHS Viveon and the sale of loss-making workforce management software business Just Intelligence (JI). These have increased mVise's ability to derive synergies from within the group and its focus on its core business of digitisation transformation. In H118, helped by increased consulting rates, the group was also able to report a 78% y-o-y increase in revenue and 50% margin expansion leading to a 1.6x y-o-y increase in EBITDA. We see good grounds for a continuation of favourable results in H2. Currently, mVise shares trade at a 24% discount to its two most profitable consulting-oriented peers on FY2 EV/EBITDA multiples. We believe this shows strong upside potential given the group's growing exposure to the much more highly rated software products segment.

JI sale increases digitalisation focus and synergies

Exiting from the 78% stake in JI was a strategic step that has taken mVise out of the loss-making workforce management software business. This is a positive development as JI had low synergies with the rest of the business and diverted management time from the group's strategic aims. As JI was loss making, the sale at end July should have an immediate positive impact on earnings.

Improved outlook for second half

We are positive on the outlook for seasonally strong and therefore important H2 earnings. We expect earnings to benefit from the sale of JI, reduced costs from integrating the SHS Viveon team, increasing sales traction at integration platform elastic.io, and the addition of new product features at SalesSphere. After a €4.6m increase in net financial debt to €8.6m in H1 following payment for the SHS Viveon acquisition and low seasonal H1 cash generation we see good prospects for a material drop in net debt helped by the deconsolidation of Just Intelligence.

Valuation: Good 12-month catalysts for rerating

On current prospective 2019 EV/EBITDA multiple of 8.9x, mVise trades at a 24% discount to the average of its most profitable consulting-oriented peers, Capgemini and Addesso. We see a strong case for the stock trading at a premium to the consulting sector reflecting its exposure to the higher-rated software product sector and the synergy benefits of its exposure to both areas. Likely strong H2 results, sales expansion at elastic.io and falling group net debt are likely share catalysts.

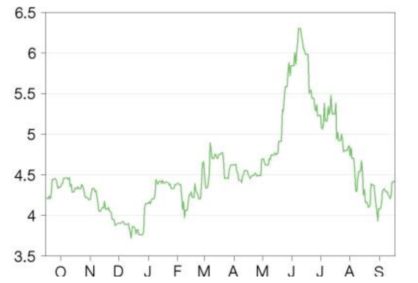
Consensus estimates

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	38.0	88.8	0.0
12/17	14.8	2.0	0.3	0.15	22.8	29.6	0.0
12/18e	24.3	3.8	1.8	0.15	12.0	29.6	0.0
12/19e	29.2	5.1	3.3	0.29	8.9	15.3	0.0

Source: mVISE, SMC Research

Price	€4.44
Market cap	€37m

Share price graph



Share details

Code	C1VX
Listing	Deutsche Börse Scale
Shares in issue	8.4m
Last reported net debt as at 30 June 2018	€8.6m

Business description

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, expanded by a recent team acquisition, 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 lead to potential risk of skilled employee cost inflation.
- Own-developed software product SaleSphere has not achieved expectations.
- Debt levels have risen sharply in H118 with the acquisition of a consulting team from SHS Viveon.

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EDISON

H118 results: Record post-IPO operating result

Helped by the addition of consulting revenues from the acquisition of SHS Viveon, H118 revenues grew 73% y-o-y to €9.2m and outflanked employee cost growth of 61%. The result was a reduction in the employee share of revenues from 63% of H117 to 59%. Helped by this and similar operational gearing-led improvements in material cost ratios, the EBITDA margin expanded from 4.8% in H117 to 7.2%, enabling group EBITDA to grow 161% y-o-y to €0.66m.

Key factors in the strong EBITDA performance were:

- Increases in day rates in the consulting business arising from high levels of capacity utilisation, helped by the acquisition of SHS Viveon in Southern Germany in late February with the addition of 40 new advisers. Other factors in consulting were strong growth in new customer numbers and demand for managed services.
- Intense marketing of and the addition of new features to SalesSphere, the digital sales platform, which led to increased downloads and expressions of interest in the product.
- A major client win (unnamed) for the integration platform elastic.io, arising from the partnership with Israeli software vendor, Magic Software.

