

mVISE

Connecting the cogs

mVISE is at a pivotal point in its three-year 2018+ strategy following a year of doubled product revenues and a trebling in PBT. The heavy lifting of expanding the marketing reach of its digitalisation software products and building scale in the consulting division is now largely complete, with three new white-label versions of elastic.io set to come on stream in the coming weeks. Helped by this, management forecasts sales of its software products to double in each of the next two years, which should in turn fuel growth in high-margin product-related consulting fees. With more parts of the group now working more closely together to exploit opportunities, we see the stock on its current 2020e P/E of 10.3x as an attractive growth play.

Realistic guidance for doubling in product revenues

Over the next few months, three more major white-label partners (Deutsche Telekom, AppDirect and Riversand) will launch their products and platforms based on integration software elastic.io. After a doubling in product revenues in 2018 this expected expansion in marketing reach should underpin management's forecast of a further doubling in high-margin product revenues in 2019 and 2020.

Strategy: Tidy profits in tailoring

mVISE plans to use strong growth in high-margin subscriptions for its software products to also increase margins in the consulting division by expanding further into the very profitable area of product-based consulting. These solutions attract high margins because of the group's exclusive product know-how. Magic Software has further improved the situation by providing subsidies to put towards mVISE's development of the product to client needs, which should increase sales of the white-label elastic.io.

Valuation: Strong growth prospects not in multiple

We see mVISE shares as attractively valued on a prospective 2020 P/E of 10.3x compared with the European consulting industry average of 15.2x and the average for the software product segment of 54.1x. We see the valuation as firmly underpinned by the quality of the group's consulting business as well as the strong prospects of its product portfolio. We view the upcoming launch of sales to new white-label partners, with the potential for further margin and revenue gains over this year, as acting as a catalyst for the share price.

Consensus estimates

Year end	Revenue (€m)	EBITDA (€m)	PBT (€)	EPS (€)	EV/EBITDA (x)	P/E (x)	Yield (%)
12/17	14.8	2.0	0.3	0.15	21.4	24.9	N/A
12/18	22.5	2.5	1.0	0.12	17.0	30.8	N/A
12/19e	27.0	4.5	2.6	0.27	9.3	14.1	N/A
12/20e	31.1	5.6	3.6	0.37	7.5	10.3	N/A

Source: mVISE, SMC Research

Software & comp services

8 May 2019

Price €3.80
Market cap €33m

Share price graph



Share details

Code C1VX
 Listing Deutsche Börse Scale
 Shares in issue 8.6m
 Last reported net debt at 31 December 2018 €9.4m

Business description

mVISE's core competencies are IT infrastructure and integration, combined with data management and analytics. With over 150 staff, mVISE supports digitisation projects and offers cloud products such as elastic.io, a iPaaS platforms as a service, and SaleSphere.

Bull

- mVISE is well placed to benefit from the digital revolution with its orientation to the Internet of Things, digitalisation, integration, data science and security.
- New strategy growing margins via increased high-margin product sales and staff efficiency.
- Recent acquisitions, particularly elastic.io, have boosted the group's product offerings, supporting margin and earnings prospects.

Bear

- Project-based consulting business faces risk of skilled employee cost inflation.
- Own-developed software product SaleSphere has not achieved expectations.
- Debt levels rose sharply in H118 with the purchase of a consulting team from SHS Viveon.

Analyst

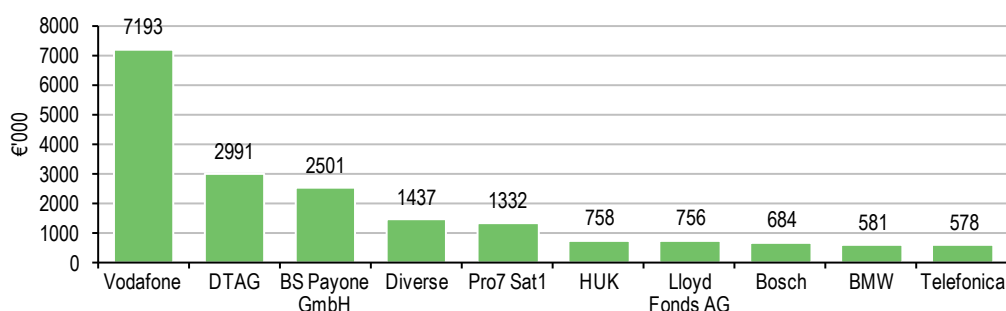
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Results 2018: Growth in product sales drive margins

After a strong fourth quarter, mVISE reported a 52% increase in 2018 revenue to €22.5m and a 94% increase in operating profit (EBIT) before corporate acquisition/sale costs to €1.79m. Product revenues doubled from c €1m to c €2m, due principally to a €1.0m payment from Magic Software in January, invoiced in December, to secure an option to purchase the rights to market its own cloned version of elastic.io's integration platform as a service (iPaaS) in four years' time.

