

m-u-t

Record-beating trajectory continues

Management's focus on high-margin products and services for OEMs across a very broad range of applications in the clean tech, life science and green tech sectors resulted in strong growth in operating profit for m-u-t during H117. This result follows on from a record-beating FY16. The trend is set to continue, with management raising FY17 guidance.

Platform in place to support profits growth

Managements' hard work creating a profitable, cash-generative platform over the last five years is clearly paying off. Group revenues increased by 11.6% year-on-year during H117, to a record €31.4m. This resulted in strong growth in both EBIT (30.5% rise to a record €5.7m) and EPS (25.5% improvement to €0.64/share). EBIT margin rose by 2.6pp to 18.0%, reflecting higher sales at an improved average gross margin on a fairly constant cost base. Net cash increased by €3.2m to €8.4m. Minimal capex was required as the group already has the infrastructure required to support growth. This cash level gives plenty of scope for further acquisitions of small companies such as APOS, which are at the upper end of the value chain.

Industry trends support further growth

Noting out-performance during H117 and a positive outlook for flexible measurement technology, management has raised FY17 EBIT guidance from €7.3m to €8.0-8.5m (FY16 €6.8m actual EBIT) on sales of €56.0m-59.0m, which is a slight increase on FY16 revenues. Revenue guidance was broadly unchanged. We expect this growth to continue. Non-contact measurement is a key element of the remote-controlled continuous online measurement approach that is part of the fourth wave of the Industrial Revolution. By engaging with many OEMs, helping each of them create systems tailored for specific applications, m-u-t is able to benefit from growth in multiple segments as and when individual markets take off. Its unrivalled breadth of product portfolio gives a distinct competitive advantage.

Valuation: Trading at a discount to peers

A comparison of m-u-t's prospective EV/sales, EV/EBITDA and P/E multiples with those in our sample of European listed companies involved in instrumentation shows m-u-t trading at a discount to the sample mean on all metrics (EV/sales 1.1x vs 3.0x for sample, EV/EBITDA 6.7x vs 14.2x for sample, P/E 15.4x vs 23.0x). We note that consensus estimates show m-u-t growing more slowly than most of the sample and that while EBIT margin is improving management's FY17 guidance (c14.4%) is slightly less than the sample mean (16.2%).

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/15	52.1	5.5	0.64	0.0	22.2	N/A
12/16	54.5	6.5	0.76	0.0	18.7	N/A
12/17e	56.5	7.4	0.92	0.0	15.4	N/A
12/18e	58.1	7.5	0.94	0.0	15.1	N/A

Source: Company data, Bloomberg. Note: *After deducting minority interest

Measurement instruments

04 September 2017

Price **€14.31**
Market cap **€69m**

Share price graph



Share details

Code	M7U
Listing	Deutsche Börse Scale
Shares in issue	4.8m
Last reported net cash as at end June 2017	€8.4m

Business description

m-u-t is an integrated provider of photonics solutions based on a common technology platform. It uses non-contact optical technology to create customised systems for OEMs, which are deployed in the clean tech, green tech and life science sectors.

Bull

- Ability to provide customised solutions for OEMs
- Addresses high-growth emerging markets.
- Multiple sectors give resilience.

Bear

- Dependent on customer activity to drive sales.
- APOS acquisition a drag on margin growth.
- Modest revenue growth guidance.

Analysts

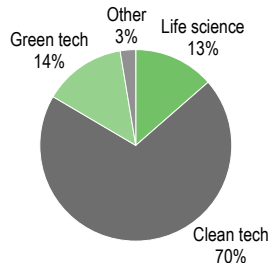
Anne Margaret Crow	+44 203 077 5700
Roger Johnston	+44 203 077 5722

industrials@edisongroup.com

Edison Investment Research provides qualitative research coverage on companies in the Deutsche Börse Scale segment in accordance with section 36 subsection 3 of the General Terms and Conditions of Deutsche Börse AG for the Regulated Unofficial Market (Freiverkehr) on Frankfurter Wertpapierbörse (as of 1 March 2017). Two to three research reports will be produced per year. Research reports do not contain Edison analyst financial forecasts.

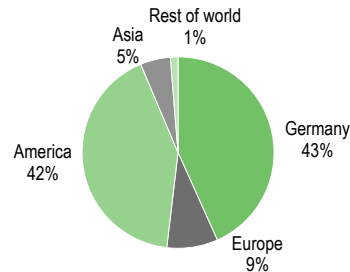
H117 performance further validates strategy

Exhibit 1: Revenues by segment



Source: Edison Investment Research

Exhibit 2: Revenues by geography



Source: Edison Investment Research

Between 2012 and early 2016, management implemented a programme of activities intended to transform m-u-t from a loss-making, debt-laden group of companies into an integrated platform capable of delivering profitable, cash-generative growth. It cut costs throughout the organisation, sold off or closed unprofitable operations and focused activities on providing a full service offer for OEMs in Europe, North America and Asia.