Exhibit 1: mVise interim results summary

€m	H117	H118	Chg	H217
Year end 31 December	**HGB**	**HGB**	**% y-o-y**	**HGB**
Income statement				
Revenue	**5.34**	**9.23**	**72.8**	**9.44**
Employee costs	(2.67)	(4.31)	61.2	(3.35)
Material costs	(1.03)	(2.62)	155.2	(1.92)
EBITDA	**0.25**	**0.66**	**161.0**	**1.70**
EBITDA margin	4.8%	7.2%		18.0%
EBIT	**(0.53)**	**0.04**	**(107.0)**	**1.07**
EBIT margin	(9.9%)	0.4%		11.4%
Profit before tax (as reported)	(0.64)	(0.15)	(77.2)	0.95
Net income after minorities (as reported)	0.12	(0.11)	(189.6)	1.19
EPS (as reported) (€)	**0.02**	**(0.01)**	**(131.0)**	**0.13**
Cash flow				
Net cash from ops before WC movements	**0.25**	**0.63**	**150.8**	**(0.25)**
Net cash from operating activities	(0.55)	(0.06)	(88.8)	0.65
Net cash from investing activities	(2.88)	(4.10)	42.7	(0.87)
Net cash from financing activities	3.32	1.72	(48.2)	2.58
Net cash flow	**(0.11)**	**(2.45)**	**2,186.9**	**2.35**
Net cash (debt)*	**(3.75)**	**(8.61)**	**129.8**	**(3.98)**

Source: Company, Edison Investment Research. Note: *Net debt excludes 'other liabilities', which at end-2017 totalled €3.67m and included the obligation to pay SHS Viveon €3.2m for the consulting team acquisition.

Cash flow/balance sheet

Cash flow from operations before working capital changes increased from €252k in H117 to €632k in H118 helped by the growth in operating profit during the period. Total investment outflows were boosted by the acquisition of SHS Viveon, which gave rise to a €3.2m cash outflow on asset acquisitions, boosting overall investment outflows to €4.1m from €2.9m. Investment in plant and equipment remained flat in both periods at around €0.9m.

Group net debt increased by €4.6m to €8.6m in the first half of the year, principally due to the payment of €3.2m to SHS Viveon for the consulting team acquisition, which had been included in other liabilities in the balance sheet at the end of 2017. We expect net debt levels to fall during H218 with sale of JI, reflecting both the removal of its debt from the consolidated balance sheet on 31 July and the addition of proceeds from the sale (the magnitude of both its debt and the proceeds of the sale are not yet reported).

Outlook

The group was able to report a more than doubling in order backlog to over €7m over the June 30 level of €3.1m. The bulk of the backlog arose in the professional services side, reflecting the addition of SHS Viveon's backlog, while the product area backlog totalled a lower €0.6m.

Management anticipates that the order backlog will be boosted in favour of the product portfolio this year, reflecting anticipated growth in demand for the sales digitalisation platform SalesSphere and elastic.io products.

The sale of JI will result in deconsolidation of its results from end July 2018. We understand that it made losses at the EBITDA and net levels in H1, with the net loss reported as €31,000. As a result, the sale of the business should be positive for H2 results and should have a positive impact on net debt balances. The agreement to keep the sale price confidential means the impact on the balance sheet is not yet quantifiable, but we understand the stake was sold with all the existing debt remaining in the company.

With the increase in demand evident in H118, management plans to recruit more consulting staff to replace the use of consultants, which should help reduce the share of revenue taken by employee expenses.

Valuation

mVise does not fit neatly into a single peer group. Its consulting operations have similarities with consulting-oriented firms such as Capgemini and Addesso while its product sales give it similarities to the software developer segment. The latter trades at substantially higher multiples than the consulting sector as can be seen in Exhibit 2.

