August 1st, 2023
Research update

SMC Research
Small and Mid Cap Research

Platz 1 Europe Industrials (2018) | Platz 2 German Software & IT (2018) | Platz 1 German Software & IT (2017)
Mehrfacher Gewinner der renommierten Refinitiv Analyst Awards

Mensch und Maschine Software SE

EBIT margin over 15 percent

Rating: Strong Buy (unchanged) | **Price:** 53.90 € | **Price target:** 66.00 € (prev.: 63.60 €)

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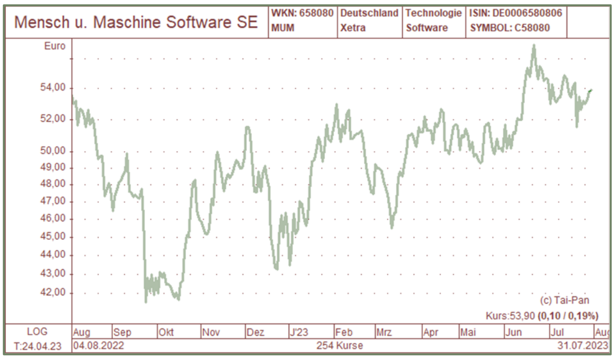
Current development



Basic data

Based in:	Wessling
Sector:	CAD/CAM software
Headcount:	1,046
Accounting:	IFRS
ISIN:	DEDE0006580806
Ticker:	MUM:GR
Price:	53.90 Euro
Market segment:	Scale / m:access
Number of shares:	17.2 m
Market Cap:	924.3 m Euro
Enterprise Value:	1,000.7 m Euro
Free float:	45.6 %
Price high/low (12M):	57.80 / 40.25 Euro
Ø turnover (Xetra,12M):	218,900 Euro / day

Sales up 11 percent in the first half-year

After the strong start to the year for Mensch und Maschine, in which the end of the discount for the three-year contracts had ensured strong growth in the trade with Autodesk software, this very business now turned out weaker in the second quarter (as expected and announced) and was largely responsible for a decline in VAR business sales of almost 3 percent to EUR 45.8 m. In combination with the continued growth of the software division (+6 percent to EUR 25.5 m), this resulted in almost unchanged quarterly sales of EUR 71.3 m at group level compared to the previous year. In total for the first six months, however, M+M has again grown strongly, by 11.4 percent to EUR 174.4 m. The dynamics were almost equally strong in both segments with 11.9 percent (to EUR 54.6 m) in the software segment and 11.1 percent (to EUR 119.8 m) in the VAR business.

Gross margin stronger again in Q2

The strong fluctuations in trading revenue with Autodesk software were clearly reflected in the development of the gross margin in both the VAR business and the group. In the VAR business, where it had

FY ends: 31.12.	2020	2021	2022	2023e	2024e	2025e
Sales (m Euro)	244.0	266.2	320.5	335.1	368.6	405.5
EBIT (m Euro)	31.0	34.7	42.6	49.5	57.0	65.5
Net Profit	18.7	21.3	26.0	29.7	34.4	39.5
EPS	1.11	1.26	1.55	1.76	2.04	2.34
Dividend per share	1.00	1.20	1.40	1.65	1.90	2.15
Sales growth	-0.8%	9.1%	20.4%	4.6%	10.0%	10.0%
Profit growth	12.3%	13.9%	22.1%	14.2%	15.8%	14.8%
PSR	3.72	3.41	2.83	2.71	2.46	2.24
PER	48.5	42.6	34.9	30.6	26.4	23.0
PCR	26.9	24.4	23.2	19.4	17.8	16.4
EV / EBIT	31.7	28.3	23.1	19.9	17.3	15.0
Dividend yield	1.9%	2.2%	2.6%	3.1%	3.5%	4.0%

fallen to just 28.7 percent in the first quarter, it recovered in the subsequent three months to 38.1 percent, its highest level since the end of 2017. At group level, it ranged from 45.7 percent in Q1 to 57.4 percent in the period April to June. Smoothed over the full six months, the gross margin decreased slightly by 0.6 percentage points to 50.5 percent compared to the previous year. In absolute terms, half-year gross profit nevertheless increased significantly by 10 percent to EUR 88.1 m, with the increase in the software segment of 11 percent (to EUR 49.4 m) being somewhat disproportionately high. But the gross profit in the VAR business also increased in both the second quarter and the first half of the year.

