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Research update

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Mensch und Maschine Software SE

High expectations exceeded

Rating: Strong Buy (unchanged) | **Price:** 50.10 € | **Price target:** 63.60 € (prev.: 61.70 €)

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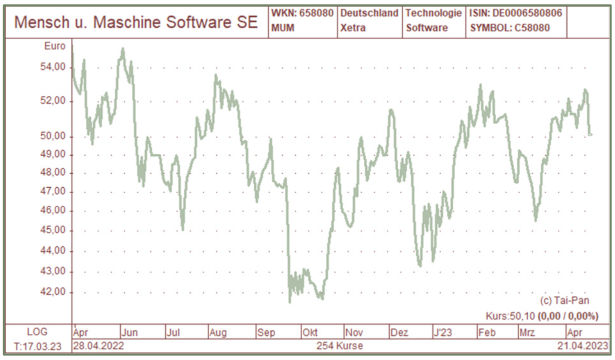
Recent business development



Basic data

Based in:	Wessling
Sector:	CAD/CAM software
Headcount:	1,042
Accounting:	IFRS
ISIN:	DE0006580806
Ticker:	MUM:GR
Price:	50.10 Euro
Market segment:	Scale / m:access
Number of shares:	17.2 m
Market Cap:	859.2 m Euro
Enterprise Value:	920.4 m Euro
Free Float:	45.3%
Price high/low (12M):	56.90 / 40.25 Euro
Ø turnover (Xetra, 12 M):	280,100 Euro / day

Mensch und Maschine started the year with high momentum and reported new records in sales and earnings. Sales increased by 21 percent to EUR 103.1 m, exceeding the EUR 100 m mark for the first time on a quarterly basis. EBIT and net profit increased by around 18 percent to EUR 15.8 m and EUR 9.7 m respectively. While profit growth was thus, as an exception, disproportionately low (which is likely to be reversed in the further course of the year as the composition of sales changes again), there was an exceptionally strong jump in operating cash flow of 111 percent to EUR 24.6 m. As a result, almost a quarter of quarterly sales remained as a cash surplus. Even if the picture will return to normal in the coming quarters, the cash flow development illustrates the high earnings quality of the business model. After the first quarter, which was slightly better than we had expected, the forecast for the full year appears to be well within reach. After the experience of recent years, in which M+M has fulfilled its own forecasts with an exceptionally high degree of reliability despite all external crises, this also applies to the medium-term goal of a renewed doubling of profits.

FY ends: 31.12.	2020	2021	2022	2023e	2024e	2025e
Sales (m Euro)	244.0	266.2	320.5	330.1	363.1	399.4
EBIT (m Euro)	31.0	34.7	42.6	48.0	55.3	63.7
Net Profit	18.7	21.3	26.0	28.8	33.4	38.4
EPS	1.11	1.26	1.55	1.73	2.00	2.30
Dividend per share	1.00	1.20	1.40	1.62	1.88	2.12
Sales growth	-0.8%	9.1%	20.4%	3.0%	10.0%	10.0%
Profit growth	12.3%	13.9%	22.1%	10.6%	16.0%	14.9%
PSR	3.42	3.14	2.61	2.53	2.30	2.09
PER	44.6	39.2	32.1	29.0	25.0	21.8
PCR	24.8	22.4	21.4	18.2	16.7	15.4
EV / EBIT	28.8	25.8	21.0	18.6	16.2	14.0
Dividend yield	2.0%	2.4%	2.8%	3.2%	3.8%	4.2%

Revenue growth above 20 percent

Mensch und Maschine generated sales of EUR 103.1 m in the first quarter, an increase of 21 percent compared to the previous year. Broken down into the two segments, the dynamics in the VAR business were somewhat stronger at +22 percent to EUR 74.0 m, but the software business also recorded strong growth with 18 percent (to EUR 29.1 m). Upon request, the company reports a particularly strong growth in the CAM business as well as in the trade with Autodesk licences, where once again the end of the discount for the three-year licences has proved to be a strong sales driver.

Weaker gross margin

The strong increase in revenue from the renewal of Autodesk licences was reflected in a drop in the gross margin in the VAR business from 31.9 to 28.7 percent. Since the same pull-forward effect with Autodesk licences also took effect at the subsidiary SOFiSTiK, whose software is based on Autodesk products and therefore also requires corresponding licences, the gross margin of the Software segment also decreased from 91.2 percent in the previous year to 88.8 percent. Together with the shift in sales composition towards the VAR business, this resulted in a decline in the group gross margin by 3.3 percentage points to 45.7 percent. Overall, however, both segments were able to significantly increase gross profit: the VAR business by 10 percent to EUR 21.3 m and the Software division by 15 percent to EUR 25.8 m, so that consolidated gross profit increased by 13 percent to EUR 47.1 m.