The H117 results clearly demonstrate the success of this strategy. Group revenues increased by 11.6% year-on-year to a record €31.4m. Clean tech sales jumped by 42% because of a spectroscopy application in the semiconductor segment, which was also behind a 57% hike in sales to North America. This positive effect offset an anticipated 37% drop in life science sales that resulted from some customers destocking and a side-effect from the disposal of the 'direct-to-customer' laboratory automation business in November 2015, because some revenues associated with this operation were received in H116. The 13% decline in green tech sales was caused by some revenues moving from H117 into H217. The ability to achieve revenue growth at group level, despite short-term setbacks in two of the divisions, highlights the importance of engaging with multiple OEMs across a wide range of market segments. Importantly, the revenue growth resulted in much stronger growth in both EBIT (30.5% rise to a record €5.7m) and EPS (25.5% improvement to €0.64/share). EPS growth was held back by a higher proportion of profits attributable to non-controlling interests. EBIT margin rose by 2.6pp, reflecting higher sales at an improved average gross margin on a cost-base that was fairly constant, despite absorbing the additional staffing costs associated with acquiring a stake in APOS, which is effectively a start-up, in August 2016. Management is hoping to improve margins further by selling more branded product and focusing on scalable products.

The group was highly cash-generative during the period because the group already has the infrastructure it needs to support good growth. On top of record operating profits, only €0.4m was required for office and operating equipment (less than the €0.5m charge for depreciation and amortisation). Net cash increased by €3.2m to €8.4m. This level of cash gives plenty of scope for management to continue with the 'buy-and-build' strategy it has pursued since 2007.

Favourable outlook supported by industry trends

Noting out-performance during H117 and a positive outlook for flexible measurement technology, management has raised FY17 EBIT guidance from €7.3m to €8.0-8.5m (FY16 €6.8m actual EBIT) on sales of €56.0m-59.0m, which is a slight increase on FY16 revenues. Revenue guidance was broadly unchanged.

We expect this growth to continue. Non-contact measurement is a key element of the remote-controlled continuous online measurement approach that is becoming increasingly prevalent. The information obtained by m-u-t's spectroscopy systems is used to determine the quality of coatings on glass, plastic foils or metal sheets, film thickness, moisture concentration, sheet resistance and colour, the concentration of gases and surface temperature. m-u-t creates customised turnkey system solutions that are used by a wide range of industrial producers and plant operators to optimise processes and generate sustainable cost savings. These include production control of integrated circuits, LEDs and displays; in-line measurement of coatings on photovoltaic cells; monitoring biogas plants; purifying water in the third world; monitoring and regulating UV light sources used to cure inks; measuring the thickness and electrical property of individual layers during the manufacture of photovoltaic cells; detecting counterfeit or adulterated gasoline; monitoring the quality of recycled water; checking for bacteria and toxins in food; and saving water when operating sanitary facilities in railway trains. The technology is also applicable to smart farming, where it is used to check the nutritional content of freshly harvested crops and to calculate the amount of fertiliser to apply and to point-of-care medical diagnostics.

By engaging with many OEMs, helping each of them create systems tailored for specific applications, m-u-t is able to benefit from growth in multiple segments as and when individual markets take off. No single competitor has the same breadth of product portfolio or ability to provide customised solutions for customers, giving m-u-t a distinct advantage when addressing these emerging opportunities.

Valuation

Although the shares have dropped back from a peak of €17.6 in June, they are still more than double the price they were a year ago. A comparison of m-u-t's prospective EV/sales, EV/EBITDA and P/E multiples with those in our sample of European listed companies involved in instrumentation shows m-u-t trading at a discount to the sample mean on all metrics. We note that consensus estimates show m-u-t growing more slowly than most of the other companies in our sample and that while EBIT margin is improving management's FY17 guidance (c 14.4 %, which is ahead of consensus estimates), it is slightly less than the sample mean (16.2%).

Exhibit 3: Listed peers

Name	Market cap (\$m)	EV/sales 1FY (x)	EV/sales 2FY (x)	EV/EBITDA 1FY (x)	EV/EBITDA 2FY (x)	PE 1FY (x)	PE 2FY (x)	Year 1 EBIT margin (%)	CAGR (%)
Halma	5,342	4.2	4.0	17.3	16.2	25.0	23.3	21.0	6.5
Hexagon Ab-B	17,618	5.0	4.7	16.3	14.2	23.4	20.9	23.2	6.3
Isra Vision	747	4.4	4.0	14.9	13.4	31.3	27.3	20.7	10.8
Jenoptik	1,678	1.9	1.8	13.2	12.1	23.1	20.7	10.3	6.8
Oxford Instruments	783	2.2	2.1	13.3	12.9	19.6	18.2	13.8	-1.1
Spectris	3,563	1.9	1.9	12.2	11.0	17.2	15.3	13.2	5.9
Vaisala	854	2.0	1.9	13.3	11.7	24.1	19.8	11.8	4.6
Viscom	257	2.3	2.0	12.7	11.6	20.6	18.8	15.8	12.2
Mean		3.0	2.8	14.2	12.9	23.0	20.5	16.2	6.5
m-u-t*	81	1.1	1.1	6.7	6.5	15.4	15.1	14.0	3.7

Source: Bloomberg. Prices at 4 September 2017. Note: *based on consensus estimates.

Edison, the investment intelligence firm, is the future of investor interaction with corporates. Our team of over 100 analysts and investment professionals work with leading companies, fund managers and investment banks worldwide to support their capital markets activity. We provide services to more than 400 retained corporate and investor clients from our offices in London, New York, Frankfurt and Sydney. Edison is authorised and regulated by the [Financial Conduct Authority](#). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison and is not regulated by the Australian Securities and Investment Commission. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

DISCLAIMER

Any information, data, analysis and opinions contained in this report do not constitute investment advice by Deutsche Börse AG or the Frankfurter Wertpapierbörse. Any investment decision should be solely based on a securities offering document or another document containing all information required to make such an investment decision, including risk factors.

Copyright 2017 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Deutsche Börse AG and prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Aus and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE 2017. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.