

## mVISE

### Is an H2 catalyst coming?

mVISE interims highlight a business continuing to make progress on its three-year 2018+ strategy. Headline revenues rose nearly 7% y-o-y and 12% organically. With new white-label partners now marketing elastic.io, a big acceleration in product and associated (high-margin) consulting sales is expected in H2 and the company has maintained its FY19 guidance. We see the shift to cloud-based, big data-driven platforms providing an excellent long-term growth tailwind. In our view, these prospects are not reflected in a consensus FY20 P/E of 12.1x.

### H1 progress, acceleration anticipated in H2

Organic growth of 11.8% y-o-y represented a healthy performance but is below the c 25% rate implied by the mid-point of FY19 guidance. Low professional services utilisation in Q2, a slow start from SaleSphere and a delay to the start of elastic.io marketing contributed to weaker than expected growth. Combined with an uptick in development costs, this led to a dip in EBITDA margins (from 7.2% in H118 to 1.3% in H119). Nevertheless, the company re-iterated FY19 guidance. H2 is typically seasonally stronger – with a full period of large partners now selling elastic.io and SaleSphere orders ramping, product sales should grow substantially. This product growth should pull through high-margin consulting revenue.

### Strategy: Products capitalise on growth opportunity

mVISE believes the shift to cloud-based platforms and growth in big data provides an excellent long-term growth opportunity. Customers engage it to help devise, integrate and implement migration and hybrid strategies. Augmenting the core professional services business with high-margin software products (elastic.io and SalesSphere) should accelerate growth, raise margins and enhance visibility. mVISE's three-year 2018+ strategy targets revenue of €33–35m in FY20 (a 33% CAGR) and 19% EBITDA margins (+7pp) primarily driven by product sales.

### Valuation: Delivery in H2 a catalyst for re-rating?

mVISE's interims prompted a 12% fall in the share price and a 20% cut to consensus EPS estimates (below company guidance). The 12.1x FY20 EPS multiple implied by the current €3.02 share price is still 19% below its nearest peers. The company has delivered substantial growth historically and is exposed to healthy fundamental trends that should sustain this trajectory. In our view, if mVise delivers the acceleration in H2 it anticipates, it could prove a catalyst for the shares.

#### Consensus estimates

Year end	Revenue (€m)	EBITDA (€m)	PBT (€)	EPS (€)	EV/EBITDA (x)	P/E (x)	Yield (%)
12/17	14.8	2.0	0.5	0.16	18.1	18.9	N/A
12/18	22.5	2.5	1.3	0.12	14.3	25.2	N/A
12/19e	25.9	4.0	2.4	0.18	8.8	16.8	N/A
12/20e	29.8	4.6	2.9	0.25	7.7	12.1	N/A

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

#### Software & comp services

12 September 2019

Price €3.02

Market cap €26m

#### 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 infrastructures and integration, combined with data management and analytics. With over 160 full-time equivalent (FTE) staff, mVISE supports digitisation projects and offers cloud products such as the integration platforms as a service elastic.io 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.
- The new strategy is 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.

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## Interims: Progress but revenue growth below trend

After delivering an impressive 52% y-o-y revenue growth in FY18, H1 growth slowed to 6.6% y-o-y (11.8% on an organic basis), well below the 22% needed to deliver FY19 guidance. While demand for consulting (95% of sales) was healthy (up 13.1% y-o-y), growth was affected by low utilisation in Q2 as two major projects were completed. The bigger shortfall was in products (5% of sales). SaleSphere signed five new customers (including FinTyre, Konica Minolta, Yokogawa and Schomburg) but none of these contracts generated material revenue in H1 and a reduction in project revenues saw sales fall year-on-year. A delay in the development of elastic.io also affected sales.

The slowdown in revenue growth combined with an uptick in software development costs, which led to a 11.6pp decline in gross margin (from 83.5% in H118 to 71.9%). As a result, EBITDA fell to €0.1m and EBIT turned negative. However, as a result of a reduction in receivables, FCF was positive (€0.4m), reducing net debt from €9.8m to €9.4m.

**Exhibit 1: Revenue growth in H1 vs historic and implied H2 rates**

€m	H118	H218	FY18	H119	H219e*	FY19e*
Revenue - headline	9.2	13.3	22.5	9.8	17.7	27.5
<i>Growth y-o-y (%)</i>			52.0	6.6	33.1	22.2
Revenue - adjusted	8.8	13.2	22.0	9.8	17.7	27.5
<i>Growth y-o-y (%)</i>			48.9	11.8	33.4	24.8
Professional services	8.4	11.3	19.7	9.5	13.0	22.5
Product sales	0.4	2.0	2.8	0.5	4.5	5.0
- elastic.io	0.3	1.8	2.1	0.5	-	-
- Salesphere	0.1	0.1	0.2	0.0	-	-

Source: Company data/guidance. Note: \*Midpoint of €26–29m range. H2 figure implied.