Business figures	HY 2022	HY 2023	*Change*
Sales	156.59	174.38	*+11.4%*
VAR business	107.82	119.80	*+11.1%*
Software	48.77	54.58	*+11.9%*
Gross profit	80.03	88.06	*+10.0%*
VAR business	35.61	38.69	*+8.7%*
Software	44.43	49.37	*+11.1%*
Gross margin	*51.1%*	*50.5%*	-
EBIT	22.70	26.33	*+16.0%*
VAR business	8.97	10.12	*+12.8%*
Software	13.73	16.21	*+18.0%*
EBIT margin	*14.5%*	*15.1%*	-
VAR business	*8.3%*	*8.4%*	-
Software	*28.2%*	*29.7%*	-
EBT	22.27	25.39	*+14.0%*
EBT margin	*14.2%*	*14.6%*	-
Net profit	14.12	16.14	*+14.3%*
Net margin	*9.0%*	*9.3%*	-
Free cash flow	22.09	28.76	*+30.2%*

In m Euro and percent, source: Company

Moderate cost growth

Once again, the growth in gross profit was accompanied by a disproportionately low increase in costs. Although other operating expenses increased somewhat more strongly by 13 percent to EUR 9.2 m, personnel expenses, by far the most important cost type, increased by almost 8 percent (to EUR 49.9 m), much less than gross profit. The increase reflects the rise in the number of employees by 2 percent to 1,046 full-time equivalents, while the noticeable acceleration of wage growth feared in many quarters is currently hardly visible at M+M. The moderate decrease in depreciation and amortisation, which fell by half a percent to less than EUR 4.9 m, also had a noticeable margin-increasing effect.

EBIT margin over 15 percent

In terms of earnings, the development was reflected in clearly disproportionately high profit increases. Specifically, EBIT increased by almost 16 percent to a new half-year record of EUR 26.3 m, of which EUR 16.2 m were contributed by the Software segment and EUR 10.1 m by the VAR business. As a result, the EBIT margin in both segments was further improved: While it increased by 1.5 percentage points to 29.7 percent in the Software segment, a slight improvement of 0.1 percentage points to 8.4 percent was achieved in the VAR business. As a result, the group EBIT margin increased to 15.1 percent (previous year: 14.5 percent), exceeding the 15 percent mark for the first time on a half-year basis.

Half-year result improved by 14 percent

With a deterioration in the financial result from EUR -0.4 m to EUR -0.9 m, which M+M explained upon enquiry primarily with currency fluctuations, the pre-tax profit increased by 14 percent to EUR 25.4 m. Half-year net profit after taxes and minority interests also increased by 14 percent to EUR 16.1 m, equivalent to a net margin of 9.3 percent (previous year: 9.0 percent).

Excellent cash flow figures

Supported by the increase in profits and a significant reduction in net working capital (cash flow effect: EUR +4.3 m, previous year: EUR -0.3 m), the operating cash flow improved strongly and increased by 29 percent to the new record figure of EUR 31.6 m. M+M has thus been able to report 18.1 percent of half-year sales as an operating cash surplus and has thus remained in the double-digit range for the fifth time in a row (on a half-year basis). After outflows of EUR 2.8 m for investment purposes, which increased by 17 percent compared to the same period last year, free cash flow amounted to EUR 28.8 m – over 30 percent more than a year ago. M+M used this high inflow primarily for dividend payments to its own shareholders (EUR 23.3 m) and to other shareholders (EUR 1.7 m) as well as for loan repayment (EUR 10.9 m), resulting in a financing cash flow of EUR -30.7 m (previous year: EUR -20.1 m). Netted against the free cash flow, liquidity in the first half of the year thus decreased by EUR 2.0 m to EUR 24.4 m.

Equity ratio significantly higher

However, in relation to the balance sheet total, which has decreased significantly by 11 percent to EUR 167.1 m since the turn of the year, liquidity has increased slightly from 13.0 to 13.4 percent. On the other hand, there has been an increase in equity. It benefited for one thing from the high half-year result and for another from the issue of part of the treasury shares as part of the stock dividend and, despite the high dividend payment, increased by EUR 1.2 m to EUR 86.9 m, which corresponds to an equity ratio improved from 45.7 to 52.0 percent. In addition, the treasury shares, of which 0.3 million (1.8 percent of the subscribed capital) with an acquisition value of EUR 12.5 m were held by M+M as of 30 June, represent an easily mobilisable equity reserve on a considerable scale.

Forecast confirmed

Based on the half-year figures, M+M has confirmed its profit forecast for the current year. Accordingly, it 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 envisaged 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. 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.