Exhibit 1: mVISE 10 largest clients 2018



Source: mVISE

A key factor in the group's consulting success in 2018 was the January integration of a team of 40 consultants and related consulting contracts from SHS Viveon, increasing the group's consulting capacity by 50%. At the same time, mVISE adopted the team's service contracts and corporate clients from SHS Viveon, including Media Saturn, Telefonica, Pro7, SAT1, HUK Coburg and Fidor Bank. The team's expertise in high-demand areas of software integration, data insight, data warehouse, business intelligence, big data and predictive analysis led to an increased level of capacity utilisation during the year. While reporting overall pressure on day rates and margins, helped by the acquisition, mVISE's EBIT margins excluding one-off costs of acquisitions and divestments rose 1.7pp to 7.9%, attaining the mid-point of management's target range of 7–9%.

The August sale of loss-making workforce management and software supplier, Just Intelligence (JI), was also positive for operating profit. The decision for divestment arose principally from the lack of strategic fit with the other group's services and products. Stripping out JI's revenues and €0.10m in EBIT losses reveals an underlying 62% increase in group revenues to €22.1m and 69% increase in adjusted EBIT to €1.89m, revealing a strong underlying 8.6% EBIT margin (see Exhibit 2).

Exhibit 2: 2018 revenue and EBIT summary

	2017	2018	Change
	€m	€m	%
Reported revenue	14.78	22.53	52.4
Revenue: Just Intelligence*	1.16	0.46	(60.1)
Revenue excluding Just Intelligence	13.62	22.06	62.0
Reported EBIT	0.54	1.31	141.9
One off acquisition/divestment costs	0.38	0.48	25.5
EBIT adjusted for one-off acquisition/divestment costs	0.92	1.79	93.9
EBIT: Just Intelligence*	(0.20)	(0.10)	(49.2)
EBIT adjusted for one-off costs & JI sale	1.12	1.89	68.7
EBIT margin reported	3.7	5.8	+2.1pts
EBIT margin adj. for one-off acquisition/divestment costs	6.2	7.9	+1.7pts
EBIT margin adj. for one-off costs & JI sale	8.2	8.6	+0.4pts

Source: mVISE, Edison Investment Research. Note: *Sold in August 2018.

Strategy: Working better together

In March 2018 mVISE launched 2018+, a three-year strategy with targets to achieve by end 2020 including:

- a 33% CAGR in group revenues to €33–35m;
- an increase in pre-acquisition-cost EBIT margins from 6.2% in 2017 to c 15% in 2020, driven by a growth in the proportion of higher-margin product sales;
- the addition of 100 employees in Düsseldorf, Hamburg, Bonn, Frankfurt and Munich to achieve close to a doubling in staff numbers; and
- inclusion in the top-20 mid-sized IT companies in the area of digital transformation.

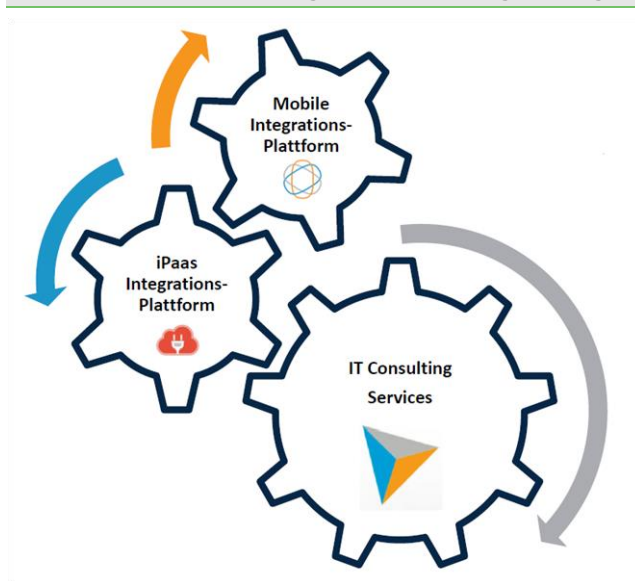
The group made strong progress towards these aims in 2018 with revenue growth (52%), adjusted EBIT margins up 1.7% points and a c 50% increase in consulting staff with the SHS Viveon acquisition.

