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Research update

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Mensch und Maschine Software SE

Q1 with new records

Rating: Strong Buy (unchanged) | **Price:** 57.00 € | **Price target:** 71.00 € (unchanged)

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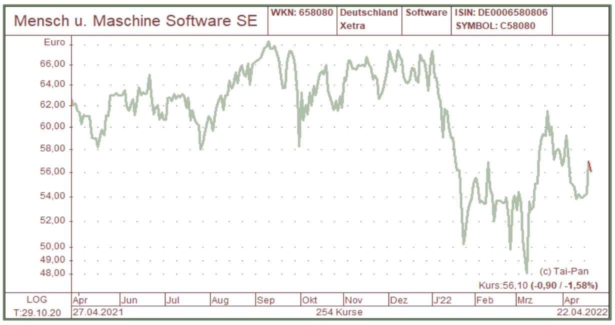
Recent business development



Basic data

Based in:	Wessling
Sector:	CAD/CAM software
Headcount:	979
Accounting:	IFRS
ISIN:	DE0006580806
Ticker:	MUM:GR
Price:	57.0 Euro
Market segment:	Scale / m:access
Number of shares:	17.2 m
Market Cap:	977.5 m Euro
Enterprise Value:	1,049 m. Euro
Free Float:	45.5%
Price high/low (12M):	69.20 / 47.00 Euro
Ø turnover (Xetra, 12 M):	385,500 Euro / day

Apparently undisturbed by the uncertain macroeconomic situation, Mensch und Maschine continued its successful course of recent years in the first quarter, reporting new records in sales, earnings and margins. On the basis of revenue growth of 18 percent (to EUR 85.4 m), EBIT increased by 20 percent to EUR 13.4 m, bringing the EBIT margin to 15.7 percent. Net profit even increased by almost 25 percent to EUR 8.3 m. With these figures, M+M says it is currently at the upper end of its planning, which envisages gross profit growth of 8 to 12 percent to EUR 150 to 155 m for the entire year and a further disproportionately high increase in profits of 14 to 19 percent to between 144 and 150 cents per share. However, the company has now made this forecast subject to the explicit proviso that there will be no global escalation of the conflict in Ukraine, which has so far had no significant consequences for the company' business. So far, we have put our estimates at the lower end of the guidance due to the risk that could still arise for M+M from the Russian aggression and continue to adhere to this somewhat more cautious approach.

FY ends: 31.12.	**2019**	**2020**	**2021**	**2022e**	**2023e**	**2024e**
Sales (m Euro)	245.9	244.0	266.2	290.1	316.2	347.8
EBIT (m Euro)	27.2	31.0	34.7	39.9	45.8	54.0
Net Profit	16.7	18.7	21.3	24.4	27.9	32.8
EPS	0.99	1.11	1.26	1.44	1.65	1.93
Dividend per share	0.85	1.00	1.20	1.35	1.55	1.80
Sales growth	32.7%	-0.8%	9.1%	9.0%	9.0%	10.0%
Profit growth	42.6%	12.3%	13.9%	14.5%	14.6%	17.3%
PSR	3.93	3.96	3.63	3.33	3.06	2.78
PER	58.0	51.7	45.4	39.6	34.6	29.5
PCR	36.7	28.7	26.0	26.5	23.7	20.7
EV / EBIT	38.2	33.4	29.9	26.0	22.6	19.2
Dividend yield	1.5%	1.8%	2.1%	2.4%	2.7%	3.2%

Strong growth in Q1

Mensch und Maschine generated sales of EUR 85.4 m in the first quarter, an increase of 18 percent compared to the previous year. It was, at the same time, a new quarterly record; the previous one came from the first quarter of 2020 and amounted to EUR 78.6 m. Broken down into the two segments, the dynamics in the VAR business were somewhat stronger at +21 percent to EUR 60.7 m, but double-digit growth was also achieved in the software business with 12 percent (to EUR 24.7 million). Upon enquiry, the company reports particularly strong dynamics in the CAM business as well as in the trade with Autodesk licences, while for BIM (in the software segment) and services, both particularly strong last year, the development had been somewhat more subdued this time due to the higher comparison basis and higher rates of sick leave (due to the Omicron wave).