Estimates slightly increased again

Although sales growth in the second quarter was weaker, as announced, M+M was again able to convince in terms of earnings. Overall, the figures were even slightly above our expectations, which is why we have now raised our estimates slightly. We now expect this year's sales to be EUR 335 m (previously: EUR 330 m), and thus assume a top-line growth of 4.6 percent. In contrast, the estimate of gross profit remained unchanged at EUR 174.9 m euros because we have slightly lowered the assumed gross margin. However, the most important change concerns the personnel expense ratio, which continued to decline in the first half of the year despite inflationary trends, while we had expected an increase. The lower dynamics of personnel expenses now applied in the model have contributed significantly to the fact that our EBIT estimate has increased from previously EUR 48 m to EUR 49.5 m. This now corresponds to net profit of EUR 29.7 m or EUR 1.76 per share (previously: EUR 1.73), which means that we still remain within the company's guidance.

Target margin now at 19.5 percent

The changes in the estimates for 2023 have also affected the estimates for the following years. With unchanged growth assumptions, we now see our model's target revenue for 2030 at EUR 653 m (previously: EUR 643 m), while the target EBIT margin has increased slightly from 19.3 to 19.5 percent. The table below shows the overall model business development resulting from our assumptions for the years 2023 to 2030; detailed overviews of the estimates for balance sheet, income statement and cash flows statement can be found in the Annex.

Frame parameters unchanged

The framework data of the model have remained the same. The cost of equity is calculated according to CAPM on the basis of a safe interest rate of 2.5 percent, a market risk premium of 5.8 percent and a beta factor of 1.2 and amounts to 9.5 percent. The assumed interest rate on borrowed capital is 5.0 percent, which, in conjunction with a debt ratio on the target capital structure of 40 percent and a tax rate for the

m Euro	12 2023	12 2024	12 2025	12 2026	12 2027	12 2028	12 2029	12 2030
Sales	335.1	368.6	405.5	446.0	490.6	539.7	593.6	653.0
Sales growth		10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
EBIT margin	14.8%	15.5%	16.2%	16.9%	17.6%	18.3%	18.9%	19.5%
EBIT	**49.5**	**57.0**	**65.5**	**75.2**	**86.2**	**98.6**	**112.0**	**127.1**
Tax rate	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%
Adjusted tax payments	15.1	17.4	20.0	22.9	26.3	30.1	34.2	38.8
NOPAT	**34.4**	**39.6**	**45.5**	**52.3**	**59.9**	**68.6**	**77.9**	**88.3**
+ Depreciation & Amortisation	4.2	4.8	5.2	5.6	6.0	6.3	6.7	7.0
+ 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	38.6	44.4	50.8	57.9	65.9	74.9	84.5	95.3
- Increase Net Working Capital	3.3	1.4	-0.7	-0.8	-0.9	-1.0	-1.2	-1.4
- Investments in fixed assets	-5.7	-6.0	-6.2	-6.5	-6.8	-7.1	-7.4	-7.8
Free Cashflow	**36.2**	**39.8**	**43.9**	**50.6**	**58.2**	**66.8**	**75.9**	**86.2**

SMC estimation model

tax shield of 33.0 percent, results in a total cost of capital (WACC) of 7.0 percent. The basic parameters for determining the terminal value, which continues to be based on EBIT at the end of the detailed forecast period less a safety margin of 10 percent and on a "perpetual" cash flow growth rate of 1.0 percent, have also remained unchanged.

New price target: EUR 66.00

The assumptions result in a fair value of equity of EUR 1,112 m or EUR 66.02 per share, from which we derive the slightly increased price target of EUR 66.00 (previously: EUR 63.60; a sensitivity analysis for determining the price target can be found in the Annex). The increase is largely due to the raised estimates. Finally, the assessment of the forecast risk of our estimates remains unchanged, for which we continue to award two points on a scale of 1 (low) to 6 (high).

Conclusion

Due to the end of the special boom in the business with the renewal of three-year Autodesk contracts, the sales of the second quarter hardly grew compared to the previous year. In terms of earnings, however, M+M was able to continue its growth and record course, so that after six months the books show an increase in EBIT of 16 percent to EUR 26.3 m and a net profit of EUR 16.1 m (+14.3 percent).

With these figures, Mensch und Maschine sees its own guidance for the full year (an EpS growth to 164 to 181 cents per share) supported, while we have again slightly raised our estimates. We now expect sales to grow by almost 5 percent to EUR 335 m in 2023 and earnings of EUR 1.76 per share.

