EDISON **Scale research report - Update**

mVISE

Software and comp services

29 September 2020

Resilient in the downturn

A strong performance from its services business (+6% y-o-y) saw mVISE deliver growth, margin uplift and cash flow in H1 despite COVID-19. However, this was partially offset by another shortfall in product revenue (-39% y-o-y). Sales here were affected by the pandemic, and uncertainty about product growth in H2 has led the company to withdraw guidance and consensus to cut FY20 EPS by 52%. Our concerns are focused on the longer term. FY21 consensus forecasts (15% revenue growth) and the rating (18.0x FY21 EV/EBIT) appear predicated on product growth.

Resilient services business

Service revenue (97% of the total) posted an impressive 6% growth in H1 despite COVID-19. The strong performance we highlighted in Q1 (see Resuming its product-driven growth strategy?) continued into Q2. Longstanding client relationships and a 60–70% exposure to telecom and utility sectors that are experiencing minimal disruption helped maintain activity levels. In a typically seasonally weaker period, this resumption in growth helped fuel an expansion in EBITDA to €0.3m (a 3.1% margin) and free cash flow (FCF) of €1.5m.

Products still struggling however

Product sales, the expected driver of both growth and higher margins in the long term, were weak again (down 39% y-o-y to just €0.3m). SaleSphere, which provides a sales platform to in-store and travelling sales teams, was particularly heavily hit by lockdown restrictions. Management indicates the elastic.io pipeline is at record levels and that the company has just closed an important deal. However, reflecting the wider economic uncertainty and last year's miss, it acknowledges that predicting the timing of closure is difficult and has withdrawn guidance. Consensus has lowered FY20 expectations for product revenues from €1.5m to just €0.9m. Implying just €0.6m in H2, this figure looks beatable. However, FY21 estimates imply total sales growth of 15%, a re-acceleration that appears to be largely driven by products.

Valuation: Product catalyst still needed

mVISE's share price has fallen 28% since May, while consensus FY21 EPS has fallen 52%. Its share price of €2.09 implies a consensus FY21 EV/EBIT multiple of 18.0x, a 56% premium to the average of its nearest IT services peers. This rating appears predicated on growth in its high-margin product sales (its nearest software peers can command EV/EBIT multiples above 20x). A product driven beat of consensus forecasts in H220 would significantly bolster conviction in longer-term prospects in our view, justifying both FY21 forecasts and the current rating.

Consensus estimates

Year end	Revenue (€m)	EBITDA (€m)	EBIT (€)	EPS (€)	EV/EBITDA (x)	EV/EBIT (x)	P/E (x)
12/18	22.5	2.5	1.3	0.11	10.9	20.6	19.0
12/19	21.5	1.4	0.1	(0.03)	19.5	269.8	N/A
12/20e	21.8	2.7	1.5	0.11	10.0	18.0	19.0
12/21e	25.1	3.0	1.5	0.12	9.0	18.0	17.4

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

Price	**€2.09**
Market cap	**€19m**

Share price graph

Share details

Code	C1VX
Listing	Deutsche Börse Scale
Shares in issue	8.9m
Last reported net debt at 30 June 2020	€8.3m

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, and support margins and earnings growth.

Bear

- Project-based consulting business faces risk of low utilisation in the pandemic.
- Own-developed software products (elastic.io and SaleSphere) have not achieved expectations.
- Net debt is currently €8.3m, 31% of EV.

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Edison profile page

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H120: Resurgent, resilient services business

In our last note (Resuming its product-driven growth strategy?) we highlighted the strong performance of the services businesses in Q1 with sales up 10% y-o-y and utilisation of 100% (unprecedented in a typically seasonally weak quarter). Utilisation returned to more normal levels in Q2, but overall growth of 6% y-o-y still represented a substantial improvement on the -11.9% delivered in H219. The company adapted smoothly to the operational challenges posed by COVID-19 with all employees quickly shifting to home-based, online working. mVISE also benefited from 60–70% of its revenue coming from the telecoms and utility sectors (Deutsche Telekom, Vodafone and Telefonica are major customers). With largely recurring revenue streams and operations predominantly unaffected by lockdown policies, these sectors have proved highly resilient in the current downturn. mVISE has felt some impact of COVID-19 in its Munich office due to exposure to clients such as BMW and Media Saturn, which have been affected. In Munich the company has taken advantage of the government's short-term working to the offset the impact on the bottom line.

The resilient performance of services was partially offset by a 39% y-o-y decline in product sales to just €0.3m. SaleSphere, which provides a sales platform to in-store and travelling sales teams, was heavily hit by lockdown restrictions. Elastic.io was also affected by customers' reluctance to invest in IT transformation at a time of unprecedented disruption.