A key strategic aim this year is to bring all the key segments of mVISE's operation closer together to exploit cross-selling and synergy benefits. We believe the opportunities with the greatest potential are:

- Expansion of high-margin product-related consulting revenues driven by growth in sales of white-label and elastic.io-branded integration software.
- Growth in complex cloud-based IT solutions including efficient integration of data, large-scale data warehouses combined with latest data science and business intelligence technologies.
- Further cross-selling of products. In particular, marketing of mVISE's extended version of SaleSphere, mSphere, together with the elastic.io iPaaS integration platform.

We see the potential for the group to generate a high proportion, if not multiples, of its growing product sales from product-related consulting revenues. mVISE's white-label-partner Magic Software, which has long experience of marketing integration platforms, provides an example of the level of consulting services that can be generated via software offerings. In 2017 it generated 8% of FY17 revenues from product sales, 12% from maintenance and technical services and a total of 80% from consulting services.

We also note that mVISE's unique knowledge of its own software product puts it in a strong position to charge higher rates than it can for standard consulting projects. In this the situation is similar to that of SAP consultants, which are able to charge substantially higher rates than consultants working on more generic software.

Exhibit 3: Products helping drive consulting earnings


Source: mVISE

Exhibit 4: elastic.io's integration platform


Source: mVISE

Market outlook: Strong outlook for Enterprise software

Despite the potential for a slight cooling in the global economy this year (the IMF forecasts a reduction in global GDP growth from 3.8% to 3.6% this year, and 3.3% in 2020), Gartner expects segments of the IT market to continue to perform strongly over the next two years driven by several key trends. These include the shift to the cloud, the growing importance of the platform at the heart of the enterprise and the increased adoption of the Internet of Things.

Within an overall group forecast for global IT spend of 2.8% in 2019, Gartner forecasts an 8.5% increase in sales of enterprise software this year and a further hike of 8.2% in 2020, driven by the shift to the cloud. Gartner also forecasts organisations to budget an increased proportion of spend on software provided using the software as a service (SaaS) model, giving rise to stronger overall growth for this segment.

mVISE's products are well positioned in these respects. Both elastic.io and SaleSphere are cloud based and follow the SaaS model. In the case of elastic.io, its integration capabilities are a necessity for the platform model, which Gartner refers to as 'the engine that moves the business'. The global market for the other key segment of mVISE's business, IT services, is also forecast by Gartner to grow 4.8% this year, making it the second strongest performing industry segment.

Looking solely at Germany, where the group's non-product related consulting business is oriented, the German IT Industry association forecasts a similarly strong picture for the IT industry to grow 2.5% to €92.2bn in 2019 with software sales growth of 6.3% to €26bn helped by ongoing digitalisation demand.

In terms of market risks, it is worth noting the German auto industry has been affected by global trade disputes and difficulties with new emission standards. Brexit is also considered a risk to German growth. In terms of exposure to the auto industry, mVISE includes BMW and Bosch among its client base, but the overall share of revenue is minimal.

Products: Marketing push the key

elastic.io: A tale of the power of white-label distribution

elastic.io is a micro-services-based hybrid iPaaS platform for real-time data sync across disparate cloud-based and on-premise applications, platforms and databases. With a major focus of enterprises currently being digitalisation of their operations and the move to the cloud, the sector is growing rapidly. Market Research Future forecasts the integration platform as a service (iPaaS) market to grow to approximately \$2bn by 2023, with a 2017–23 CAGR of 22%.