Exhibit 2: mVise valuation table

	Price*	Market cap	Sales	EBITDA margin	EV/Sales		EV/ EBITDA		P/E		Div yield
Name		**m ($)**	**FY1 (m)**	**FY1 (%)**	**1FY (x)**	**FY2 (x)**	**FY1 (x)**	**FY2 (x)**	**FY1 (x)**	**FY2 (x)**	**last (x)**
mVise	**4.32**	**42.5**	**24**	15.6	1.9	1.5	11.9	8.8	29.4	14.9	0.0
Peers consulting orientation											
SHS Viveon	4.0	10	N/A	0.0	0.6	0.5	N/A	17.5	neg.	133.3	0.0
Adesso	65.4	474	359	8.1	1.1	1.0	14.1	12.9	26.7	24.1	0.6
Capgemini	107.7	21,170	13,098	14.2	1.6	1.5	11.0	10.1	17.9	16.1	1.6
Consulting peer median			**6,729**	**8.1**	**1.1**	**1.0**	**12.5**	**12.2**	**22.3**	**24.1**	**0.6**
Peers product orientation											
Magic Software Enterprises	9.0	439	288	N/A	1.4	1.3	N/A	N/A	15.2	10.5	2.4
Atlassian Corp - Class A	90.5	21,369	1,157	26.7	18.4	14.6	69.1	52.8	122.5	99.6	0.0
Invision AG	17.4	46	14	8.1	2.6	2.3	32.0	19.6	124.4	46.7	0.0
Product peer median			**350**	**8.1**	**8.3**	**6.4**	**50.6**	**52.8**	**122.5**	**46.7**	**0.0**
All peer median			**359**	**8.1**	**1.5**	**1.4**	**13.3**	**12.9**	**26.7**	**22.7**	**0.3**
mVISE premium to consulting median					**62.2**	**48.1**	**(5.2)**	**(27.5)**	**31.6**	**(38.2)**	**(100.0)**
mVISE premium to product median					**(77.5)**	**(75.9)**	**(76.5)**	**(83.2)**	**(76.0)**	**(68.1)**	**N/A**
mVISE premium to median					**24.1**	**10.0**	**(10.7)**	**(31.6)**	**9.9**	**(34.5)**	**(100.0)**

Source: Bloomberg, Thomson Reuters. Note: *Reporting currency. Priced at 17 September 2018.

We see significant synergistic and cross-selling advantages in the combination of the consulting and product portfolio. As a result, we believe there is a strong case for mVise to trade at a premium to the consulting sector because of its exposure to the higher multiple software product industry. To this we would also add its superior EBITDA margins (see comparison in Exhibit 2), which give greater earnings security.

At present, looking at prospective FY1 EV/EBITDA multiples mVise trades broadly in line with Adesso and Capgemini, which are the higher margin, more profitable stocks in the consulting sector, and well below the multiples of the software product peers.

We see potential for stock upside on a 12-month view based on:

- Expectation of mVise having above-average earnings growth based on current consensus expectations (as can be seen in the P/E multiple changes between FY1 and FY2).
- Our expectations of increasing market recognition in the market of the orientation of mVise towards product sales over the next 12 months as sales ramp up at elastic.io and SalesSphere.
- The potential influence of trade sale multiples on the sum-of-the parts valuation of the group. For example, in March of this year Salesforce agreed to acquire Mulesoft, an integration platform as a service (PaaS) operator, similar to elastic.io for $6.5bn. The sale valued Mulesoft on a high 22x trailing revenue multiple. While we believe this high multiple significantly derives from Mulesoft's strong market position and early mover advantage, the implications for elastic.io's contribution to the group valuation in future years would be significant even at much lower implied multiples.

Potential share price catalysts

In summary, we see the following as potential key catalysts for mVise shares:

- potential strong earnings performance in H218;
- reduction in debt from sale of Just Intelligence, arising from the proceeds from sale of and deconsolidation of debt;
- expansion of digital product sales at elastic.io and SalesSphere in view of the potential for the market to apply premium sales multiples to the businesses.

Exhibit 3: Consensus financial summary

€m	2016	2017	2018e	2019e
Year end 31 December	HGB	HGB	HGB	HGB
Income statement				
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 (as reported)	0.42	0.31	1.80	3.30
Net income after minorities (as reported)	0.63	1.31	1.40	2.70
EPS (as reported) (€)	0.05	0.15	0.15	0.29
Dividend per share (€)	0.00	0.00	0.00	0.00
Balance sheet				
Total non current assets	5.23	14.19	7.80	8.80
Total current assets	1.72	4.57	8.30	12.30
Total assets	6.95	18.76	16.10	21.10
Total current liabilities	2.21	11.26	9.70	10.10
Total non-current liabilities	1.40	2.46	2.60	2.70
Total liabilities	3.61	13.72	12.30	12.80
Net assets	3.33	5.04	8.80	11.90
Net cash (debt)	(0.15)	(3.98)	(1.88)	1.62
Cashflow				
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	4.539	8.039

Source: mVise, SMC Research

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