

February 9th, 2024  
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

Earnings growth, cash flow and outlook  
fully convincing

**Rating:** Strong Buy (unchanged) | **Price:** 52.20 € | **Price target:** 68.00 € (prev.: 66.00 €)

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Please take notice of the disclaimer at the end of the document!

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# Current development



## Basic data

<b>Based in:</b>	Wessling
<b>Sector:</b>	CAD/CAM software
<b>Headcount:</b>	1,057
<b>Accounting:</b>	IFRS
<b>ISIN:</b>	DE0006580806
<b>Ticker:</b>	MUM:GR
<b>Price:</b>	52.20 Euro
<b>Market segment:</b>	Scale / m:access
<b>Number of shares:</b>	17.2 m
<b>Market Cap:</b>	895.2 m Euro
<b>Enterprise Value:</b>	954.1 m Euro
<b>Free Float:</b>	45.5 %
<b>Price high/low (12M):</b>	57.80 / 44.35 Euro
<b>Ø turnover (Xetra,12M):</b>	219,100 Euro / day

## Slight sales growth achieved

According to preliminary figures, Mensch und Maschine increased its sales very slightly by 1 percent to around EUR 322 m in the last financial year. This was slightly below our most recent sales estimate of EUR 330 m, due to weaker sales in the fourth quarter. These fell by around 14 percent year-on-year to EUR 79.8 m, which is exclusively due to the significant slowdown in the VAR business as a result of the end of the discounting campaign in the Autodesk subscription contract business (in particular the extension of discounted three-year contracts), which had provided a strong boost to sales at the end of 2022 and beginning of 2023. Accordingly, segment sales in the VAR business fell by almost 20 percent year-on-year to EUR 54.3 m in the months from October to December, while the Software segment grew by 3.3 percent (to EUR 25.5 m). In the full year 2023, growth here was 7.4 percent (to EUR 104.5 m), while revenue in the VAR business fell by 2.5 percent to EUR 217.5 m.

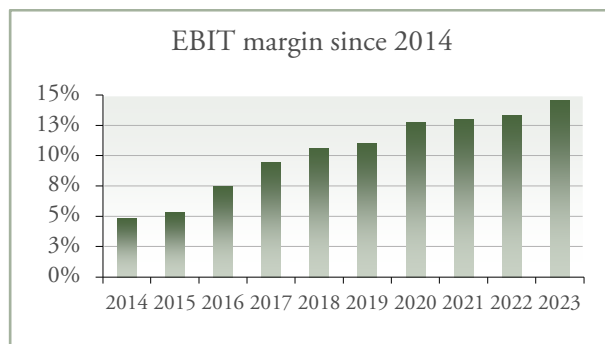
## Gross profit in target range

Unlike in the third quarter, in which the decline in sales was more than compensated for by its higher-

FY ends: 31.12.	2021	2022	2023e	2024e	2025e	2026e
Sales (m Euro)	266.2	320.5	322.0	354.2	279.6*	307.6
EBIT (m Euro)	34.7	42.6	46.8	54.2	62.5	71.4
Net Profit	21.3	26.0	28.8	32.8	37.8	43.0
EPS	1.26	1.55	1.72	1.95	2.24	2.55
Dividend per share	1.20	1.40	1.60	1.85	2.10	2.33
Sales growth	9.1%	20.4%	0.5%	10.0%	-*	10.0%
Profit growth	13.9%	22.1%	10.8%	13.9%	15.2%	13.7%
PSR	3.31	2.75	2.73	2.48	3.15	2.86
PER	41.3	33.8	30.5	26.8	23.3	20.5
PCR	23.6	22.5	17.6	17.7	16.4	14.6
EV / EBIT	27.0	22.0	20.0	17.3	15.0	13.1
Dividend yield	2.3%	2.7%	3.1%	3.5%	4.0%	4.5%

\*arithmetical effect through transition of the partner model at Autodesk

margin composition, and gross profit increased in both segments, this effect was not sufficient in the period from October to December, with the result that gross profit in the VAR business – and in the Group – was below the previous year's level. For the full year, however, M+M was nevertheless able to achieve renewed gross profit growth of 4.6 percent to a new record of EUR 168.5 m, meaning that, with an average growth of +10.4 percent, the two-year forecast from the 2021 annual report was met almost exactly in the middle of the range (average growth of 8 to 12 percent). On the other hand, just as with sales, our own estimate of gross profit (EUR 172.2 m) proved to be slightly too optimistic.



