

## Mensch und Maschine

**Software**
**27 July 2021**

### Group returns to growth in Q221

Mensch und Maschine (M+M) reported 4.4% y-o-y revenue growth for H121, driving 10.7% growth in operating profit and 10.0% growth in EPS. In Q221, the group returned to revenue growth (+23.1% y-o-y) after four quarters of mainly COVID-19-related weakness. Management maintained its outlook for FY21 EPS growth of 12–21% and introduced revenue guidance for growth of 6–10%, which implies H221 revenue growth of 8–16% y-o-y.

### Q2 sees return to revenue growth at group level

H121 y-o-y revenue growth of 4.4% splits out as a decline of 8.0% for Q121 and growth of 23.1% for Q221, the first quarter of revenue growth for the group since Q120. H121 gross profit grew 6.3% y-o-y, operating profit 10.7% and EPS 10.0%. The operating margin of 13.6% was 0.8pp higher than in H120.

### Both businesses back in growth mode

The Software business had already returned to year-on-year revenue growth in Q420, and this accelerated to 7.6% in Q121 and 17.5% in Q221 (partially reflecting the weak comparisons for both quarters). The VAR business reported revenue growth for the first time since Q120, with revenue up 26.0% y-o-y in Q221. Group EBIT profitability of 15.4% for Q121 and 11.5% for Q221 was 1.3pp and 0.6pp higher than a year ago, respectively. Management reconfirmed its EPS and DPS outlook for FY21 and introduced revenue guidance for growth of 6–10% for FY21. This implies H221 revenue growth of 8–16% y-o-y.

### Valuation: Range-bound

Consensus forecasts are within management's guidance at the EPS and DPS level, unchanged since the company reported Q121 results in late-April. The share price has been relatively range-bound year-to-date; in our view, upgrades are required to break out of this trend. The stock trades at a discount to peers on EV-based valuation metrics and substantially in line on a P/E basis, reflecting the fact that its operating margins are at the lower end of its peer group, in our view. The stock is supported by a dividend yield of c 2%, which is at the top end of its peer group.

#### Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/19	245.9	26.3	0.99	0.85	58.7	1.5
12/20	244.0	29.8	1.12	1.00	52.2	1.7
12/21e	255.0	34.8	1.30	1.15	44.8	2.0
12/22e	282.4	41.8	1.55	1.30	37.7	2.2

Source: Mensch und Maschine investor relations pages.

**Price** €58.2  
**Market cap** €980m

#### Share price graph



#### Share details

Code MUM  
Listing Deutsche Börse Scale  
Shares in issue 16.8m  
Last reported net cash as at end-FY20\* €1.1m  
\*Excludes lease liabilities

#### Business description

Mensch und Maschine Software (M+M) sells proprietary and Autodesk CAD/CAM software. It reports across two business lines: M+M Software (FY20 31% of revenues, 62% of EBIT) and VAR (FY20 69% of revenues, 38% of EBIT). The company has operations in Europe, the United States and Asia-Pacific.

#### Bull

- Largest European Autodesk value-added reseller.
- High-margin, internally developed software.
- Loyal workforce.

#### Bear

- Reliant on Autodesk's technology development and channel strategy.
- Management owns more than 50% of the company.
- Large exposure to DACH economies.

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## Review of H121 results

### Exhibit 1: Half-year highlights

€m	H120	H121	y-o-y
Revenues	130.38	136.07	4.4%
Gross profit	65.68	69.83	6.3%
EBITDA	21.21	23.19	9.3%
Operating profit	16.72	18.51	10.7%
Net income after minority interest	10.07	11.11	10.3%
EPS (€)	0.60	0.66	10.0%
Net cash (excluding leases)	3.71	1.14	-69.3%
Gross margin	50.4%	51.3%	0.9%
EBITDA margin	16.3%	17.0%	0.8%
Operating margin	12.8%	13.6%	0.8%

Source: Mensch und Maschine

M+M reported revenue growth of 4.4% y-o-y for H121. We discuss the performance at a divisional level and the quarterly progression below. Gross profit was 6.3% higher, EBITDA 9.3% higher and operating profit 10.7% higher y-o-y, with operating costs up 4.8% y-o-y. Margins in all cases increased y-o-y. EPS grew 10.0% y-o-y, with minority interest slightly higher due to the strong performance of SOFiSTiK (M+M owns 51%). The company closed H121 with a net cash position of €1.1m (before €11.0m of leases).

### Exhibit 2: Quarterly performance

Revenue (€m)	Q120	Q220	Q320	Q420	Q121	Q221
Software	20.5	17.4	17.1	20.7	22.0	20.4
VAR	58.2	34.4	33.2	42.7	50.3	43.3
<b>Total</b>	<b>78.6</b>	<b>51.8</b>	<b>50.2</b>	<b>63.4</b>	<b>72.3</b>	<b>63.7</b>
<b>y-o-y growth</b>						
Software	11.3%	-9.0%	-0.9%	1.6%	7.6%	17.5%
VAR	29.9%	-9.4%	-10.0%	-16.8%	-13.5%	26.0%
<b>Total</b>	<b>24.5%</b>	<b>-9.3%</b>	<b>-7.1%</b>	<b>-11.6%</b>	<b>-8.0%</b>	<b>23.1%</b>
<b>EBIT margin</b>						
Software	26.7%	25.8%	21.8%	26.4%	29.1%	25.4%
VAR	9.6%	3.4%	4.0%	8.9%	9.4%	5.0%
<b>Total</b>	<b>14.1%</b>	<b>10.9%</b>	<b>10.0%</b>	<b>14.6%</b>	<b>15.4%</b>	<b>11.5%</b>