Personnel expense ratio decreased further

In relation to this, the growth in personnel expenses was about a quarter lower (+10 percent to EUR 25.4 m), which mainly reflects the increased salaries. On the other hand, M+M was able to limit the headcount growth to less than 3 percent (to 1,042 FTE) despite the noticeably higher business volume. Depreciation and amortisation also increased at a much slower rate than gross profit, namely by just over 1 percent to EUR 2.4 m, while the increase in other operating expenses of 18 percent to EUR 4.5 m was higher than that of gross profit. However, other operating expenses have not increased significantly since Q2 2022 and were actually lower compared to Q3 and Q4 2022. In view of the highly inflationary environment, this is remarkable, and the company explains it upon inquiry with tighter cost discipline, especially in the areas of marketing, travel and IT.

Business figures	Q1 2022	Q1 2023	*Change*
Sales	85.41	103.06	*+20.7%*
VAR business	60.73	73.96	*+21.8%*
Software	24.68	29.10	*+17.9%*
Gross profit	41.85	47.09	*+12.5%*
VAR business	19.35	21.25	*+9.8%*
Software	22.51	25.84	*+14.8%*
Gross margin	*49.0%*	*45.7%*	
EBIT	13.38	15.81	*+18.1%*
VAR business	5.73	6.62	*+15.6%*
Software	7.66	9.19	*+20.0%*
EBIT margin	*15.7%*	*15.3%*	
VAR business	*9.4%*	*8.9%*	
Software	*31.0%*	*31.6%*	
EBT	13.20	15.40	*+16.7%*
EBT margin	*15.5%*	*14.9%*	
Net profit	8.21	9.66	*+17.7%*
Net margin	*9.6%*	*9.4%*	
Free cash flow	10.85	23.33	*+115.0%*

In m Euro and percent, source: Company

EBIT margin slightly lower

Overall 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 18 percent to EUR 15.8 m, with growth in the VAR business of 16 percent being slightly weaker this time than in the Software segment (+20 percent). As a result of the lower gross margin, the EBIT margins in the VAR business and also at group level fell slightly to 8.9 percent and 15.3 percent respectively, while in the software business a new record figure of 31.6 percent was set.

Interest expense higher at low level

With a deterioration in the financial result from under EUR -0.2 m to EUR -0.4 m due to higher interest rates and the increased use of credit lines around the turn of the year to pre-finance the strongly growing business with Autodesk licences, the pre-tax profit increased by 17 percent to EUR 15.4 m. Less income taxes (EUR 4.7 m) and minority interests, the net profit increased by 18 percent to EUR 9.7 m.

Outstanding cash flow

The cash flow for the first quarter was outstanding. Driven by the high sales growth and the reduction in the high receivables that had existed at the end of 2022 due to the strong year-end business, operating cash flow more than doubled to EUR 24.6 m compared to the previous year. As a result, cash flow corresponded to almost a quarter of the revenue generated in Q1. Less payments for investments of EUR -1.3 m, free cash flow of EUR 23.3 m was generated in the first three months of the year, 115 percent more than a year ago.

High net redemption

About one third of it was used for financing purposes, of which the largest item was the repayment of loans in the amount of EUR 5.5 m. Share buybacks, on the other hand, for which M+M had used almost EUR 8 m at the beginning of 2022, were not made in the quarter under review. Overall, the balance sheet liquidity increased from EUR 24.4 m to EUR 40.1 m in the first three months, which means that the liquid funds represent one fifth of the balance sheet total of EUR 196.4 m.

Comfortable balance sheet figures

Less financial liabilities, M+M thus has a net liquidity of EUR 21 m. Even taking into account the leasing obligations carried as liabilities, cash and cash equivalents exceed financial liabilities by EUR 10.2 m. Even if part of the liquidity is earmarked for the payment of the announced dividend of EUR 1.40 per share (the exact amount of the distribution depends on the extent to which the shareholders will take advantage of the stock dividend option), this represents a very good value. The same applies to equity, which increased in the first quarter by 12 percent to EUR 96.0 m or 48.9 percent of the balance sheet total.

Forecasts confirmed

For the current year, Mensch und Maschine continues to target EpS growth to between 164 and 181 cents per share, maintaining the two-year guidance for 2022 and 2023 formulated already at the beginning of 2022, which envisages average earnings growth of 14 to 20 percent over this period. On this basis, the dividend is to be increased from EUR 1.40 per share to between EUR 1.55 and EUR 1.65 this year. The outlook for 2024 (EpS +14 to +20 percent and a further dividend increase of 15 to 25 cents) and the objective of doubling earnings by 2026/27 to more than EUR 3.00 per share were also confirmed.

