July 19th, 2024
Research update

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Mensch und Maschine Software

Still on record course after a good first half-year

Rating: Strong Buy (unchanged) | **Price:** 55.30 € | **Price target:** 70.00 € (prev.: 69.00 €)

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Current development

Basic data

Based in:	Wessling
Sector:	CAD/CAM software
Headcount:	1,089
Accounting:	IFRS
ISIN:	DE0006580806
Ticker:	MUM:GR
Price:	55.30 Euro
Market segment:	Scale / m:access
Number of shares:	17.2 m
Market Cap:	948.3 m Euro
Enterprise Value:	1,004.0 m Euro
Free float:	45.5 %
Price high/low (12M):	60.80 / 44.35 Euro
Ø turnover (Xetra,12M):	243,000 Euro / day

Slight increase in half-year sales

After the expected decline in sales in the first quarter, Mensch und Maschine was able to increase sales for the months April to June by 5 percent year-on-year to EUR 75.1 m, resulting in minimal sales growth of 0.9 percent to EUR 176.0 m for the first half of the year. The volatility stems from the Digitization segment, where the effects of the discount campaign for the renewal of three-year contracts, which expired at the beginning of 2023, were still noticeable. As a result, a decline in sales in the first quarter (-5.1 percent to EUR 70.2 m) was followed by growth of 4.9 percent to EUR 48.1 m in the second quarter, meaning that a slight cumulative decline was recorded for the period from January to June (-1.2 percent to EUR 118.3 m). In contrast, the Software segment continuously increased its revenue over the course of the first half of the year, so that after growth of 5.4 percent in the first quarter and 5.9 percent in the second quarter, a total increase of 5.6 percent to a new half-year record of EUR 57.7 m was achieved.

FY ends: 31.12.	2021	2022	2023	2024e	2025e	2026e
Sales (m Euro)	266.2	320.5	322.3	318.5	280.0	308.0
EBIT (m Euro)	34.7	42.6	46.8	54.6	62.3	71.1
Net Profit	21.3	26.0	28.9	34.0	38.8	44.1
EPS	1.26	1.55	1.72	2.00	2.28	2.60
Dividend per share	1.20	1.40	1.65	1.90	2.15	2.38
Sales growth	9.1%	20.4%	0.6%	-1.2%*	-12.1%*	10.0%
Profit growth	13.9%	22.1%	11.0%	17.9%	14.0%	13.8%
PSR	3.53	2.93	2.92	2.95	3.36	3.05
PER	44.1	36.1	32.6	27.6	24.2	21.3
PCR	25.2	24.1	18.6	18.9	17.5	15.6
EV / EBIT	28.8	23.4	21.3	18.3	16.0	14.1
Dividend yield	2.2%	2.5%	3.0%	3.4%	3.9%	4.3%

**arithmetical effect through switch of the partner model at Autodesk*

Gross margin at multi-year high

The lower weighting of the low-margin business with Autodesk licences compared to the previous year had a positive impact on the gross margin of the Digitization segment in the first half of the year, which improved by 2.5 percentage points to 34.8 percent, the highest level since the first half of 2019. Together with a further improvement in the Software segment (from 90.4 to 90.8 percent) and the shift in the sales structure towards the high-margin Software segment, this led to an increase in the group gross margin from 50.5 percent in the previous year to 53.2 percent. In absolute figures, gross profit for the first half of the year increased by 6.2 percent to EUR 93.5 m, and the momentum here, unlike for sales, was comparable in both segments. Gross profit growth in the Software segment was 6.0 percent (to EUR 52.3 m) and in the Digitization segment 6.5 percent (to EUR 41.2 m).

Business figures	HY 2023	HY 2024	*Change*
Sales	174.38	175.97	*+0.9%*
Digitization	119.80	118.31	*-1.2%*
Software	54.58	57.66	*+5.6%*
Gross profit	88.06	93.54	*+6.2%*
Digitization	38.69	41.20	*+6.5%*
Software	49.37	52.34	*+6.0%*
Gross margin	*50.5%*	*53.2%*	-
EBIT	26.33	27.98	*+6.3%*
Digitization	10.12	10.70	*+5.8%*
Software	16.21	17.28	*+6.6%*
EBIT margin	*15.1%*	*15.9%*	-
Digitization	*8.4%*	*9.0%*	-
Software	*29.7%*	*30.0%*	-
EBT	25.39	27.34	*+7.7%*
EBT margin	*14.6%*	*15.5%*	-
Net profit	16.39	17.95	*+9.5%*
Net margin	*9.4%*	*10.2%*	-
Free cash flow	28.76	26.99	*-6.1%*

In m Euro and percent, source: Company

ERP introduction drives cost growth

As in the first quarter, other operating expenses also increased significantly more than gross profit in the subsequent three months, namely by almost 14 percent to EUR 5.4 m. For the six-month period, this results in a disproportionately high increase of 16 percent to EUR 10.7 m, which the company explains with higher travel and marketing costs, but above all with the group-wide introduction of a new ERP system. The completion of a sub-project of this is also reflected in the increased depreciation in the second quarter (+8 percent). However, at 4.5 percent (to EUR 5.1 m), the total increase for the first half of the year was disproportionately low compared to the growth in gross profit. This also applies to personnel expenses, which increased by almost 4 percent to EUR 51.8 m, with the growth in the Software segment (+5.1 percent) being more than twice as strong as in Digitization (+2.2 percent).