Source: Mensch und Maschine

The Software business started to see a slowdown in Q120 as COVID-19 affected business in China and slowed further in Q220 as new business was harder to sign up during the height of the pandemic. The business saw a small recovery in y-o-y revenue growth in Q420, increasing further to 7.6% in Q121 and 17.5% in Q221 as business returned to pre-COVID levels. The EBIT margin for Software in Q221 was slightly lower than the previous year due to the mix of business in the quarter and the reinstatement of some costs that were cut last year.

The VAR business was very strong in Q120 as customers took advantage of the final promotions by Autodesk encouraging licensees to shift from maintenance to subscription contracts. Business then weakened through the rest of the year, reflecting difficulties in selling new business or providing training during the pandemic. The division returned to revenue growth in Q221, with y-o-y growth of 26.0%, resulting in a 1.6pp increase in the EBIT margin compared to Q220.

## Outlook and changes to estimates

The company expects to continue to grow through the second half of the year, with an expectation for revenue growth of 6–10% for FY21 (equating to revenue of €259–268m), EPS growth of 12–21% (125–135c) and dividend per share of 115–120c. The EPS and dividend expectations have not changed since the start of the year, whereas the revenue guidance is new. Consensus estimates have not yet changed since they were updated in late-April for Q121 results. The table below shows

current consensus estimates, which are in line with the company's outlook for EPS and DPS, and marginally below for revenue.

#### Exhibit 3: Consensus forecasts

€m	FY21e	FY22e
Revenues	255.0	282.4
Revenue growth	4.5%	10.7%
EBITDA	45.3	52.4
EBITDA margin	17.7%	18.6%
EBIT	35.6	42.6
EBIT margin	14.0%	15.1%
EPS (€)	1.30	1.55
DPS (€)	1.15	1.30

Source: Mensch und Maschine investor relations pages

## Valuation

The stock is up 27% over the past 12 months but is down 8% year-to-date. The shares trade at a discount to peers on EV-based valuation metrics and substantially in line on a P/E basis, in our view reflecting the fact that the company's operating margins are at the lower end of its peer group. The stock is supported by a dividend yield of c 2%, which is at the top end of its peer group.

#### Exhibit 4: Peer valuation metrics

Company	Quoted	Share	Market	EV (rep	EV/sales		EV/EBIT		P/E		Dividend yield		EBIT margin	
	ccy	price	cap (m)	ccy -m)	CY	NY	CY	NY	CY	NY	CY	NY	CY	NY
<b>M+M</b>	<b>EUR</b>	<b>58.2</b>	<b>980</b>	<b>978</b>	<b>3.8</b>	<b>3.5</b>	<b>27.7</b>	<b>23.3</b>	<b>44.8</b>	<b>37.7</b>	<b>2.0%</b>	<b>2.2%</b>	<b>13.9%</b>	<b>14.9%</b>
AVEVA GROUP	GBP	3,998	12,057	12,535	10.1	9.3	36.2	31.6	38.7	33.8	0.9%	1.0%	27.9%	29.4%
CENIT	EUR	14.9	125	104	0.6	0.6	13.8	10.7	24.8	18.9	2.9%	3.2%	4.7%	5.7%
NEMETSCHEK	EUR	73.0	8,431	8,447	11.9	10.5	52.8	43.1	69.2	56.3	0.5%	0.6%	22.6%	24.3%
RIB SOFTWARE	EUR	28.9	2,136	1,947	4.9	4.9	28.3	27.9	37.1	37.1	1.2%	1.9%	17.5%	17.6%
AUTODESK	USD	312.7	68,787	69,502	16.0	13.5	52.3	36.6	63.8	45.6	0.0%	0.0%	30.5%	36.8%
DASSAULT SYSTEMES	EUR	44.5	59,103	60,637	12.7	11.6	40.3	36.4	51.3	48.3	0.4%	0.4%	31.5%	32.0%
HEXAGON	SEK	139.7	344,026	35,733	8.5	8.0	31.1	28.4	38.1	33.9	0.8%	0.8%	27.4%	28.0%
PTC	USD	152.7	17,843	19,025	11.0	10.0	34.7	31.4	45.9	39.9	0.0%	0.0%	31.7%	31.9%
<b>Average</b>					<b>9.5</b>	<b>8.5</b>	<b>36.2</b>	<b>30.8</b>	<b>43.6</b>	<b>38.3</b>	<b>0.8%</b>	<b>1.0%</b>	<b>24.2%</b>	<b>25.7%</b>
<b>Median</b>					<b>10.5</b>	<b>9.7</b>	<b>35.5</b>	<b>31.5</b>	<b>42.3</b>	<b>38.5</b>	<b>0.6%</b>	<b>0.7%</b>	<b>27.6%</b>	<b>28.7%</b>

Source: Refinitiv (as at 26 July 2021)

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