A key strength of the elastic.io platform is its ease of use helped by more than 100 pre-built connectors to mainstream business applications. mVISE already has more than 1,000 users. Crucially, three white-label partners are due to launch the product in the coming weeks, which we expect to dramatically boost subscriber growth in coming quarters.

elastic.io has a high level of recognition in the sector, being included in the top 25 players in the iPaaS market by QY Research. Its closest competitors include the US firms Informatica, Dell Boomi, MuleSoft, SnapLogic, Talend, Scribe Software and Built.io as well as SEEBURGER of Germany. Over the last year the group has undertaken more investment into and development of elastic.io, creating a white-label product and expanding the distribution network. mVISE has contracts to sell elastic.io via four major software distributors: Magic Software, Deutsche Telekom, AppDirect and Riversand. Magic Software started marketing elastic.io as its own product in January 2018 and the other three are scheduled to launch the services in coming weeks.

Magic Software is a leading global provider of integration and digitalisation software with major operations in the US and more than 50 other countries. Magic Software signed an initial agreement with mVISE in September 2017 and started selling the product in January 2018. During H218 it started selling a white-label version, called Magic XPC, and strengthened the cooperation with mVISE by agreeing to fund €2.5m for common product development until end-2022 (of which €1m was allocated in H218). The two partners have also agreed to share IP rights in the future to the software, which has given Magic Software more incentive to develop software together with mVISE.

Deutsche Telekom signed an initial deal to market elastic.io in December 2017. Nevertheless, it waited until it was able to launch a white-label version of the product on its software sales platform before launch, which was scheduled for late April, but is now expected in May. **AppDirect** operates an ecosystem that connects channels, developers and customers to simplify digital supply chains. AppDirect became a client of elastic.io in February 2018 but the first sales to its customers are expected to take place this month. **Riversand** is a specialist in master data management and product information management. The group operates a multidomain data management platform and provides applications to support further business applications. The group was listed as a strong performer (one tier below 'leader') in the Forrester Wave Master Data Management, Q1 2019.

SalesSphere

SalesSphere is an integrated solution for digitalisation of sales processes that brings in data from customer relationship management (CRM), product information management (PIM) and enterprise resource planning (ERP) systems and delivers the result to a multimedia sales app. After poor early sales in 2018, mVISE redesigned the product and the interface and undertook a relaunch in July 2018. Sales in H2 did not take off as quickly as hoped, with full year 2018 sales of c €0.2m.

Nevertheless, mVISE signed a number of new partner agreements late in November and December 2018 with PIM specialist eggheads and Opus Capita a source-to-pay, cash management and PIM solutions software provider. In addition, mVISE has extended its existing platform to mSphere, a more generic no-code solution for the implementation of mobile applications.

Consulting: Taking the high-margin road

A key positive in mVISE's short- to medium-term outlook for its consulting business is the prospect of strong growth in higher-margin product-related consulting revenues in 2019. Sales of both elastic.io and SaleSphere are expected to increase strongly this year and, with the imminent launch of elastic.io product as a white-label solution by three more partners on three more platforms (to give four in total), is likely to lead to especially strong sales growth and a substantial increase in consulting work on the product.

All four elastic.io distributors have contracts with mVISE (via elastic.io) to provide their clients with installation, hosting and operations services for elastic.io during runtime, as well as support and professional services to build out the software to their requirements. To date there have been no purchasers of elastic.io software that mVISE has not been required to provide further consulting services to, so the relationship between growth in new clients and that of consulting revenues should be very strong.

Further impetus should come from an H218 contract with Magic Software that agrees Magic Software will subsidise €2.5m in mVISE development efforts to continue improving the common product until 2022. In addition to boosting consulting work at mVISE, this should also increase demand for the software.

Despite the expected increase in demand management does not foresee any significant staff shortages over the next year. The group has good experience of outsourcing work to programmers in Kiev and for 2019 it is looking to only moderately increase consulting staff numbers overall.

Another important and positive development is presented by the increasing customer awareness of the issue of 'false' self-employment, which is now discouraging companies from using freelance staff based in their premises. The changes mean that freelance staff based in a company's office are now seen to be more likely to be deemed employees by tax authorities, which increases the tax burden of the company/employer.

As a result, mVISE has been approached by a number of firms to take over-run of work contracts previously undertaken by freelancers for execution in mVISE premises. This gives us further confidence in the ability of the group to fill its order book and to avoid staff availability becoming a pinch-point for the division this year, with more freelance employees likely to be released into the employment market.