EBIT margin almost at 16 percent

Overall, however, cost growth once again stayed below the increase in gross profit. Although other operating income fell by 13 percent to EUR 1.1 m at the same time, EBIT increased thus by 6.3 percent to EUR 28.0 m, slightly more than gross profit. In relation to the almost stagnating sales, however, the increase was clearly disproportionate, which is why the EBIT margin for the first half of the year rose by 0.8 percentage points to 15.9 percent. EUR 17.3 m of the group's EBIT was attributable to the Software segment, which increased its earnings by 6.6 percent and, for the first time, achieved a margin of more than 30 percent on a half-year basis. But a new half-year record of 9.0 percent was also reached in the Digitization segment, where EBIT increased by 5.8 percent to EUR 10.7 m.

Half-year profit increases by almost 10 percent

With the financial result improving by a third to EUR -0.6 m due to repayments and currency effects, pretax profit increased by 8 percent to EUR 27.3 m. As the weight of minority interests in the profit has also decreased somewhat, the half-year profit has grown by almost 10 percent to nearly EUR 18.0 m. In relation to sales, this corresponds to a double-digit net margin of 10.2 percent (previous year: 9.3 percent).

Free cash flow with high surplus

Driven by the increase in profit and a reduction in net working capital (cash flow effect: EUR +3.0 m), operating cash flow for the first half of the year totalled EUR 31.4 m. Although this was slightly less than a year ago (-1 percent), the figure still corresponds to almost 18 percent of half-year sales. Outflows for investment purposes increased this time, totalling EUR -4.4 m after EUR -2.8 m in the previous year. Among other things, payments of EUR 0.7 m for the acquisition of minority interests in subsidiaries with which M+M has again consolidated its shareholding somewhat have contributed to the increase. Free cash flow totalled EUR +27.0 m (previous year: EUR 28.8 m) and led to a net increase in cash and cash equivalents of EUR 10.5 m to EUR 35.4 m. The difference is explained by the financing cash flow of EUR -16.4 m, which includes dividend payments (EUR -29.3 m), lease payments (EUR -2.8 m) and net borrowing of EUR 7.6 m.

Significant balance sheet extension

In contrast to the previous year, when the balance sheet total fell significantly by 11 percent to EUR 167.1 m in the first half of the year, this time it rose by 14 percent (compared to the beginning of the year) to EUR 176.4 m. In addition to the 42 percent increase in liquidity, this was primarily due to the increase in receivables and inventories by EUR 8 m and EUR 4 m respectively, which M+M explained on request primarily with the invoicing schedule of the three-year contracts. On the liabilities side, trade payables (EUR +14.4 m), deferred income (EUR +5.8 m) and bank loans (EUR +7.6 m) were the main contributors to balance sheet growth, while equity declined slightly to EUR 97.6 m (-2 percent) despite the half-year profit. As a result, the equity ratio fell from 53.3 percent to 45.8 percent in the first half of the year, although the issue of treasury shares as part of the share dividend had a significant positive effect on equity (netted with the new share purchases, the negative deduction amount more than halved to EUR -6.6 m; in addition, the share price gain of EUR 2.5 m was posted to the capital reserve). However, at 45.8 percent, the equity ratio is still clearly in a very comfortable range.

Forecast confirmed

Based on the half-year figures, M+M has confirmed its profit forecast for the current year. Accordingly, the company is still aiming for EpS growth of 10 to 20 percent to 189 to 206 cents, and the targets for 2025 (EpS growth of 12 to 25 percent) have also been confirmed, meaning that M+M remains within the two-year forecast for 2024 and 2025 envisaging average EpS growth of 17 percent p.a. However, the forecast corridors for gross profit growth have been narrowed somewhat: M+M is now aiming for growth of 8 to 10 percent in 2024 and 10 to 12 percent in 2025, whereas previously, a range of 8 to 12 percent was targeted for both years. Finally, the dividend targets were also confirmed once again. Accordingly, the distribution for 2024 is to increase by 20 to 30 cents to between 185 and 195 cents and for 2025 by a further 25 to 35 cents.