Weaker gross margin in the VAR business

The strong increase in revenues from trading with Autodesk software and the relative weakness in the services business were reflected in a decline in the gross margin in the VAR business from 33.8 percent in the previous year to 31.9 percent. As a result (and due to the slight shift in sales towards the VAR business), the group gross margin also decreased by 1.9 percentage points to 49.0 percent year-on-year, while the software division improved its margin by 1.4 percentage points. Overall, however, both segments were able to increase gross profit, each by almost 14 percent, so that group gross profit also grew at this pace to EUR 41.9 m.

Personnel expense ratio decreased further

Personnel expenses increased by only about half as much (7 percent to EUR 23.1 m), reflecting the 5 percent increase in the number of employees (full-time equivalents). Upon enquiry, the company denies an already noticeable acceleration of wage growth, but considers itself well prepared for a possible challenge of this kind with its flexible cost management, which has already proved itself in the difficult pandemic phase. Depreciation and amortisation also increased at a much slower rate than sales, namely by only 2 percent to EUR 2.4 m, while other operating expenses have now normalised somewhat after the Covid-19-related declines and increased at an above-average rate of 29 percent (to EUR 3.8 m).

Business figures	Q1 2021	Q1 2022	*Change*
Sales	72.34	85.41	*+18.1%*
VAR business	50.31	60.73	*+20.7%*
Software	22.03	24.68	*+12.0%*
Gross profit	36.77	41.85	*+13.8%*
VAR business	16.99	19.35	*+13.9%*
Software	19.78	22.51	*+13.8%*
Gross margin	*50.8%*	*49.0%*	
EBIT	11.16	13.38	*+19.9%*
VAR business	4.74	5.73	*+20.9%*
Software	6.42	7.66	*+19.2%*
EBIT margin	*15.4%*	*15.7%*	
VAR business	*9.4%*	*9.4%*	
Software	*29.1%*	*31.0%*	
Pre-tax result	10.86	13.20	*+21.6%*
Pre-tax margin	*15.0%*	*15.5%*	
Net profit	6.68	8.34	*+24.8%*
Net margin	*9.2%*	*9.8%*	
Free cash flow	13.00	10.85	*-16.5%*

In m Euro and percent, source: Company

EBIT up by 20 percent

Overall, however, cost growth once again remained well behind the increase in gross profit, so that M+M was again able to report new profit records for the first quarter. EBIT increased by 20 percent to EUR 13.4 m, with growth in the VAR business of 20.9 percent being even slightly stronger than in the software segment. Nevertheless, the latter was able to further significantly improve its profitability and, with an EBIT margin of 31.0 percent, exceeded the 30 percent mark for the first time. In the VAR business, on the other hand, the EBIT margin remained at the previous year's level of 9.4 percent, so that the group EBIT margin increased to 15.7 percent and thus to a new record (previously: 15.4 percent).

Lower minority interests

With a financial result improved from EUR -0.3 m to below EUR -0.2 m, pre-tax profit increased by 22 percent to EUR 13.2 m. Since at the same time the minority interests in the consolidated profit remained constant, the net profit after taxes and minority interests increased even more, by almost 25 percent, to EUR 8.3 m.

Cash flow weaker, but still very good

Despite the increase in profits, operating cash flow at EUR 11.7 m remained this time below the previous year's figure. However, the latter had been extraordinarily strong. The most important change relates to the build-up of net working capital, which had come to a virtual standstill in Q1 2021, while this time it was primarily a stronger build-up of receivables and inventories that burdened the cash flow balance with EUR 6.7 m. In contrast, there was a significantly lower outflow of liquidity for investment purposes (EUR -0.8 m after EUR -3.6 m). In this regard, the acquisition of the long-standing OpenMind distribution partner in the Benelux region had led to an increase in the previous year, which was not repeated in the quarter under review. The free cash flow of the first quarter thus totalled EUR 10.9 m, compared with EUR 13.0 m in the previous year.