Financials

mVISE forecasts underpinned by product sales prospects

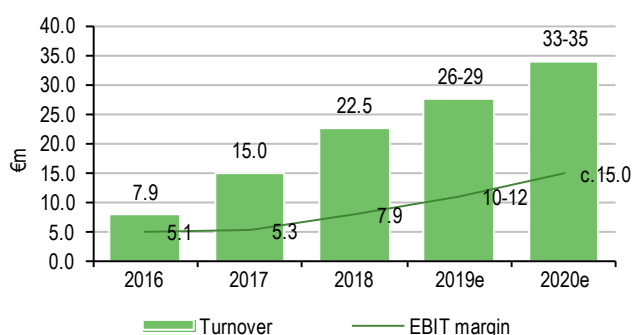
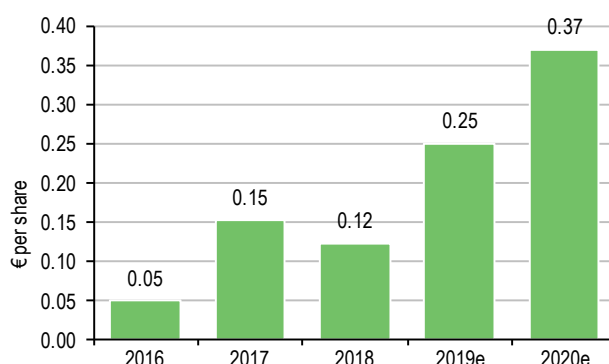
mVISE management forecasts an increase in 2019 turnover from €22.5m to €26–29m and an increase in EBIT margin before one-off acquisition costs from 7.9% in 2018 to 10–12%. We believe these forecasts are based on reasonable expectations of growth and margins in the product and services division.

In particular, management's goal of doubling its software sales in 2019 to €4–5m is supported by:

- The launch of the white-label version of elastic.io in H218. We see the potential for the white-label version, which has been adopted by all the platforms apart from Riversand, to be more easily marketed to clients than the elastic.io branded product because of its place in the platform's own suite of products.
- Support from the new subsidised common products development with Magic Software.
- Growth in product-related IT solutions including efficient integration of data, large-scale data warehouses combined with latest data science and business intelligence technologies.

If sales of products do not disappoint, reaching the mid-point of the targeted increase in group revenue will require only a 10–15% increase in consulting revenues from c €20m in 2018 (excluding c €2m product sales and revenues from JI), to c €22–23m. Despite the potential negative impact of a slowing domestic economy, we believe this rate of growth should be supported by the prospects for increased product-related work and the improved competitive position of the company versus freelancers.

Management's current-year forecast of the expansion in the EBIT margin before one-off acquisition costs from the underlying 8.6% (and reported figure of 7.9%) in 2018 to 10–12% looks consistent with the expected growth in high-margin product sales (margins on products are typically in the region of 40% versus approximately 10–20% for consulting activities, depending on the level of product or other specialisation) and the expected increase in proportion of revenues from high margin product-related consulting activities.

Exhibit 5: mVISE targets for revenue and EBIT margin

Exhibit 6: mVISE targets for EPS progression


Source: Company accounts, management forecasts

Source: Company accounts, management forecasts

Exhibit 7: Financial summary

€m	2014	2015	2016	2017	2018
Year end 31 December	HGB	HGB	HGB	HGB	HGB
Income Statement					
Revenue	1.75	4.94	7.88	14.78	22.53
EBITDA	-1.24	-0.76	1.16	1.96	2.47
EBITDA margin	-70.9%	-15.4%	14.8%	13.2%	10.9%
EBIT	-1.44	-1.19	0.46	0.54	1.31
EBIT margin	-82.3%	-24.1%	5.9%	3.7%	5.8%
Profit Before Tax (as reported)	-1.47	-1.37	0.42	0.31	0.95
Net income after tax and minorities (as reported)	-0.53	-0.40	0.63	1.31	1.26
EPS (as reported) (€)	-0.08	-0.05	0.05	0.15	0.12
Dividend per share (€)	0.00	0.00	0.000	0.000	0.000
Balance sheet					
Total non-current assets	1.70	3.43	5.23	14.19	9.21
Total current assets	0.56	1.30	1.72	4.57	10.32
Total assets	2.26	4.73	6.95	18.76	19.53
Total current liabilities	1.44	1.85	2.21	11.26	1.03
Total non-current liabilities	0.27	0.61	1.40	2.46	12.39
Total liabilities	1.71	2.46	3.61	13.72	13.43
Net assets	0.55	2.27	3.33	5.04	6.10
Net cash (debt)	0.01	0.07	-0.15	-3.98	-9.75
Cash flow					
Net cash from operating activities	N/A	N/A	1.16	0.05	-0.63
Net cash from investing activities	N/A	N/A	-1.77	-3.68	-4.44
Net Cash from financing activities	N/A	N/A	0.82	5.90	2.68
Net Cash Flow	0.00	0.00	0.21	2.27	(2.39)
Cash & cash equivalent end of year	0.01	0.07	0.27	2.54	0.153