## Acceleration anticipated in H2

mVISE believes these issues will prove temporary and, with a typically seasonally stronger H2, management remains confident it can meet FY19 guidance. The SaleSphere orders secured in H1 should become revenue generating and, now that all three large white-label partners (Magic Software, Deutsche Telekom and AppDirect) are commercially active, elastic.io product sales should also grow substantially. In FY18 nearly 90% of elastic.io revenue was generated in H2. Expansion of the white-label contracts at the year-end should be a further boost and product growth should also pull through high-margin product-based consulting revenue. In addition, the nationwide restrictions on hiring non-payroll staff is expected to have a beneficial impact on both demand and pricing of software consultancy.

Reaching the mid-point of FY19 guidance (revenue of €27.5m and EBITDA margin of 15%) requires generating €17.7m of revenue in H2 (an acceleration to 33% y-o-y) and EBITDA margins above 20%.

## Longer-term prospects

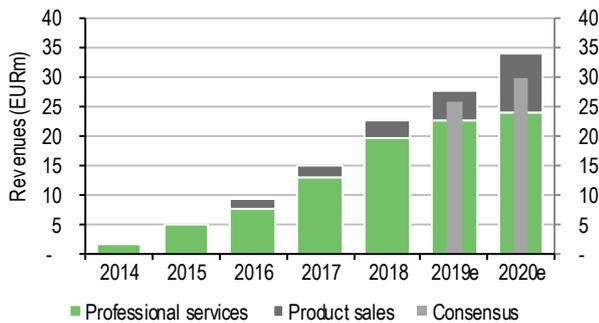
In March 2018 mVISE launched 2018+, a three-year strategy to target revenue of €33–35m in FY20 (a 33% CAGR) coupled with raising EBITDA margins to c 19% (+7pp). In our view, this ambition is supported by the excellent long-term growth trends in its core market. Companies are looking to steadily migrate from on-premise software solutions to cloud-based platforms to exploit scale economies and increase flexibility. mVISE's professional services proposition helps customers manage this transition and integrate big data and analytics tools. To support its growth here, mVISE plans to expand its headcount from 160 to over 200.

To augment its professional services growth, mVISE is also developing custom software products. Annualising just €1m or 5% of sales in H119, the current company results presentation appears to

imply software products generating €9–10m (c 30% of sales) by FY20. Aside from the growth opportunity, subscription software products should prove more scalable, higher-margin and offer good visibility. Product sales should pull through high-margin, product-based consulting revenue.

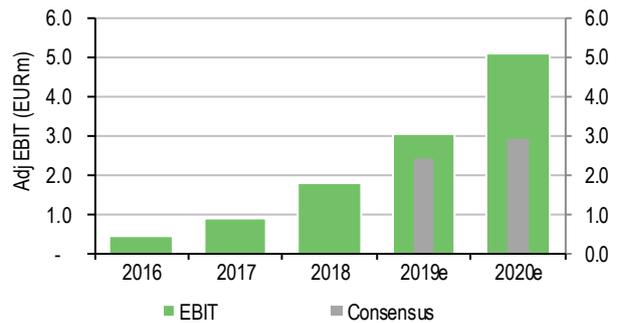
**SaleSphere** is a software solution that aims to digitalise the instore sales processes by bringing in data from the customer relationship management, product information management and enterprise resource planning systems. Despite a slow start, the uptick in orders in H1 gives mVISE confidence in SaleSphere’s long-term prospects.

**Exhibit 2: mVISE targets for revenue vs consensus estimates**



Source: Refinitiv, company accounts

**Exhibit 3: mVISE targets for EBIT vs consensus estimates**



Source: Refinitiv, company accounts

## Valuation

We value mVISE by deriving a multiple from its nearest listed consulting peers. Applying a peer group average 14.9x rating to its FY20 P/E consensus estimates suggests a €3.7 per share valuation, 23% upside to the current price. Delivering on its guidance suggests an FY20 EPS of c €0.37. Applying the same multiple to the guidance-based FY20 EPS suggests a share price of €5.5, nearly double the current price. In our view, delivery on a challenging H2 target could prove a significant catalyst for the shares. In addition, software companies tend to be more highly rated. As mVISE’s software revenues rise in the mix, arguably its multiple should also increase.

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