Extensive share buybacks

Finally, the quarterly financial statements show a very significant outflow of funds in the financing cash flow. In addition to the usual items such as repayments and interest and leasing payments, this time the repurchase of shares worth EUR 7.9 m was primarily responsible for a negative balance of EUR 10.5 m. The share purchase, with which M+M, as already often in the past, took advantage of the market weakness, comprised 151,000 shares at an average price of EUR 52.29, with which the portfolio of treasury shares increased to 2.0 percent of the share capital as of 31 March. The company can use these shares to service the dividend claims of those shareholders who opt for the stock dividend.

Equity ratio slightly lower

Due to the extensive share purchases, the cash position in the balance sheet remained almost unchanged at EUR 20.3 m in the first quarter. Since treasury shares are deducted from equity, this was increased only slightly to EUR 93.8 m, despite the high quarterly earnings, so that the equity ratio decreased by 2.2 percentage points to 55.5 percent compared to the turn of the year. Compared to the previous year, however, the increase continued with a plus of 3 percentage points.

Forecast confirmed

Based on the Q1 figures, M+M has confirmed the forecast for the current year. On average for the years 2022 and 2023, sales and gross profit are to grow by 8 to 12 percent p.a., on the basis of which EBIT growth is to be 14 to 20 percent, and thus again clearly disproportionately high. Regarding the planned EpS, M+M expects a growth of between 18 and 24 cents to between 144 and 150 cents for the current year and on this basis wants to increase the dividend again by 15 to 20 cents per share. For 2023, management even expects earnings to grow by 20 to 30 cents per share and the dividend to increase by 15 to 25 cents per share. Although, according to own statements, M+M is currently moving towards the upper end of the forecast after the strong start to the year, the company has added an explicit note to the guidance that a global escalation as a result of the Russian aggression in Ukraine could jeopardise the achievement of the target. However, M+M is not yet experiencing any negative effects of the conflict on its own business.

Estimates unchanged

As both the first quarter and the confirmed forecast were in line with our expectations, we have also left our estimates unchanged. Accordingly, we expect a gross profit growth of 9 percent to EUR 150.9 m for this year. For the next two years we assume a slight acceleration to 10 and 11 percent, respectively, after

m Euro	12 2022	12 2023	12 2024	12 2025	12 2026	12 2027	12 2028	12 2029
Sales	290.1	316.2	347.8	382.6	420.9	463.0	509.3	560.2
Sales growth		9.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
EBIT margin	13.7%	14.5%	15.5%	16.3%	17.1%	17.9%	18.6%	19.3%
EBIT	**39.9**	**45.8**	**54.0**	**62.4**	**72.0**	**82.7**	**94.8**	**108.4**
Tax rate	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%
Adjusted tax payments	12.2	14.0	16.5	19.0	22.0	25.2	28.9	33.1
NOPAT	**27.7**	**31.9**	**37.5**	**43.4**	**50.0**	**57.5**	**65.9**	**75.3**
+ Depreciation & Amortisation	4.2	4.5	4.7	4.8	4.8	4.9	4.9	4.8
+ Increase long-term accruals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross operating Cash Flows	31.9	36.4	42.2	48.2	54.9	62.3	70.8	80.2
- Increase Net Working Capital	-0.7	-0.8	-0.9	-1.0	-1.1	-1.2	-1.3	-1.5
- Investments in fixed assets	-4.7	-4.6	-4.6	-4.5	-4.5	-4.4	-4.4	-4.3
Free Cash Flows	**26.5**	**31.0**	**36.8**	**42.7**	**49.3**	**56.7**	**65.0**	**74.4**

which we expect a constant growth rate of 10.5 percent. At the end of the detailed forecast period in 2029, this results in expected sales of EUR 560 m and, on this basis, a gross profit of EUR 303 m.