Source: mVISE, Edison Investment Research

Balance sheet and cash flow

In 2018 the group achieved a 48.8% increase in operating cashflow before working capital to €2.90m. Nevertheless, one-off impacts on working capital from the integration of SHS Viveon staff during the year (arising from its focus on year-end managed service contracts and the resulting build-up in debtors) contributed to a €3.4m increase in year-end trade receivables balances and an additional increase in current tax liabilities during the year. This led to a €0.63 cash outflow from operating activities. This increase in working capital was funded with a €5.8m increase in net debt, resulting in net debt to equity rising sharply from 21% to 160% over the year. We note that payments of the invoices during the first quarter should result in a reduction in net debt and gearing levels by mid-2019.

Valuation

Peer valuation

At present the international software product sector is rated on significantly higher earnings multiples than the consulting sector, reflecting the fast-growing market for digitalisation products and the highly scalable business model of software providers.

In our view, with its mix of product and consulting revenues, there is a good case for mVISE being valued on a multiple between the norms of the two groups, at a premium to the consultants and discount to the product groups. At present, however, after recent share price weakness the stock trades on an FY1 P/E multiple discount to both the consultants and product sectors of 32% and 81%, respectively.

Based on mVISE management's guidance for group revenues and its expectation of a doubling in product sales in each of the next two years, we calculate that mVISE could see consulting revenues fall to c 81% of total revenues in 2019 and 70% in 2020, giving the company a potentially greater exposure to products than Magic Software and providing a strong basis for a re-rating given the significant difference in prospective FY2 multiples.

We see the potential likely catalysts for an mVISE re-rating as:

- successful launch mVISE's elastic.io white-label product;
- realisation of guided growth in software product sales in 2019 and 2020; and
- realisation of growth in higher margin product-related consulting as product sales grow.

Exhibit 8: mVISE valuation table

Name	Price*	Market cap	Sales	EBITDA margin	EV/Sales		EV/EBITDA		P/E		Div yield
		m (\$)	FY1 (m)	FY1 (%)	1FY (x)	FY2 (x)	FY1 (x)	FY2 (x)	FY1 (x)	FY2 (x)	FY1 (%)
mVISE	3.80	36.8	23	10.9	1.6	1.3	9.3	7.5	14.1	10.3	0.0
Peers consulting orientation											
SHS Viveon	5.1	12	N/A	0.0	0.7	0.7	N/A	22.8	neg.	170.0	0.0
Adesso	50.0	346	414	10.7	0.7	0.7	6.9	6.2	19.0	15.2	0.9
Cappgemini	104.2	19,509	14,177	14.5	1.3	1.2	9.0	8.5	16.0	14.7	1.6
Consulting peer median			7,295	10.7	0.7	0.7	8.0	8.5	17.5	15.2	0.9
Peers product orientation											
Magic Software Enterprises	9.2	451	315	N/A	1.3	1.2	N/A	N/A	15.5	13.7	3.1
Atlassian Corp - Class A	110.7	26,678	1,206	26.1	21.3	16.7	81.9	61.5	135.3	110.7	0.0
Invision AG	15.7	39	14	8.1	2.6	2.4	31.5	23.1	104.7	54.1	0.0
Product peer median			363	8.1	8.2	6.5	56.7	61.5	104.7	54.1	0.0
All peer median			414	10.7	1.3	1.2	9.2	8.5	17.5	15.2	0.5
mVISE premium to consulting					108.5	89.5	16.9	(11.6)	(19.6)	(32.3)	(100.0)
mVISE premium to product					(81.2)	(79.2)	(83.5)	(87.8)	(86.6)	(81.0)	N/A
mVISE premium to median					20.8	12.7	1.7	(11.6)	(19.6)	(32.3)	(100.0)

Source: Refinitiv. Note: *Reporting currency. Priced at 08 May 2019.

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