Source: Company

### EBIT margin considerably increased

This is also true for our EBIT estimate (EUR 48.5 m), which was not quite reached at EUR 46.8 m. Nevertheless, the figure achieved means renewed EBIT growth of almost 10 percent and a new record margin of 14.5 percent, after 13.3 percent in the previous year. Separately in the fourth quarter, an EBIT margin of 15.5 percent was generated. In terms of segment breakdown, the majority of Group EBIT in 2023 still came from the Software segment, which contributed just over 60 percent at EUR 28.4 m (+13.1 percent). However, the VAR business was also able to further increase its earnings contribution by 5 percent to EUR 18.4 m, despite the decline in sales and the fact that gross profit only stagnated this time.

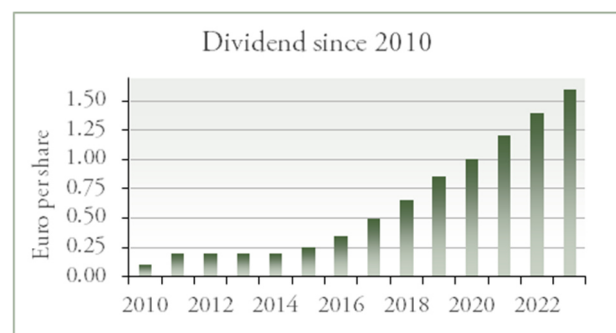
### Impressive cash flow figures

Net profit after taxes and minority interests also increased slightly more than EBIT, namely by 11 percent to EUR 28.8 m or 172 cents per share. However,

M+M most notable achievement is its operating cash flow, which increased by 28 percent to EUR 50 m. This is almost on a par with EBITDA (EUR 56.6 m) and corresponds to around 16 percent of the revenue. In addition to the fundamental cash flow strength of the business model, the strong increase in receivables in the course of the special boom in the Autodesk business at the end of 2022, which led to high inflows in the first quarter of 2023, contributed to this as well; the company also points to a – this time – favourable cyclicity in the business with the extension of the three-year Autodesk contracts.

Business figures	FY 22	FY 23	Change
Sales	320.5	322.0	+0.5%
Gross profit	161.1	168.5	+4.6%
<i>VAR business</i>	73.7	73.5	-0.2%
<i>Software</i>	87.5	95.0	+8.6%
Gross margin	50.3%	52.3%	
EBIT	42.6	46.8	+9.8%
<i>VAR business</i>	17.5	18.4	+5.0%
<i>Software</i>	25.1	28.4	+13.1%
EBIT margin	13.3%	14.5%	
Net profit	26.0	28.8	+10.7%
Net margin	8.1%	8.9%	
Operating cash flow	39.1	50.0	+28.0%

In m Euro and percent, source: Company



Source: Company

### Dividend in the middle of the forecast range

With the preliminary figures, M+M has announced that it will propose a dividend increase from EUR

1.40 to EUR 1.60 per share to the Annual General Meeting and thus to a figure in the middle of the forecast range of EUR 1.55 to EUR 1.65. This is the ninth time in a row that M+M has raised its dividend, which has increased eightfold since 2014 (EUR 0.20).

### Equity ratio increased significantly

The key figures for the balance sheet were also published as part of the preliminary reporting. Accordingly, equity climbed by 16 percent to EUR 99.5 m in 2023. In relation to the balance sheet total that has slightly decreased to EUR 183.4 m, this corresponds to an equity ratio of 54.3 percent, 8.5 percentage points more than in the previous year.