Sales estimate slightly higher

Since the first quarter was slightly above our expectations and M+M also acknowledged in the earning call that the negative follow-up effect of last year's special boom in the Autodesk business could turn out somewhat more moderate due to a slightly modified pricing strategy of the American partner, we have slightly raised our revenue and gross profit estimate for this year. Whereas we have previously expected sales to remain unchanged at EUR 321 m, we now believe that M+M will grow slightly by 3 percent to EUR 330 m. With a gross profit margin increasing again in the course of the year (due to the changed sales composition), this corresponds to an estimate of gross profit growth of 8.6 percent to EUR 174.9 m. With unchanged growth assumptions for the following years, the entire sales projection has shifted slightly upwards, with target sales for 2030 now at EUR 643 m (previously: EUR 625 m).

Steady margin increase

As before, in line with the company's forecasts for the coming years, we expect a disproportionately strong earnings growth, which is now also at a slightly higher level due to the higher sales estimates. For this year, we estimate EBIT at EUR 48.0 m and net profit at EUR 28.8 m (previously: EUR 47.3 m and EUR 28.4

m Euro	12 2023	12 2024	12 2025	12 2026	12 2027	12 2028	12 2029	12 2030
Sales	330.1	363.1	399.4	439.4	483.3	531.6	584.8	643.3
Sales growth		10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
EBIT margin	14.5%	15.2%	15.9%	16.7%	17.4%	18.1%	18.7%	19.3%
EBIT	**48.0**	**55.3**	**63.7**	**73.2**	**84.0**	**96.2**	**109.3**	**124.1**
Tax rate	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%
Adjusted tax payments	14.6	16.9	19.4	22.3	25.6	29.3	33.3	37.8
NOPAT	**33.3**	**38.4**	**44.2**	**50.9**	**58.4**	**66.8**	**76.0**	**86.2**
+ Depreciation & Amortisation	4.2	4.7	5.2	5.6	5.9	6.3	6.6	6.9
+ 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 Flow	37.5	43.2	49.4	56.4	64.3	73.1	82.5	93.1
- Increase Net Working Capital	3.3	1.4	-0.7	-0.8	-0.9	-1.0	-1.2	-1.3
- Investments in fixed assets	-5.6	-5.9	-6.1	-6.4	-6.7	-7.0	-7.3	-7.6
Free Cash Flow	**35.2**	**38.7**	**42.6**	**49.3**	**56.7**	**65.1**	**74.1**	**84.1**

m respectively), while the target EBIT margin for 2030 remains unchanged at 19.3 percent. 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.

WACC rate unchanged

We have left the discount rate unchanged this time: based on equity costs of 9.5 percent (with: risk-free interest 2.5 percent, risk premium 5.8 percent, beta factor 1.2) and a target debt ratio of 40 percent, borrowing costs of 5.0 percent and a tax rate for the tax shield of 33 percent, the weighted cost of capital (WACC) of our model is 7.0 percent.

Price target: EUR 63.60 per share

The model results in a fair market value of equity of EUR 1,060 m or EUR 63.56 per share, from which we derive the slightly increased price target of EUR 63.60. The assessment of the forecast risk of our estimates remains unchanged at two out of six possible points.

Conclusion

As in the previous year and 2020, Mensch und Maschine started the year with a new record quarter. Thanks to the high dynamics in both segments, sales grew by 21 percent and, at EUR 103.1 m, exceeded the EUR 100 m mark for the first time on a quarterly basis. As growth was fuelled to a particularly large extent by the low-margin Autodesk licence renewal business, which was reflected in a 3.3 percentage points lower gross margin, the increase in profit did not quite keep pace with revenue. However, with an increase of around 18 percent in EBIT (to EUR 15.8 m) and net profit (to EUR 9.7 m), a significant improvement in earnings was nevertheless achieved. The development of operating cash flow, which more than doubled to EUR 24.6 m and thus amounted to almost a quarter of quarterly revenue, was especially spectacular this time.

The forecast for this year, to increase earnings per share from EUR 1.55 to between EUR 1.64 and EUR 1.81, thus seems very well supported: the difference of 9 cents required to reach the lower edge of the target range has already been achieved by M+M in the first three months. We have therefore raised our estimates slightly and expect a profit per share of EUR 1.73 for 2023, which we believe is still conservative.

As a result of this and the resulting upward shift in estimates for subsequent years, our price target has increased to EUR 63.60 (previously: EUR 61.70). Thus, we currently see a high price potential of around 25 percent for the share. Together with the positive overall impression and the, in our opinion, only below-average estimation uncertainty, this continues to justify the "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.
- Remarkable 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

- A further escalation of the Russian aggression or a deep recession in Europe 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, especially in the software segment 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.