As a result of this and the resulting upward shift in estimates for subsequent years, our price target has increased to EUR 66.00 (previously: EUR 63.60). We therefore continue to see a high price potential of over 20 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	104.2	105.4	106.4	107.3	108.1	108.8	109.6	110.4
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	35.8	37.5	38.9	40.3	41.6	42.8	44.0	45.2
II. Total current assets	84.7	84.8	88.1	92.8	100.0	108.7	121.1	137.4	155.9
LIABILITIES									
I. Equity	85.8	93.4	101.9	111.5	123.2	136.2	151.1	167.6	186.3
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	20.4	18.4	16.4	13.4	11.2	11.2	11.2
2. Short-term liabilities	63.9	59.4	57.0	54.7	52.5	51.6	51.5	51.6	51.8
TOTAL	**187.4**	**189.0**	**193.5**	**199.2**	**207.3**	**216.8**	**229.9**	**246.9**	**266.3**

P&L estimation

m Euro	2022 act.	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e
Sales	320.5	335.1	368.6	405.5	446.0	490.6	539.7	593.6	653.0
Gross profit	161.1	174.9	193.3	213.6	236.0	260.8	288.1	317.7	350.3
EBITDA	52.7	59.5	67.5	76.5	86.6	98.0	110.7	124.5	139.8
EBIT	42.6	49.5	57.0	65.5	75.2	86.2	98.6	112.0	127.1
EBT	41.5	48.3	56.3	65.1	74.9	86.2	98.8	112.4	127.6
EAT (before minorities)	28.9	33.6	39.2	45.2	52.1	59.9	68.7	78.1	88.6
EAT	26.0	29.7	34.4	39.5	45.2	51.7	58.9	66.5	75.0
EPS	1.55	1.76	2.04	2.34	2.68	3.07	3.49	3.95	4.45

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	46.9	51.1	55.5	62.7	70.7	79.7	89.3	100.0
CF from investments	-6.1	-5.7	-6.0	-6.2	-6.5	-6.8	-7.1	-7.4	-7.8
CF financing	-28.4	-37.9	-42.6	-47.5	-52.2	-58.6	-63.9	-69.5	-77.9
Liquidity beginning of year	20.0	24.4	27.6	30.1	31.9	36.0	41.3	50.1	62.5
Liquidity end of year	24.4	27.6	30.1	31.9	36.0	41.3	50.1	62.5	76.9

Key figures

percent	2022 act.	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e
Sales growth	20.4%	4.6%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Gross profit growth	16.4%	8.5%	10.5%	10.5%	10.5%	10.5%	10.5%	10.3%	10.3%
Gross margin	50.3%	52.2%	52.4%	52.7%	52.9%	53.1%	53.4%	53.5%	53.6%
EBITDA margin	16.4%	17.8%	18.3%	18.9%	19.4%	20.0%	20.5%	21.0%	21.4%
EBIT margin	13.3%	14.8%	15.5%	16.2%	16.9%	17.6%	18.3%	18.9%	19.5%
EBT margin	13.0%	14.4%	15.3%	16.0%	16.8%	17.6%	18.3%	18.9%	19.5%
Net margin (after minorities)	8.1%	8.9%	9.3%	9.7%	10.1%	10.5%	10.9%	11.2%	11.5%

Annex IV: Sensitivity analysis

	Perpetual cash flows growth				
WACC	**2.0%**	**1.5%**	**1.0%**	**0.5%**	**0.0%**
6.0%	95.58	87.15	80.39	74.87	70.26
6.5%	84.41	77.89	72.55	68.10	64.33
7.0%	75.47	70.31	**66.02**	62.38	59.25
7.5%	68.16	64.01	60.49	57.48	54.87
8.0%	62.08	58.68	55.77	53.24	51.03

Disclaimer

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

Disclaimer

Legal disclosures (§85 of the German Securities Trading Act (WHPG), MAR, Commission Delegated Regulation (EU) 2016/958 supplementing Regulation (EU) No 596/2014)

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2) sc-consult GmbH has prepared this report against payment on behalf of a third party

3) sc-consult GmbH has submitted this report to the customer or the company before publishing

4) sc-consult GmbH has altered the content of the report before publication due to a suggestion of the customer or the company (with sc-consult GmbH being prepared to carry out such an alteration only in case of reasoned objections concerning the quality of the report)

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7) At the time of the publication of the report, sc-consult GmbH or persons involved in the preparation of the report are in the possession of a net short position exceeding a threshold 0.5% of the total issued share capital of the issuer, which was calculated in accordance with the article 3 of the regulation (EU) No. 236/2012 and with chapters III and IV of the Commission Delegated Regulation (EU) No. 918/2012 (6).

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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

Following conflicts of interests occurred in this report: 1), 3), 4)

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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 01.08.2023 at 8:05 and published on 01.08.2023 at 8:35.

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:
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
24.04.2023	Strong Buy	63.60 Euro	1), 3)
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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