Steady margin increase

Earnings estimates have also remained the same. For this year, we expect an EBIT of EUR 39.9 m, equivalent to an EBIT margin of 13.7 percent, and a net result of EUR 24.4 m or EUR 1.44 per share. This means that we are still at the lower end of the company's guidance, which may seem a little cautious after the strong Q1, but which we (still) consider appropriate against the background of the increased macroeconomic risks. As before, we also assume that M+M will be able to continue the considerable profitability progress of recent years in the future and assume a gradual improvement in the EBIT margin to 19.3 percent at the end of the detailed forecast period. The resulting model business performance for the next eight years, which we assume for determining the fair value, is summarised in the table above; further details can be found in the Annex. To determine the terminal value, we subsequently calculate, as before, with a ten percent safety discount on the target EBIT margin and, on this basis, with a "perpetual" cash flow growth of 1.0 percent p.a.

Framework data unchanged

The basic data of the model remain unchanged. We discount the free cash flows resulting from our assumptions with WACC (Weighted Average Cost of Capital) at an interest rate on borrowed capital of 4.0 percent. The cost of equity is determined using the Capital Asset Pricing Model (CAPM). Our risk-free interest rate is − at 1.0 percent − the long-term average of the German current yield and for the market risk premium we use the average value for Germany, which is currently 5.8 percent (source: Survey: Market Risk Premium and Risk-Free Rate used for 81 countries in 2020). In combination with a beta of 1.2, this results in a cost of equity of 7.7 percent. With a target debt ratio of 37,5 percent, this corresponds to a WACC rate of 5.8 percent.

Price target: EUR 71.00 per share

The model results in a fair market value of equity of EUR 1,210 m or EUR 71.32 per share, from which we derive the unchanged price target of EUR 71.00. The assessment of the forecast risk of our estimates also remains unchanged at two out of six possible points.

Conclusion

Mensch und Maschine has had a good start to the current year and was able to report new records in sales and earnings. Revenues increased by 18 percent to EUR 85.4 m, EBIT increased by 20 percent to EUR 13.4 m and net profit after taxes and minorities even increased by a quarter to EUR 8.3 m. The EBIT margin thus reached a new quarterly record of 15.7 percent, in the software segment it even exceeded the 30 percent mark for the first time at 31 percent.

The company is thus well on its way to achieving its own goals for the current year. Accordingly, the company's own forecast was confirmed, which assumes gross profit growth of 8 to 12 percent to between EUR 150 and 155 m and a further disproportionately high increase in earnings of 14 to 19 percent to between 144 and 150 cents per share.

We, too, have left our estimates unchanged and continue to calculate with figures at the lower end of the management guidance, although M+M says that it is currently still rather in the upper range of the planning. Our somewhat more cautious approach takes into account the increased macroeconomic risks (war in Ukraine, inflation). Upon enquiry, M+M reports that no significant negative effects have yet been felt, but makes its own goals subject to the condition that there is no further escalation of the conflict.

Based on the unchanged estimates, we also confirm our price target of EUR 71.00 and our previous "Strong Buy" rating.

Annex I: SWOT analysis

Strengths

- Strong position in attractive target markets established for decades.
- A fast-growing, highly profitable software segment with a global market presence and a leading technological position.
- High continuity at management level and very low employee turnover.
- Stable shareholder structure with more than 50 percent of shares in management hands.
- Solid balance sheet structure with a high equity ratio and low debt.
- Growth dynamics above the industry average, with recently a disproportionately high rise in profits.
- Previous forecast accuracy supports the target of further profit increases.

Weaknesses

- The VAR business is largely determined by Autodesk's product and pricing policy.
- The geographic expansion of the VAR business requires the expensive establishment of additional offices.
- Strong dependence on Germany and Europe.
- In both segments, M+M faces the challenge of attracting and retaining suitable employees in a difficult labour market.
- In terms of marketing, technology and personnel, there are at best only minor synergies between the segments.

Opportunities

- There is still considerable potential for margin growth in the VAR business that should allow an above-average profit development in the next few years, if the present trends continue.
- The increasing importance of digitisation projects is likely to further boost the development of the VAR business.
- With its expertise in BIM and bridge and tunnel construction, the SOFiSTiK subsidiary is addressing very promising markets.
- With the new eXs software, M+M has a modern product for an attractive market in which there is nothing comparable on offer.
- The foreseeable profit growth should allow a steady and considerable increase in dividends.