Annex II: Balance sheet and P&L estimation

Balance sheet estimation

m Euro	2022 act.	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e
ASSETS									
I. Total non-current assets	102.7	104.1	105.3	106.2	107.0	107.8	108.5	109.3	110.0
1. Intangible assets	67.8	67.3	66.8	66.3	65.8	65.4	64.9	64.5	64.0
2. Tangible assets	33.8	35.7	37.3	38.7	40.1	41.3	42.5	43.6	44.8
II. Total current assets	84.7	83.9	87.1	91.8	98.8	107.4	119.4	135.4	153.5
LIABILITIES									
I. Equity	85.8	92.3	100.6	110.0	121.4	134.2	148.7	164.9	183.1
II. Accruals	13.4	13.8	14.3	14.7	15.2	15.7	16.1	16.6	17.1
III. Liabilities									
1. Long-term liabilities	24.4	22.4	20.5	18.5	16.6	13.6	11.5	11.5	11.5
2. Short-term liabilities	63.9	59.4	57.0	54.8	52.6	51.7	51.7	51.7	51.9
TOTAL	**187.4**	**188.0**	**192.4**	**198.0**	**205.9**	**215.2**	**228.0**	**244.6**	**263.5**

P&L estimation

m Euro	2022 act.	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e
Sales	320.5	330.1	363.1	399.4	439.4	483.3	531.6	584.8	643.3
Gross profit	161.1	174.9	193.3	213.6	235.9	260.7	287.9	317.5	350.1
EBITDA	52.7	57.9	65.8	74.6	84.5	95.7	108.2	121.6	136.7
EBIT	42.6	48.0	55.3	63.7	73.2	84.0	96.2	109.3	124.1
EBT	41.5	46.8	54.6	63.2	72.9	83.9	96.3	109.6	124.5
EAT (before minorities)	28.9	32.5	38.0	43.9	50.7	58.3	66.9	76.2	86.5
EAT	26.0	28.8	33.4	38.4	44.0	50.3	57.4	64.9	73.2
EPS	1.55	1.73	2.00	2.30	2.64	3.02	3.44	3.89	4.39

Annex III: Cash flows estimation and key figures

Cash flows estimation

m Euro	2022 act.	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e
CF operating	39.1	45.8	49.9	54.2	61.2	69.1	77.9	87.3	97.8
CF from investments	-6.1	-5.6	-5.9	-6.1	-6.4	-6.7	-7.0	-7.3	-7.6
CF financing	-28.4	-37.8	-41.5	-46.3	-50.9	-57.2	-62.4	-67.9	-76.1
Liquidity beginning of year	20.0	24.4	26.7	29.2	31.0	34.9	40.1	48.6	60.7
Liquidity end of year	24.4	26.7	29.2	31.0	34.9	40.1	48.6	60.7	74.8

Key figures

percent	2022 act.	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e
Sales growth	20.4%	3.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Gross profit growth	16.4%	8.6%	10.5%	10.5%	10.5%	10.5%	10.5%	10.3%	10.3%
Gross margin	50.3%	53.0%	53.2%	53.5%	53.7%	53.9%	54.2%	54.3%	54.4%
EBITDA margin	16.4%	17.6%	18.1%	18.7%	19.2%	19.8%	20.3%	20.8%	21.3%
EBIT margin	13.3%	14.5%	15.2%	15.9%	16.7%	17.4%	18.1%	18.7%	19.3%
EBT margin	13.0%	14.2%	15.0%	15.8%	16.6%	17.4%	18.1%	18.7%	19.4%
Net margin (after minorities)	8.1%	8.7%	9.2%	9.6%	10.0%	10.4%	10.8%	11.1%	11.4%

Annex IV: Sensitivity analysis

	Perpetual cash flows growth				
WACC	**2.0%**	**1.5%**	**1.0%**	**0.5%**	**0.0%**
6.0%	92.37	84.21	77.68	72.33	67.87
6.5%	81.43	75.13	69.97	65.67	62.03
7.0%	72.68	67.71	**63.56**	60.05	57.04
7.5%	65.53	61.53	58.14	55.24	52.72
8.0%	59.57	56.31	53.51	51.08	48.95

Disclaimer

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

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9) At the time of the publication of the report, the issuer holds holdings exceeding 5 % of its total issued share capital in the sc-consult GmbH

10) sc-consult GmbH has included the company's shares in a virtual portfolio managed by sc-consult GmbH

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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 24.04.2023 at 8:50 and published on 24.04.2023 at 9:15.

For the preparation of its financial analyses, the sc-consult GmbH uses a five-tier rating scheme with regard to price expectation in the next twelve months. Additionally, estimation risk is quantified on a scale from 1 (low) to 6 (high). The ratings are as follows:

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:
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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
17.03.2023	Strong Buy	61.70 Euro	1), 3)
13.02.2023	Strong Buy	62.30 Euro	1), 3)
26.10.2022	Strong Buy	66.50 Euro	1), 3), 4)
27.07.2022	Strong Buy	65.00 Euro	1), 3), 4)
22.04.2022	Strong Buy	71.00 Euro	1), 3)
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)

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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