Going for the big fish – price target raise to €30

Buy

PT: €30.00 (vs €22.00)

Changes	2021E	2022E
Revenue	-10.2%	64.7%
EPS	-	-

Key data

Ticker	**MUX GY**
Price (4 November 2021)	**€23.50**
Upside to Price Target (%)	27.7
Market Cap (m)	408
Free Float (%)	50.0
Daily Value Traded (m)	0.4
No. of Shares (m)	20.04
1mth perf (%)	5.9
3mth perf (%)	2.8
12mth perf (%)	101.1
12mth high-low (€)	28 - 11

Key financials

(In EUR M)

Year to Dec	2020A	2021E	2022E
Group revenue	1,584	2,530	4,439
EBITDA (rep.)	143	(21.8)	8.3
EBIT (rep.)	41.2	(246.98)	(377.92)
DPS (c)	1.50	1.75	2.40
Net debt/(cash)	406.4	164.6	117.3
ROCE (NOPAT) (%)	11.4	24.7	23.3
EPS (adj.) y/y (%)	--	--	--
Net debt/EBITDA	(14.1)	(9.8)	8.83
EV/Sales	0.5	0.2	0.1
EV/EBITDA (adj.)	(26.5)	(32.7)	44.2
EV/EBIT (adj.)	10.5	2.6	1.5
P/E (adj.)	--	--	--
Dividend yield (%)	6.4	7.4	10.2
Free CF yield (%)	(12.0)	112.7	280.3
EV/CE	1.2	0.7	0.3

Prices are as of close 4 November 2021

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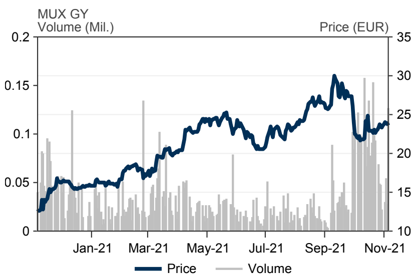
All sources unless otherwise stated: Company data, FactSet, Stifel estimates

Share price performance (indexed)



Summary

- impressively, MUX management has shown flawless execution with its strategic and financial targets over the past 12 months.
- Going forward, MUX will even step up a gear as it expands its TAM. The company feels well positioned to target significantly larger investments, a view we share, especially against the backdrop of ~€95m of net proceeds from the recent capital increase.
- While we concede that the strategy comes with higher risks, higher returns should more than compensate for that.
- We significantly raise our holding income and earnings estimates, which should trigger continued attractive dividend payouts as we forecast FY21E and FY22E DPS of €1.75 and €2.40, respectively.
- We raise our target price for the stock to €30 (up from €22).

Key Points

- At its recent CMD, MUX management announced that it would step up a gear and target significantly larger acquisitions in the coming years. As this strategy requires "more skin in the game" from private equity buyers, MUX conducted a capital increase, which was successfully completed in October and led to net inflows of ~€95m. Against the backdrop of a strong track record over the last 24 months, which transformed the company into a leading private equity company with a focus on special situations across Europe, and the increased M&A firepower, we see MUX well positioned to execute on its strategic goals.
- The company has set out aggressive new targets, which should catapult aggregated revenue from its portfolio companies to more than €5bn in FY23E. This requires additional revenue of ~€1.2bn in FY22E and FY23E, which, at this stage, may appear stretched. However, in our view, the acquisition of Lapeyre in France, which should add an estimated €600m in revenue and required a cash injection of ~€20m by MUX, proved that MUX management can walk the talk. The current market environment should provide continued tailwinds to MUX special situations strategy and trigger constant deal flow. Hence, we adjust our estimates for group revenue accordingly and now forecast €4.4bn and €4.8bn in FY22E and FY23E, respectively.
- Revenue on the holding level should be boosted by an aggressive expansion of the company's consulting teams, which have grown to ~100 FTEs. MUX plans to double the number of consultants on the platform to ~200 by end-FY23E.
- As a result, we expect revenue and net income from consulting services to grow to €49.5m and €24.6m, respectively. Adding regular dividends from portfolio companies should result in a FY22E net income from management fees of €40.6m, which would mark a remarkable increase of ~37% vs. our FY21E estimates.
- We understand that MUX will maintain its commitment to an attractive dividend policy. Our bottom-up analysis concludes that MUX should be in a position to pay a base dividend from management fees of ~€2.0 per share in FY22E. This could go up to ~€2.8 in FY23E. MUX demonstrated its ability to execute on exits over the past 24 months. Hence, we add an extra DPS of €0.50 (mainly stemming from the disposal of STS Group) and €0.75 in FY21E and FY22E to our forecasts.
- We value MUX on a mix of DDM (DPS of €2.0; g = 1.5%) and peer group analysis with a number of European private equity companies as constituents. The latter approach is based on a FY22E P/E target multiple of 14x. Main risks to our investment case include the failure to identify the right investment targets and a longer-than-expected time to restructure portfolio companies.

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KEY FINANCIALS AND RATIOS

YEAR TO DECEMBER (IN EUR m)	2017A	2018A	2019A	2020A	2021E	2022E
PROFIT & LOSS ACCOUNT						
Group revenue	**900**	**865**	**1,016**	**1,584**	**2,530**	**4,439**
EBITDA (rep.)	**67.2**	**49.0**	**79.1**	**143**	**(21.8)**	**8.3**
EBIT (rep.)	**40.1**	**19**	**26.1**	**41.2**	**(246.98)**	**(377.92)**
Pre-tax results	35.6	14.7	16.6	16.9	(266)	(397)
Income tax and other items	(36)	(15)	(17)	(17)	266	397
Minorities and other items	0	0	0	0	0	0
EPS, fully diluted (c)	**2.86**	**0.95**	**1.36**	**1.78**	**(14.14)**	**(17.46)**
Exceptionals in EBIT	40.8	(15)	(34)	(32)	(455)	(777)
Profit and Loss Account (adj)						
EBITDA	**(28)**	**4.60**	**7.50**	**(29)**	**(17)**	**13.3**
EBIT	**(1)**	**34.3**	**60.5**	**72.7**	**208**	**400**
CASH FLOW STATEMENT						
EBITDA (rep.)	67.2	49.0	79.1	143	(21.8)	8.3
Change in working capital	38.9	(24)	157	69.9	468	397
Other operating cash flow items	(137)	(36)	(247)	(256)	(11)	914
Cash flow before capex	**(31)**	**(11)**	**(11)**	**(43)**	**435**	**1,320**
Capital expenditure	0	0	0	0	0	0
Free cash flow	**(31)**	**(11)**	**(11)**	**(43)**	**435**	**1,320**
Acquisitions/Disposals/Financial assets	21.2	2.10	18.3	(8)	(77)	(568)
Equity measures, other	(30)	32.9	(165)	(92)	(116)	(704)
Change in net cash	(39)	23.9	(157)	(144)	242	47.2
Net cash (debt)	**(130)**	**(106)**	**(263)**	**(406)**	**(165)**	**(117)**
BALANCE SHEET						
Fixed assets	228	210	399	498	638	1,567
Current Assets	444	421	449	829	1,394	2,404
t/o Trade receivables	1.90	147	143	257	362	422
t/a Cash and equivalents	98.9	108	79.7	145	572	1,175
Group equity	165	208	208	207	200	(61)
t/o Shareholders equity	165	208	208	207	200	(61)
Interest-bearing liabilities	229	214	343	552	736	1,292
Other liabilties and provisions	279	209	298	568	1,095	2,739
t/o Trade libabilities	109	47.0	87.3	116	154	271
Balance sheet total	**672**	**631**	**849**	**1,327**	**2,031**	**3,971**
Net Working Capital	(107)	100	55.3	141	207	151
Capital Employed (incl. Goodwill)	122	310	455	639	845	1,717
RATIOS						
Revenue y/y (%)	38.4	(3.8)	17.4	55.9	59.7	75.5
EBITDA Margin (adj.) (%)	(3)	0.53	0.74	(2)	(1)	0.30
EBIT adj margin (%)	(0.1)	4.0	6.0	4.6	8.2	9.0
EPS (adj.) y/y (%)	--	--	--	--	--	--
Working capital intensity (%)	(12)	11.6	5.44	8.87	8.20	3.40
DSOs	0.77	62.0	51.2	59.1	52.2	34.7
Inventory turnover (Days)	0	0	0	0	0	0
Net debt (cash) / EBITDA (adj.)	(4.7)	23.0	35.1	(14.1)	(9.8)	8.83
EBITDA (adj.) / Capex	--	--	--	--	--	--
Free CF yield (%)	(8.4)	(3.1)	(3.0)	(12.0)	112.7	280.3
Oper. FCF Yield (%)	(6.2)	(2.4)	(1.7)	(5.6)	79.0	224.4

Stepping up a gear

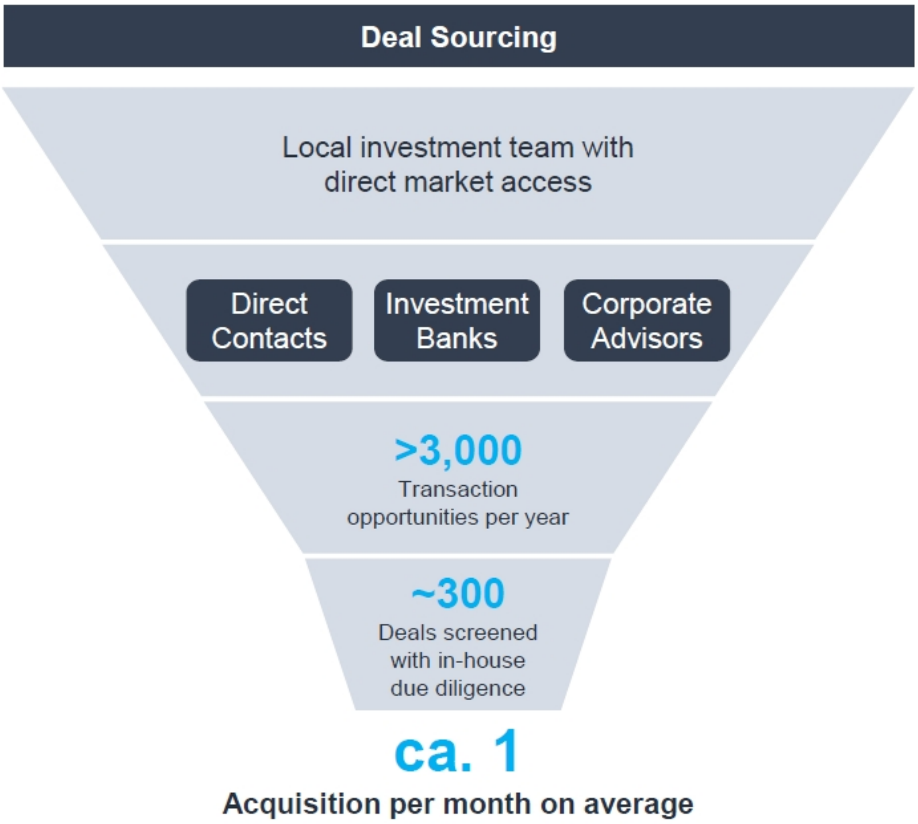
During the CMD, MUX management presented its new growth strategy. While the majority of components to the overall strategy remain unchanged, e.g., the focus on special situations, the focus on companies that operate in the sectors of "Automotive", "Engineering & Technology" and "Goods & Services", the ROIC target of 7-10x, the update is that MUX will focus on (significantly) larger targets in the coming years. MUX believes that its track record, the fact that it is now listed on the Prime Standard of Deutshe Boerse and its well capitalised balance sheet post the successful capital increase, should turn the company into a potential partner of choice for sellers of larger assets.

Management expects the new strategy to result in total group revenue of >€5bn in FY23E, which clearly looks ambitious at first glance as it implies additional net revenue (i.e., deducting revenue from exits) of ~€1.2bn per year, taking our FY21E estimate of €2.5bn as a basis. However, broken down to the budgeted number of acquisitions, it equates to a ~€100m of revenue per acquired company on average. Moreover, the deal number means that each MUX office will have to mathematically execute on 1.5 deals per year, which appears reasonable, in our view.

Figure 1 - Mutares - Broad geographical set-up

We understand that larger transactions, similar to MUX's recent acquisition of LaPeyre, which will contribute >€600m in annual revenue and a cash injection of €20m by MUX) require a higher commitment from MUX as the Private Equity buyer. Hence, the recent capital increase, which resulted in a cash inflow of ~€95m, was the right strategic step, in our view. As we say in previous research reports, the Private Equity market for special situations is buoyant and should provide strong tailwinds for MUX's growth strategy. As depicted below, the deal pipeline is well filled, which, according to the company, should translate into one deal per month over the next two years.

Figure 2 - Well-filled deal pipeline



Source: Mutares

FY21E should be in the offing: 3Q21 preview

Mutares will report 3Q21 results on 9 November. We expect another solid set of results, which should bring the company well on track to reach its FY21E guidance, which calls for consolidated group revenue of >€2.4bn and net income at the holding level of €43-53m. Our forecasts for holding income are summarised in Figure 3.

