EDISON **Scale research report - Update**

# mVISE

**Software and comp services**

**11 May 2020**

## Resuming its product-driven growth strategy?

**After a poor FY19, mVISE looks to have resumed its growth trajectory. It has just enjoyed a record Q1, and April started well despite COVID-19. It is too early to say if it will escape the economic downturn unscathed, but a more fundamental question regards the growth prospects for its products business. Guidance implies a c 67% rise in product sales in FY20. The long-term fundamentals look good, but, after the FY19 miss, consensus remains cautious and the rating relatively modest (14.2x FY21 EV/EBIT).**

## Hitting reset on FY20 guidance

FY19 revenue of €21.5m declined 4% y-o-y and was €6m (22%) below the mid-point of guidance as the anticipated H2 ramp in high-margin product revenue failed to materialise. Adjusted EBITDA of €1.4m halved year-on-year and was just 25% of the mid-point of guidance. mVISE has lowered the mid-point of FY20 guidance by 27% to €25m for revenue and by 40% to €4m for EBITDA. Effectively it is now aiming to deliver in FY20 what it promised for FY19.

## Product-driven growth strategy

FY20 appears to be off to a good start despite COVID-19. In a usually seasonally slow Q1 utilisation was 100%, sales rose 10% y-o-y and new orders grew €1.5m. Utilisation fell in April but mVISE can access government support to offset any impact on profits. It is too early to say that it has weathered the storm, but, after the setback of FY19, the more fundamental question regards the long-term prospects for elastic.io, its product (software) business. The shift to the cloud-based platforms bodes well for elastic.io and the mid-point of FY20 guidance implies c 67% growth in product revenues (from c €2.1m in FY19 to c €3.5m). mVISE expects products to generate half its incremental growth in FY20. This growth is expected to be largely H2 weighted and make a big contribution to incremental profits.

## Valuation: Evidence of product delivery needed

mVISE's share price has rebounded sharply from mid-March lows but is still down 23% in the last year. At €2.90 it implies a consensus FY21 EV/EBIT multiple of 14.2x, an 8% discount to an average of its nearest software and services peers. Consensus forecasts for FY20 appear conservative versus reset guidance and investors appear sceptical about the ability of mVISE's product strategy to drive above-average growth. If mVISE can navigate the current economic downturn and deliver on its product guidance, there should be upside to both consensus profit forecasts and the rating.

**Consensus estimates**

| Year end | Revenue (€m) | EBITDA (€m) | EBIT (€m) | EPS (€) | EV/EBITDA (x) | EV/EBIT (x) | P/E (x) |
|---|---|---|---|---|---|---|---|
| 12/18 | 22.5 | 2.5 | 1.3 | 0.12 | 14.4 | 27.0 | 24.2 |
| 12/19 | 21.5 | 1.4 | 0.9 | (0.03) | 25.6 | 39.3 | N/A |
| 12/20e | 24.3 | 3.6 | 2.3 | 0.18 | 9.8 | 15.4 | 16.1 |
| 12/21e | 28.0 | 4.2 | 2.5 | 0.25 | 8.4 | 14.2 | 11.6 |

Source: Company data, Refinitiv (based on one estimate)

| | |
|---|---|
| **Price** | **€2.90** |
| **Market cap** | **€26m** |

**Share price graph**


**Share details**

| | |
|---|---|
| Code | C1VX |
| Listing | Deutsche Börse Scale |
| Shares in issue | 8.9m |
| Last reported net debt as at 31 Dec 2019 | €9.6m |

**Business description**

mVISE's core competencies are IT infrastructures and integration, combined with data management and analytics. With over 160 FTE staff, mVISE supports digitisation projects and offers cloud products such as the integration platforms as a service elastic.io and SaleSphere.

**Bull**

- Well placed to benefit from digital revolution with orientation to the Internet of Things, digitalisation, integration, data science and security.
- Strategy remains growing margins via increased high-margin product sales and staff efficiency.
- elastic.io can boost the group's product offerings, support margins and earnings growth.

**Bear**

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

**Analyst**

Dan Gardiner +44 (0)20 3077 5700

tech@edisongroup.com
Edison profile page

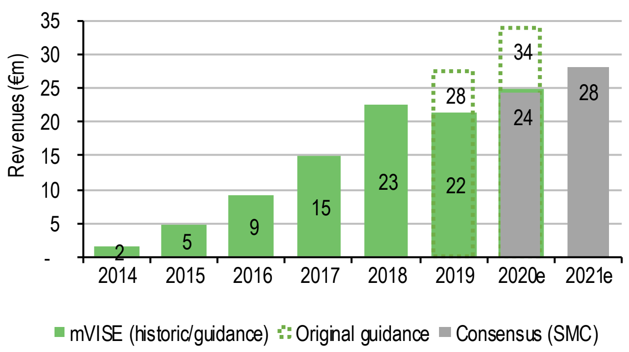
## FY19: A largely product-driven miss

Financial performance in FY19 ultimately fell a long way short of guidance. FY19 revenue of €21.5m declined 4% y-o-y and was €6m (22%) below the mid-point of guidance. In our November note Is an H2 catalyst coming? we highlighted that following a lacklustre performance from the services business (the bulk of mVISE's sales) in H119, product sales needed to accelerate sharply in H219 to avoid missing guidance. Product revenue is tougher to forecast than services, but the shortfall was large: the mid-point of FY19 guidance implied c €5.0m in product sales and the company delivered €2.1m. A further large white-label deal for elastic.io failed to materialise and revenue from SaleSphere was just €0.2m.