Threats

- An escalation of the Ukraine war could slow down or interrupt the positive trend.
- High personnel intensity in the VAR business means a high extent of utilisation risk in economically weaker phases.
- The targeted further increase in margins cannot be taken for granted at the level already achieved.
- Should Autodesk fall behind in competition, it could have a perceptibly negative impact on the VAR business.
- The role as technology leader requires intensive development activities in the software segment and carries the risk of technological failures.
- The current valuation reflects the expectation of dynamic earnings growth. A disappointment of this expectation could lead to significant price declines.

Annex II: Balance sheet and P&L estimation

Balance sheet estimation

m Euro	2021 act.	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e
ASSETS									
I. Total non-current assets	100.4	100.9	101.0	100.9	100.6	100.2	99.8	99.3	98.8
1. Intangible assets	65.2	64.6	64.0	63.5	62.9	62.4	61.9	61.4	60.9
2. Tangible assets	33.8	34.9	35.6	36.0	36.3	36.5	36.6	36.6	36.5
II. Total current assets	60.4	65.2	71.1	79.2	88.5	99.4	112.1	126.6	143.3
LIABILITIES									
I. Equity	92.8	100.0	106.6	115.0	124.6	135.5	148.0	162.3	178.5
II. Accruals	12.9	13.0	13.1	13.2	13.3	13.4	13.5	13.6	13.7
III. Liabilities									
1. Long-term liabilities	20.2	18.6	18.6	18.6	18.6	18.6	18.6	18.6	18.6
2. Short-term liabilities	34.9	34.5	33.9	33.2	32.7	32.2	31.8	31.5	31.3
TOTAL	**160.8**	**166.1**	**172.1**	**180.0**	**189.1**	**199.7**	**211.9**	**226.0**	**242.1**

P&L estimation

m Euro	2021 act.	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e
Sales	266.2	290.1	316.2	347.8	382.6	420.9	463.0	509.3	560.2
Gross profit	138.4	150.9	166.0	184.2	203.5	224.9	248.4	274.4	303.2
EBITDA	44.4	49.6	55.8	64.2	72.7	82.3	93.1	105.2	118.7
EBIT	34.7	39.9	45.8	54.0	62.4	72.0	82.7	94.8	108.4
EBT	33.8	39.5	45.5	53.7	62.1	71.7	82.5	94.6	108.2
EAT (before minorities)	23.9	27.4	31.6	37.3	43.2	49.8	57.3	65.8	75.2
EAT	21.3	24.4	27.9	32.8	37.7	43.2	49.4	56.3	64.0
EPS	1.26	1.44	1.65	1.93	2.22	2.55	2.91	3.32	3.77

Annex III: Cash flows estimation and key figures

Cash flows estimation

m Euro	2021 act.	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e
CF operating	37.2	36.5	40.8	46.6	52.5	59.1	66.5	74.8	84.1
CF from investments	-8.3	-4.7	-4.6	-4.6	-4.5	-4.5	-4.4	-4.4	-4.3
CF financing	-25.0	-29.7	-32.9	-36.7	-41.5	-46.7	-52.6	-59.3	-66.8
Liquidity beginning of year	16.0	20.3	22.4	25.8	31.2	37.7	45.6	55.0	66.1
Liquidity end of year	20.3	22.4	25.8	31.2	37.7	45.6	55.0	66.1	79.1

Key figures

percent	2021act.	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e
Sales growth	9.1%	9.0%	9.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Gross profit growth	8.2%	9.0%	10.0%	11.0%	10.5%	10.5%	10.5%	10.5%	10.5%
Gross margin	52.0%	52.0%	52.5%	53.0%	53.2%	53.4%	53.7%	53.9%	54.1%
EBITDA margin	16.7%	17.1%	17.7%	18.5%	19.0%	19.6%	20.1%	20.6%	21.2%
EBIT margin	13.0%	13.7%	14.5%	15.5%	16.3%	17.1%	17.9%	18.6%	19.3%
EBT margin	12.7%	13.6%	14.4%	15.4%	16.2%	17.0%	17.8%	18.6%	19.3%
Net margin (after minorities)	8.0%	8.4%	8.8%	9.4%	9.8%	10.3%	10.7%	11.1%	11.4%