Autodesk switch incorporated

In operating terms, the M+M half-year figures give little reason to change our estimates for 2024. We have slightly increased the gross margin and other operating expenses, which is reflected in a slightly higher EBIT estimate (EUR 54.6 m instead of EUR 54.4 m). At the same time, however, we have also increased the interest expense and reduced the minority interest, which is why the EBT estimate of EUR 54.1 m (previously: EUR 54.4 m) is now below and the EPS estimate of EUR 2.00 (previously: EUR 1.97) above the old estimate. We have made a bigger change, but without any impact on profits and the model result, to the sales projection and the cost of materials, both of which we have reduced by EUR 36 m. This corresponds to our estimate of the effect Autodesk's planned switch of the partner model to the commission concept in mid-September is likely to have. Hitherto, we had taken the switch into account from 2025 on and left the estimates for the entire current year in the previous mode. As a result of the change, the estimated EBIT margin for 2024 is now 17.1 percent

m Euro	12 2024	12 2025	12 2026	12 2027	12 2028	12 2029	12 2030	12 2031
Sales	318.5	280.0	308.0	338.8	372.7	409.9	450.9	496.0
Sales growth		-12.1%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
EBIT margin	17.1%	22.2%	23.1%	23.9%	24.7%	25.4%	26.1%	26.8%
EBIT	**54.6**	**62.3**	**71.1**	**81.0**	**92.2**	**104.2**	**117.7**	**132.8**
Tax rate	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%
Adjusted tax payments	16.6	19.0	21.7	24.7	28.1	31.8	35.9	40.5
NOPAT	**37.9**	**43.3**	**49.4**	**56.3**	**64.1**	**72.5**	**81.8**	**92.3**
+ Depreciation & Amortisation	4.3	5.1	5.4	5.7	5.9	6.2	6.5	6.7
+ 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	42.2	48.4	54.8	62.0	70.0	78.7	88.3	99.0
- Increase Net Working Capital	1.8	-0.4	-0.5	-0.6	-0.7	-0.8	-0.9	-1.1
- Investments in fixed assets	-7.5	-5.6	-5.9	-6.1	-6.4	-6.7	-7.0	-7.3
Free Cash Flow	**36.5**	**42.4**	**48.5**	**55.3**	**62.9**	**71.2**	**80.4**	**90.7**

SMC estimation model

(previously: 15.4 percent). The adjustments have resulted in some minor changes for subsequent years as well. However, the target EBIT margin for 2031 remains at 26.8 percent and the target revenue of EUR 496 m has also remained the same. 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.

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 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.

Price target now EUR 70.00

The assumptions result in a fair value of equity of EUR 1,182 m or EUR 69.58 per share, from which we derive the slightly higher price target of EUR 70.00 (previously: EUR 69.00; a sensitivity analysis for determining the price target can be found in the Annex). The increase is mainly due to the discounting effect since April. 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

Mensch und Maschine presented good figures for the first half of the year with new earnings and margin records. Although sales only increased by just under 1 percent to EUR 176 m due to the lingering effects of an earlier discount campaign at Autodesk, this was enough to once again report disproportionately high profit growth: EBIT increased by 6 percent to EUR 28.0 m, while the half-year net profit after taxes and minority interests rose even by almost 10 percent to EUR 18.0 m. This corresponds to a net margin of 10.2 percent, which has thus reached a double-digit figure for the first time (on a half-year basis). The EBIT margin of 15.9 percent is also the best half-year figure in the company's history.

The margin for the full year will be even higher because Autodesk will now complete the announced change in the partner model in September. At M+M, this will result in a reduction in revenue and the cost of materials by the same amount. However, as it is only transitory items that leave the income statement, both gross profit and all following income statement items remain (ceteris paribus) unchanged, which in terms of figures leads to an upward shift in sales-related margins. As a result, our EBIT margin estimate for the full year has shifted from 15.4 percent to 17.1 percent. For the year 2025, for which we have already completed the switch in the model at an earlier stage, the expectation is virtually unchanged at 22.2 percent.

Apart from the arithmetical effect of the switch of the sales model, our estimates have remained largely unchanged. For the current year, we expect EBIT of EUR 54.6 m and earnings per share of EUR 2.00. On this basis, our price target is now EUR 70.00 and continues to offer significant upside potential for the share. In conjunction with the all-round positive overall impression, this continues to justify the “Strong Buy” rating, which we therefore confirm.

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.
- Sound balance sheet structure with a high equity ratio and low debt.
- Growth dynamics above the industry average with a disproportionately high rise in profits.
- Remarkable forecast accuracy supports the target of further profit increases.