The product revenue shortfall had a knock-on impact on profits. mVISE's products may account for a small proportion of sales (just 10% in FY19) but they are high margin (we assume at least 50% at the EBITDA level) and hence the c €3m revenue miss could potentially have at least a €1.5m impact on EBITDA. The mid-point of FY19 guidance implied adjusted EBITDA of €5m and mVISE delivered adjusted EBITDA of €1.4m.

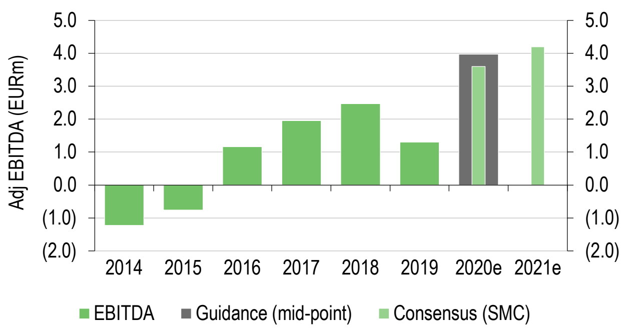
As a consequence of the product revenue shortfall in FY19, mVISE lowered the mid-point of FY20 guidance by 27% for revenue (from €34m to €25m) and by 40% for EBITDA (from €6.5m to €4m). Effectively mVISE is aiming to deliver the profits it guided to in FY19 in FY20.

**Exhibit 1: mVISE revenue and current guidance vs previous guidance and consensus estimates**




Source: Refinitiv (based on one estimate), mVISE accounts

**Exhibit 2: mVISE EBITDA progression vs current guidance and consensus estimates**




Source: Refinitiv (based on one estimate), mVISE accounts

## A good start in 2020 despite COVID-19

Q1 is typically a seasonally slow period yet utilisation in the services business was almost 100%, sales rose 10% y-o-y and new orders increased €1.5m. COVID-19 appears to have had a relatively modest impact on mVISE so far. Operationally the business (which has c 160 employees) has adapted relatively smoothly to working from home. Utilisation fell slightly in April but is only back to normal levels and the company is able to access government support to address any impact on profits.

However, it is too early to say that mVISE has weathered the storm. The company has visibility on most of its projects until the end of Q2. Government restrictions on movement are easing but demand in the transport and retail sectors may remain muted for some time. While the company does have significant business in relatively unaffected segments like telecommunications and technology, it also has customers in transport (BMW and Lufthansa) and retail (Media Saturn). It is difficult to imagine that activity in these segments will not be affected in some way. However, it is equally possible that the disruption caused by the current crisis could catalyse and ultimately accelerate the shift to cloud-based, big data-driven platforms. It is simply too early to understand the net effect in either the near or long term.

## Is the product-driven growth strategy intact?

Setting aside the uncertainties surrounding the COVID-19 downturn, in our view the more fundamental question is what the long-term prospects for mVISE's custom software products (elastic.io and SaleSphere) are. These products were at the heart of its 2018+ strategy, a three-year plan to drive revenue growth and expand margins. Guidance set out at the time anticipated product sales rising from just 5% of the mix to 30% by FY20 and, due to their higher margin, raising overall EBITDA margins to c 19%. Following the set-back in FY19, expectations of product sales in FY20 have been scaled back significantly. Product sales now are guided to be c €3.5m (c 14% of total sales), about a third of the original expectations.

elastic.io aims to provide integration platform as a service (iPaaS) to companies looking to integrate and sync their 'on-premise' and cloud-based software solutions. Its growth is supported by favourable long-term market trends in our view. As companies look to exploit the convenience, flexibility and lower cost of cloud solutions, the need for platforms that can address the integration challenges increases. mVISE currently markets elastic.io through multiple white-label partners (Magic Software and Deutsche Telekom are the most significant) and has continued to invest to improve the product.

While the long-term demand picture is healthy, forward visibility remains low. Agreements with Deutsche Telekom and AppDirect are now a year old and it is clear that sell through has been slower than anticipated. Nevertheless, the company believes there are opportunities to extend both its roster of white-label partners and its current deal with Magic Software (originally signed in 2018).

SaleSphere is a software solution that aims to digitalise in-store sales processes by bringing in data from the customer relationship management, product information management and enterprise resource planning systems. mVISE remains confident in its long-term prospects despite a poor FY19 (revenue of €0.2m).

Consensus appears to be anticipating 13% revenue growth in FY20 (below 15%, which is the mid-point of the updated guidance range) accelerating to 15% in FY21. Given the high margin of product revenue, if mVISE can navigate the current economic downturn and meet its product revenue guidance there should be upside to consensus profit estimates.

## Valuation

We provide an indicative valuation of mVISE by deriving a composite multiple from its nearest listed consulting and software peers. With year-end FY19 net debt of €9.6m accounting for nearly 30% of EV, the capital structure makes its P/E multiple look artificially low and skews comparisons with its nearest peers. Applying a peer group average FY21 EV/EBIT multiple of 15.5x to consensus estimates suggests a €3.4 per share valuation, 17% upside to the current price. Software companies tend to be more highly rated than services businesses. If mVISE can deliver the product (software) growth it is aiming for, arguably there is scope for the multiple to expand.

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Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1,185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia