EDISON Scale research report - Update

mic

Good for now

H118 results suggest continued progress in mic's 'remarkable change of course' although, in the absence of management commentary/guidance, underlying performance and immediate financial prospects are necessarily hard to judge. Gross profit was c 20% ahead of H217, while EBT was broadly maintained year-on-year after adjusting for one-off restructuring gains, which flattered the comparative. Significantly, there was also further marked reduction in liabilities (€0.5m vs €0.8m at December 2017) thanks to efficiencies. Restructuring was last reported in July to be largely completed, with management confident that its portfolio focus on three business areas with good potential is 'very much on track'.

H1 broadly positive

Interpretation of performance is curbed by scant management comment and no disclosure of individual business results. However, summary figures show resilient operating returns, as detailed on page 2, with improved finances ($\in 0.25$ m cash and no bank debt), and are encouragingly free of write-downs, which dogged 2016 by more than halving the size of the balance sheet. As a measure of progress, comparison with H217 indicates further good headway with gross profit up by a fifth and labour costs, thanks to restructuring, down by a half. Management reference to steady like-for-like EBT suggests c $\in 0.1$ m positive exceptional items in H118.

Management optimism

In the absence of financial guidance, we may rely only on management's July comment that products and services are 'selling well' and that customers are 'very satisfied'. The company regards 2017's outturn as a turning point and is confident that it is now on a promising footing. Management has been further stabilised with the extension of the contract of the sole board member, Andreas Empl, until 2021. mic's areas of focus are large-scale data retrieval (big data); digital factory and Industry 4.0, in particular automated optical inspection; and fibre-optic sensing.

Valuation: One for the long term

Given the scale of uncertainties about the refocusing, it is difficult to make firm assertions about mic's valuation. Also, in terms of comparing the price with the NAV, full 2017 accounts will offer only a rudimentary guide to the value of operating companies, as publication is in line with HGB and thus at written-down cost price. mic does not pay a dividend, so earnings-based measures are of limited value.

Historical financials

Year end	Net profit (€m)	Total equity (€m)	EPS (€)	NAV/share (€)	P/E (x)	P/NAV (%)
12/14	1.3	39.0	0.2	5.05	2.5	0.1
12/15	1.4	45.4	0.1	4.44	4.9	0.1
12/16	(29.7)	20.9*	(2.1)	1.51	N/A	0.3
12/17	0.1	21.9	N/M	1.47	N/A	0.3

Source: mic accounts. Note: *Including €5.1m from capital increase in progress at year-end.

Financials

9 October 2018

Price	€0.49
Market cap	€7.5m

Share price graph

Share details	
Code	M3BG
Listing	Deutsche Börse Scale
Shares in issue	15.3m
Equity ratio at June 2018	97%

Business description

mic is a diversified technology investment company focused on large-scale data handling, automated optical inspection systems for the automotive industry and acoustic and strain monitoring over fibre-optic networks. It holds majority stakes in companies through intermediate holding companies.

Bull

- Prospects for new technology businesses.
- Radical strategic refocus largely completed.
- Sound finances

Bear

- Unproven business record.
- Execution risk of acquisition strategy.
- Risk of dilution from refinancing.

Analysts

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Review of H118 results

mic conducts its operations through distinct business units, each focused on a specific area of technology and application, and incorporated in discrete corporate entities: micData (large-scale data handling), Smarteag (fibre-optic infrastructure monitoring) and 4industries (industrial applications). One of these – micData – has a stock market quotation in its own right.

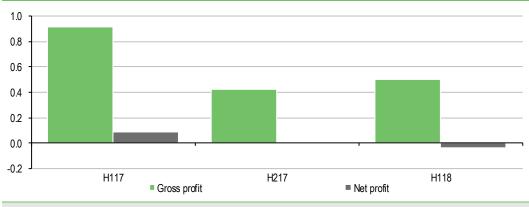
However, mic publishes accounts in line with German HGB solely for the parent company. While the presence of intermediate holding companies dilutes the impact of trading performance at the operating subsidiaries, general trends may be derived from the figures.

Exhibit 1: Financial summary

€m, HGB	H117	H217	FY17	H118
Income statement				
Gross profit	0.92	0.42	1.34	0.50
Net profit	0.09	(0.01)	0.08	(0.04)
Balance sheet				
Equity in related companies	7.5		5.4	5.3
Loans to related companies	10.7		10.0	10.4
Investments	0.7		0.7	2.2
Equity	20.9		21.9	22.3
Total assets	23.5		23.0	23.0

Source: mic accounts

Exhibit 2: Gross and net profit evolution (€m)



Source: mic accounts



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