Annex IV: Sensitivity analysis

	Perpetual cash flows growth				
WACC	**2.0%**	**1.5%**	**1.0%**	**0.5%**	**0.0%**
4.8%	117.61	102.55	91.46	82.95	76.22
5.3%	99.10	88.41	80.21	73.72	68.45
5.8%	85.48	77.58	**71.32**	66.24	62.04
6.3%	75.04	69.01	64.11	60.06	56.65
6.8%	66.79	62.07	58.17	54.88	52.08

Disclaimer

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Charts
The charts were made with Tai-Pan (www.lp-software.de).

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II) Preparation and updating

The present financial analysis was prepared by: Dipl. Volkswirt Dr. Adam Jakubowski

Participants in the preparation of the present financial analysis: -

The present analysis was finished on 22.04.2022 at 12:45 and published on 22.04.2022 at 13:15.

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Strong Buy	We expect an increase in price for the analysed financial instrument by at least 10 percent. We assess the estimation risk as below average (1 to 2 points).
Buy	We expect an increase in price for the analysed financial instrument by at least 10 percent. We assess the estimation risk as average (3 to 4 points).
Speculative Buy	We expect an increase in price for the analysed financial instrument by at least 10 percent. We assess the estimation risk as above average (5 to 6 points).

Hold	We expect that the price of the analysed financial instrument will remain stable (between -10 and +10 percent). The forecast risk (1 to 6 points) has no further impact on the rating. The rating "hold" is also used in cases where we perceive a price potential of more than 10 percent, but explicitly mentioned temporary factors prevent a short-term realization of the price potential.
Sell	We expect that the price of the analysed financial instrument will drop by at least 10 percent. The forecast risk (1 to 6 points) has no further impact on the rating.

The expected change in price refers to the current share price of the analyzed company. This price and any other share prices used in this analysis are XETRA closing prices as of the last trading day before publication. If the share is not traded on XETRA, the closing price of another public stock exchange is used with a separate note to that effect.

The price targets published within the assessment are calculated with common methods of financial mathematics, especially with the DCF (discounted cash flow) method, the sum of the parts valuation and a peer group analysis. The valuation methods are affected by economic framework conditions, especially by the development of the interest rates.

The rating resulting from these methods reflects current expectations and can change anytime subject to company-specific or economic changes.

More detailed explanations of the models used by SMC Research can be found at:
http://www.smc-research.com/impressum/modellerlaeuterungen

An overview of the recommendations prepared and distributed by SMC Research in the last 12 months can be found at: http://www.smc-research.com/publikationsuebersicht

In the past 24 months, sc-consult GmbH has published the following financial analyses for the company:

Date	Investment recomm.	Target price	Conflict of interests
23.03.2022	Strong Buy	71.00 Euro	1), 3), 4)
11.02.2022	Strong Buy	73.40 Euro	1), 3)
25.10.2021	Strong Buy	70.00 Euro	1), 3), 4)
05.08.2021	Strong Buy	68.00 Euro	1), 3), 4)
23.04.2021	Hold	63.70 Euro	1), 3)
16.03.2021	Strong Buy	63.40 Euro	1), 3)
12.02.2021	Hold	62.70 Euro	1), 3), 4)
22.10.2020	Hold	52.30 Euro	1), 3), 4)
18.09.2020	Buy	52.20 Euro	1), 3), 4)
24.07.2020	Hold	50.50 Euro	1), 3)
22.04.2020	Buy	50.00 Euro	1), 3), 4)

In the course of the next twelve months, sc-consult GmbH will presumably prepare the following financial analyses for the company: one report and two updates.

The publishing dates for the financial analyses are not yet fixed at the present moment.

Exclusion of liability

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