### New two-year forecast

In order to better cover the fluctuations in growth dynamics in the Autodesk business, which are mainly due to the rhythm of the renewal of the three-year contracts, M+M has also published a two-year forecast for the years 2024 and 2025, which envisages average EpS growth of 17 percent p.a. The current year is likely to remain below this mark, while a significant increase in momentum is expected again in 2025. Specifically, the management expects gross profit to grow by 8 to 12 percent to between EUR 182 and 189 m in 2024, on the basis of which earnings per share are expected to rise by 10 to 20 percent to between 189 and 206 cents and the dividend to increase by a further 20 to 30 cents. The target ranges for the coming year are higher, with earnings growth of 12 to 25 percent and an increase in the dividend of 25 to 35 cents.

### Model transition at Autodesk

This forecast applies regardless of the transition in the sales model that Autodesk announced in the autumn. Indirect sales are to be converted from the resale model to an agent model, which means that Autodesk licences will no longer go through the partner's books, but will be reported as revenue at Autodesk itself. For sales partners such as Mensch und Maschine, only the company's own commission, which corresponds to the previous trading margin, is shown as revenue instead. At the same time, however, the cost of materials decreases to the same extent, so that the gross profit

and the subsequent profit figures remain the same. According to the new method, M+M sales for the last two years would have amounted to EUR 209 and 216 m instead of EUR 320.5 and 322.0 m respectively, but the EBIT margin would have been 20 and 22 percent instead of 13.3 and 14.5 percent. Another consequence is a significant reduction in the balance sheet, as the high receivables from licence sales will no longer apply in future. The M+M management welcomes this step and expects it to significantly reduce the cost of receivables management and noticeably streamline the processes associated with this large but low-margin licence business. The majority of the margin and customer loyalty in the VAR business results from the business with its own add-ons and services anyway, which is why, according to Mensch und Maschine, there is no reason to fear that Autodesk will displace the company as a possible long-term consequence of the model change.

### Estimates updated

With the reported preliminary figures, Mensch und Maschine has fallen slightly short of our expectations for 2023. By adjusting the figures for 2023 accordingly and maintaining the assumptions for the future (average gross profit growth of 10 percent with steadily increasing profitability), slightly lower absolute figures have resulted for the future as well. As a second change, we have implemented the transition in the Autodesk business from 2025 and shifted sales and the cost of materials downwards by EUR 110 m each on a one-off basis. However, the assumed growth means that sales will already exceed last year's level in 2027; at the end of the detailed forecast period, which now extends to 2031 following the rollover of the model to the new base year of 2023, target sales will now amount to EUR 495 m. We expect gross profit of EUR 366 m in eight years' time, which corresponds to a gross profit margin of almost 74 percent. The target EBIT margin is now 26.8 percent, almost double the 2023 figure, thanks to both the continued improvements in profitability and the one-off shift in level as a result of the model transition in the Autodesk business. Since it is currently not clear when exactly the transition will take place, we have estimated the current financial year according to the old model