Weaknesses

- The Digitization business is largely determined by Autodesk's product and pricing policy.
- The geographic expansion of the Digitization segment 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 Digitization business that should allow an above-average profit development in the next few years, if the present trends continue.
- The increasing importance of digitization projects is likely to further boost the development.
- With its expertise in BIM and bridge and tunnel construction, the SOFiSTiK subsidiary is addressing very promising markets.
- With the 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 geopolitical conflicts or a deep recession in Europe could slow down or interrupt the positive trend.
- High personnel intensity in the Digitization 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 Digitization segment.
- 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	2023 act.	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e
ASSETS									
I. Total non-current assets	105.7	108.8	109.3	109.7	110.2	110.6	111.1	111.6	112.1
1. Intangible assets	69.9	70.0	69.4	68.9	68.3	67.8	67.3	66.8	66.3
2. Tangible assets	34.7	37.8	38.8	39.8	40.7	41.7	42.7	43.7	44.8
II. Total current assets	81.5	91.9	95.8	101.5	110.3	122.8	137.9	154.9	174.1
LIABILITIES									
I. Equity	99.8	106.9	114.6	124.1	136.5	150.8	165.5	182.1	200.8
II. Accruals	13.4	13.8	14.2	14.6	15.0	15.4	15.8	16.3	16.7
III. Liabilities									
1. Long-term liabilities	17.3	20.4	18.5	16.6	14.8	13.1	13.1	13.1	13.1
2. Short-term liabilities	56.7	59.6	57.7	55.9	54.2	54.1	54.5	55.0	55.7
TOTAL	187.2	200.7	205.1	211.2	220.5	233.4	249.0	266.5	286.3

P&L estimation

m Euro	2023 act.	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e
Sales	322.3	318.5	280.0	308.0	338.8	372.7	409.9	450.9	496.0
Gross profit	168.5	185.5	205.3	226.3	249.3	274.8	302.4	332.7	366.2
EBITDA	56.6	64.8	73.4	82.5	92.7	104.1	116.5	130.2	145.5
EBIT	46.8	54.6	62.3	71.1	81.0	92.2	104.2	117.7	132.8
EBT	45.2	54.1	62.0	71.0	81.1	92.5	104.7	118.3	133.5
EAT (before minorities)	31.9	37.6	43.1	49.4	56.4	64.3	72.8	82.2	92.8
EAT	28.9	34.0	38.8	44.1	50.1	56.8	63.9	71.7	80.4
EPS	1.72	2.00	2.28	2.60	2.95	3.34	3.76	4.22	4.73

Annex III: Cash flows estimation and key figures

Cash flows estimation

m Euro	2023 act.	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e
CF operating	50.6	49.6	53.8	60.3	67.5	75.5	84.2	93.8	104.5
CF from investments	-7.2	-7.5	-5.6	-5.9	-6.1	-6.4	-6.7	-7.0	-7.3
CF financing	-43.0	-32.1	-47.0	-51.5	-55.5	-59.9	-65.9	-73.5	-81.9
Liquidity beginning of year	24.4	24.9	34.9	36.1	39.0	44.8	54.1	65.7	79.0
Liquidity end of year	24.9	34.9	36.1	39.0	44.8	54.1	65.7	79.0	94.3

Key figures

percent	2023 act.	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e
Sales growth	0.6%	-1.2%	-12.1%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Gross profit growth	4.6%	10.1%	10.7%	10.2%	10.2%	10.2%	10.0%	10.0%	10.0%
Gross margin	52.3%	58.2%	73.3%	73.5%	73.6%	73.7%	73.8%	73.8%	73.8%
EBITDA margin	17.6%	20.4%	26.2%	26.8%	27.4%	27.9%	28.4%	28.9%	29.3%
EBIT margin	14.5%	17.1%	22.2%	23.1%	23.9%	24.7%	25.4%	26.1%	26.8%
EBT margin	14.0%	17.0%	22.2%	23.1%	24.0%	24.8%	25.5%	26.2%	26.9%
Net margin (after minorities)	9.0%	10.7%	13.8%	14.3%	14.8%	15.2%	15.6%	15.9%	16.2%

Annex IV: Sensitivity analysis

	Perpetual cash flows growth				
WACC	2.0%	1.5%	1.0%	0.5%	0.0%
6.0%	100.13	91.44	84.47	78.77	74.02
6.5%	88.57	81.85	76.35	71.76	67.88
7.0%	79.32	74.01	**69.58**	65.83	62.61
7.5%	71.76	67.48	63.86	60.75	58.06
8.0%	65.46	61.96	58.96	56.36	54.09

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 19.07.2024 at 13:02 and published on 19.07.2024 at 13:15.

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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
19.04.2024	Strong Buy	69.00 Euro	1), 3)
20.03.2024	Strong Buy	69.00 Euro	1), 3)
09.02.2024	Strong Buy	68.00 Euro	1), 3)
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)

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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