Despite the decline in product sales, in a typically seasonally weaker period, EBITDA rose to €0.3m (a 3.1% margin), up from just €0.1m in H119. A large positive swing in working capital enabled the company to generate FCF of €1.5m and reduce its net debt to €8.3m. In a period of unprecedented disruption, mVISE should be pleased with the resilience of its financial performance overall.

Can a product catalyst in H2 underpin longer-term forecasts?

Our previous note asked whether the product-driven growth strategy was still on track following the big revenue miss in 2019. As arguably much of the weakness in H1 was attributable to COVID-19, this question remains unresolved.

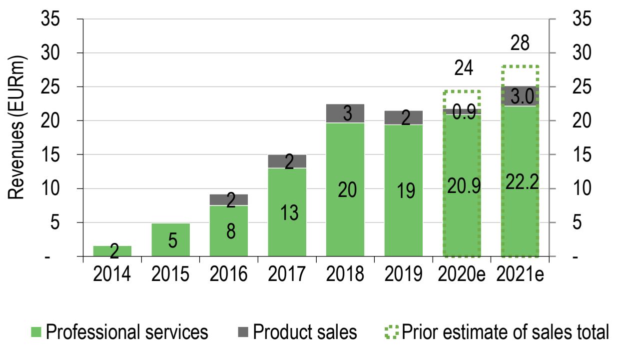
mVISE clearly remains committed to its product strategy. At SaleSphere it has cut costs but has also installed new management to drive a turnaround. At elastic.io it continues to invest in the platform. It claims that the pipeline in both businesses is now building nicely and that the order book is currently at record levels. It has just signed its third largest ever deal (after Magic Software and Deutsche Telekom).

Yet despite the record order book, the company still acknowledges significant uncertainty surrounding the timing of deal closure (and revenue recognition) in its product business and has withdrawn financial guidance. This caution appears prudent given the current wider economic picture and last year's miss. Reflecting this uncertainty, consensus expectations for FY20 product sales (based on one broker) have fallen from €1.5m to €0.9m and total sales to €21.8m (essentially flat on FY19). FY21 total sales have fallen from €28m to €25m. FY20 and FY21 EPS forecasts have fallen 39% and 52% respectively (see Exhibit 1 and 2).

The reset FY21 consensus figures are lower, but delivery still implies a reacceleration of revenue growth to 15%, driven by product revenue in our view. Assuming services growth of 6% (ie the current good performance continues) implies product sales trebling to €3.0m in FY21. This is feasible but not without risk given the historical underperformance and delays to product sales.

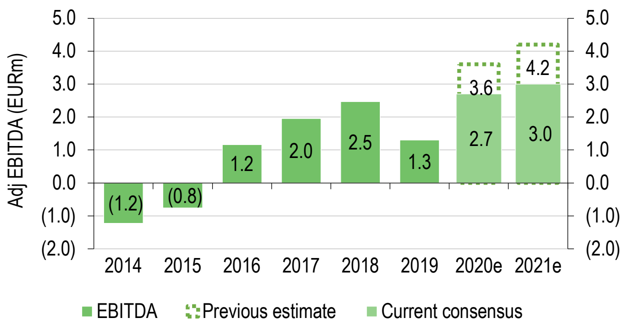
This analysis helps put performance in H220 in context. Implying just €0.6m in a seasonally strong H2 (a year-on-year decline of 63%), revised consensus product expectations now look eminently beatable. However, a good performance here (ie at least meeting, and preferably beating, numbers) will be vital to maintain confidence in the product-driven growth strategy and longer-term forecasts.

Exhibit 1: mVISE revenue and current consensus vs previous estimates



Source: mVISE accounts and Refinitiv (based on one estimate) with products sales for FY21 estimated by Edison (see text)

Exhibit 2: mVISE EBITDA progression vs current guidance and previous estimates



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

Valuation

Due to the potential scalability and high margins of the software model, promising software companies typically attract higher valuation multiples than services companies. mVISE's nearest software peers trade at EV/EBIT ratings above 20x, while its services peers trade at 11.5x. At €2.09, mVISE's current share price implies a consensus FY21 EV/EBIT multiple of 18.0x, lower than many of its nearest software peers but a 56% premium to its nearest IT services peers.

Given software products accounted for just 3% of sales in H120, we believe a software rating should not be applied to mVISE currently. The current premium appears to be predicated, to a large extent, on rapid product growth in FY21 and beyond. In our view a strong performance from products in H220 is needed to bolster conviction in these long-term prospects and justify both FY21 forecasts and the current rating.

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