m Euro	12 2024	12 2025	12 2026	12 2027	12 2028	12 2029	12 2030	12 2031
Sales	354.2	279.6	307.6	338.3	372.2	409.4	450.3	495.4
Sales growth		-21.1%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
EBIT margin	15.3%	22.4%	23.2%	24.0%	24.8%	25.5%	26.2%	26.8%
<b>EBIT</b>	<b>54.2</b>	<b>62.5</b>	<b>71.4</b>	<b>81.3</b>	<b>92.4</b>	<b>104.4</b>	<b>117.9</b>	<b>132.9</b>
Tax rate	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%
Adjusted tax payments	16.5	19.1	21.8	24.8	28.2	31.9	36.0	40.5
<b>NOPAT</b>	<b>37.7</b>	<b>43.5</b>	<b>49.6</b>	<b>56.5</b>	<b>64.2</b>	<b>72.6</b>	<b>81.9</b>	<b>92.4</b>
+ Depreciation & Amortisation	4.7	5.0	5.3	5.6	5.8	6.1	6.4	6.6
+ 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
<b>Gross operating Cash Flow</b>	<b>42.4</b>	<b>48.5</b>	<b>54.9</b>	<b>62.1</b>	<b>70.0</b>	<b>78.7</b>	<b>88.3</b>	<b>99.0</b>
- Increase Net Working Capital	1.7	-0.4	-0.5	-0.6	-0.6	-0.8	-0.9	-1.0
- Investments in fixed assets	-5.3	-5.6	-5.8	-6.1	-6.4	-6.7	-7.0	-7.3
<b>Free Cashflow</b>	<b>38.8</b>	<b>42.5</b>	<b>48.6</b>	<b>55.4</b>	<b>63.0</b>	<b>71.3</b>	<b>80.5</b>	<b>90.7</b>

SMC-Schätzmodell; \* arithmetical effect through transition of the partner model at Autodesk

and will make the adjustment later in the year. Until then, we expect sales of EUR 354.2 m, gross profit of EUR 185.6 m, EBIT of EUR 54.2 m and earnings per share of EUR 1.95. The table above shows the overall model business development resulting from our assumptions for the years 2024 to 2031; detailed overviews of the estimates for balance sheet, income statement and cash flows statement can be found in the Annex.

### New price target: EUR 68.00

Based on an unchanged discount rate of 7.0 percent and unchanged assumptions regarding the terminal

value (safety discount of 10 percent on the target margin, perpetual growth of 1 percent), the fair value now amounts to EUR 1,141.5 m or EUR 67.73 per share, from which we derive the new price target of EUR 68.00 (a sensitivity analysis for determining the price target is included in the Annex). The moderate increase in the price target (previously: EUR 66.00) is due to the combined effect of the slightly reduced estimates on the one hand and the roll-over on the other. We continue to rate the forecast risk as below average with two points on a scale of 1 (low) to 6 (high).

## Conclusion

According to preliminary figures, Mensch und Maschine has continued its long-term growth course in the last financial year despite adverse conditions and has once again achieved its own targets with exceptional reliability. With only minimal sales growth to

EUR 322 m, gross profit increased by 5 percent to EUR 168.5 m; on this basis, EBIT and net profit increased by around 10 percent to EUR 46.8 m and EUR 28.8 m respectively. The development of the operating cash flow in 2023 was particularly remarkable:

it increased by 28 percent to EUR 50.0m – nearly 16 percent of the revenue.

The further outlook is also convincing. Over the next two years, Mensch und Maschine aims to increase earnings per share by an average of 17 percent p.a., with the next doubling of earnings to be achieved by 2027/2028. In view of the strong market position and

the growing demand for software and digitisation services, there is currently no reason why this should not succeed.

Even if the next doubling of earnings is only achieved a little later in our model, we still see high upside potential for the share up to EUR 68.00. Together with the company's pronounced forecast accuracy and the resulting low estimation uncertainty, it 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.

## 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.

## 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.

## Threats

- A further escalation of geopolitical conflicts 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	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e
<b>ASSETS</b>									
I. Total non-current assets	103.7	104.2	104.8	105.4	105.9	106.4	107.0	107.6	108.2
1. Intangible assets	66.8	66.3	65.8	65.4	64.9	64.5	64.0	63.6	63.2
2. Tangible assets	35.7	36.8	37.8	38.8	39.8	40.8	41.8	42.8	43.9
II. Total current assets	79.7	84.1	88.8	94.9	103.7	116.1	131.3	148.4	167.8
<b>LIABILITIES</b>									
I. Equity	99.5	106.7	115.6	125.8	138.4	153.0	168.2	185.2	204.4
II. Accruals	11.0	11.5	11.9	12.4	12.8	13.3	13.8	14.3	14.7
III. Liabilities									
1. Long-term liabilities	19.0	17.0	15.1	13.2	11.3	9.7	9.7	9.7	9.7
2. Short-term liabilities	53.9	53.2	51.0	48.9	46.9	46.5	46.6	46.8	47.2
<b>TOTAL</b>	<b>183.4</b>	<b>188.4</b>	<b>193.6</b>	<b>200.2</b>	<b>209.6</b>	<b>222.6</b>	<b>238.3</b>	<b>256.0</b>	<b>276.1</b>

### P&L estimation

m Euro	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e
Sales	322.0	354.2	279.6	307.6	338.3	372.2	409.4	450.3	495.4
Gross profit	168.5	185.6	205.1	226.0	249.0	274.4	302.0	332.3	365.7
EBITDA	56.6	64.7	73.3	82.4	92.6	104.0	116.3	130.0	145.3
EBIT	46.8	54.2	62.5	71.4	81.3	92.4	104.4	117.9	132.9
EBT	45.6	53.7	62.3	71.2	81.4	92.7	104.9	118.5	133.7
EAT (before minorities)	31.3	37.3	43.3	49.5	56.5	64.4	72.9	82.4	92.9
EAT	28.8	32.8	37.8	43.0	48.8	55.2	62.1	69.7	78.1
EPS	1.72	1.95	2.24	2.55	2.89	3.28	3.68	4.13	4.63



## Annex III: Cash flows estimation and key figures

### Cash flows estimation

m Euro	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e
CF operating	50.0	49.6	53.7	60.1	67.3	75.4	84.0	93.6	104.3
CF from investments	-5.6	-5.3	-5.6	-5.8	-6.1	-6.4	-6.7	-7.0	-7.3
CF financing	-37.9	-42.0	-46.1	-51.0	-55.5	-59.8	-65.7	-73.2	-81.6
Liquidity beginning of year	24.7	31.1	33.4	35.4	38.6	44.4	53.6	65.3	78.7
Liquidity end of year	31.1	33.4	35.4	38.6	44.4	53.6	65.3	78.7	94.2

### Key figures

m Euro	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e
CF operating	0.5%	10.0%	-21.1%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
CF from investments	4.6%	10.1%	10.5%	10.2%	10.2%	10.2%	10.0%	10.0%	10.0%
CF financing	52.3%	52.4%	73.3%	73.5%	73.6%	73.7%	73.8%	73.8%	73.8%
Liquidity beginning of year	17.6%	18.3%	26.2%	26.8%	27.4%	27.9%	28.4%	28.9%	29.3%
Liquidity end of year	14.5%	15.3%	22.4%	23.2%	24.0%	24.8%	25.5%	26.2%	26.8%
m Euro	14.2%	15.2%	22.3%	23.2%	24.0%	24.9%	25.6%	26.3%	27.0%
CF operating	8.9%	9.3%	13.5%	14.0%	14.4%	14.8%	15.2%	15.5%	15.8%

## Annex IV: Sensitivity analysis

WACC	Perpetual cash flows growth				
	2.0%	1.5%	1.0%	0.5%	0.0%
6.0%	98.10	89.53	82.68	77.06	72.38
6.5%	86.54	79.93	74.52	70.01	66.19
7.0%	77.29	72.08	67.73	64.05	60.90
7.5%	69.73	65.54	62.00	58.96	56.32
8.0%	63.44	60.02	57.09	54.55	52.32

# Disclaimer

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## *Charts*

The charts were made with Tai-Pan ([www.lp-software.de](http://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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## *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 09.02.2024 at 12:00 and published on 09.02.2024 at 12:20.

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 analysed 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
20.10.2023	Strong Buy	66.00 Euro	1), 3), 4)
01.08.2023	Strong Buy	66.00 Euro	1), 3), 4)
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)

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.

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