Figure 3 - 3Q21 results preview for holding income

Holding P&L						
(Year end December), IFRS	FY 2020	Q1 2021	Q2 2021	Q3 2021E	Q4 2021E	FY2021E
TOTAL HOLDING INCOME	66.5	17.5	22.3	23.4	29.7	96.7
Change, yoy	250.0%	NM	NM	NM	NM	45.3%
As % of group revenues	4.2%	3.5%	3.7%	3.6%	3.7%	3.8%
o/w income from consulting fees	31.9	10.9	11.9	13.0	13.7	49.5
Change, yoy	NM	51.4%	65.3%	116.7%	53.4%	55.0%
As % of total holding revenues	48%	62%	53%	56%	46%	51%
o/w dividends (regular dividends and exit gains)	21.6	6.6	6.6	6.6	10.0	29.8
Change, yoy	NM	NM	NM	NM	NM	38.0%
As % of total holding revenues	32%	38%	30%	28%	34%	31%
Holding profit (net income)	33.4	10.4	10.8	11.2	14.8	47.1
Change, yoy	48.0%	NM	NM	-50.4%	35.6%	41.0%
Margin on holding revenues	50.2%	60%	48%	48%	50%	48.7%
Margin of group revenues	2.1%	2%	2%	2%	2%	1.9%

Source: Stifel estimates

Financial forecasts for holding income

Following the company's strategic update, as outlined above, combined with a FY23E guidance raise, we revisit our financial model for MUX. As we point out in more detail in our initiation of coverage report, we advise investors to focus their analysis on the company's performance on the holding level, which is reported as part of the quarterly results publications. As summarised in Figure 4, we forecast total income at the holding level, which comprises income from consulting fees, income for regular dividends, paid by portfolio companies, and income from exit gains, to grow at a FY20-23E CAGR of ~37%, which we find impressive.

This should translate into a net income of ~€47m in FY21E, which we expect to grow to >€80m in FY23E. This would be ~20% below the new company guidance, which calls for €100m or 2% of consolidated group revenue. We believe the delta stems from our more cautious approach on the income from exit gains, which we find difficult to forecast, despite the fact that MUX has started to build a track record on successful exits over the past 24 months and provides regular updates on the life-cycle stage of its portfolio companies – with companies in the so-called harvesting stage likely to be sold within the next one or two years. As a reminder, MUX targets an average holding period of its investments of three years.

Figure 4 - Mutares: Holding P&L

Holding P&L					
(Year end December), IFRS	FY 2020	FY2021E	FY2022E	FY2023E	CAGR 20-23E
TOTAL HOLDING INCOME	66.5	96.7	136.2	169.8	36.7%
Change, yoy	250.0%	45.3%	40.9%	24.7%	
As % of group revenues	4.2%	3.8%	3.1%	3.5%	
o/w income from consulting fees	31.9	49.5	70.2	98.8	
Change, yoy	NM	55.0%	42.0%	40.7%	
As % of total holding revenues	48%	51%	52%	58%	
o/w dividends (regular dividends and exit gains)	21.6	29.8	41.0	46.0	
Change, yoy	NM	38.0%	37.6%	12.2%	
As % of total holding revenues	32%	31%	30%	27%	
Holding profit (net income)	33.4	47.1	65.6	80.6	34.1%
Change, yoy	48.0%	41.0%	39.2%	22.9%	
Margin on holding revenues	50.2%	48.7%	48.1%	47.5%	
Margin of group revenues	2.1%	1.9%	1.5%	1.7%	
Net income from management fees	20.4	29.7	40.6	55.6	
Change, yoy	100.8%	45.6%	36.6%	37.0%	
Margin as % of holding revenues	30.7%	30.7%	29.8%	32.7%	
Margin as % of group revenues	1.3%	1.2%	0.9%	1.2%	
o/w net income from consulting fees	11.2	17.3	24.6	34.6	
Change, yoy	NM	55.0%	42.0%	40.7%	
Margin on consulting revenues	35.0%	35.0%	35.0%	35.0%	
o/w dividends from portfolio companies	9.2	12.4	16.0	21.0	
Change, yoy	NM	34.3%	29.0%	31.3%	
Margin as % of holding revenues	13.9%	12.8%	11.7%	12.4%	
Margin as % of group revenues	0.6%	0.5%	0.4%	0.4%	
Net income from performance fees (exit gains)	13.0	17.4	25.0	25.0	
Change, yoy	155.9%	33.8%	43.7%	0.0%	
Margin as % of holding revenues	19.5%	18.0%	18.4%	14.7%	
Margin as % of group revenues	0.8%	0.7%	0.6%	0.5%	

Source: Stifel estimates

Dividend capacity analysis

We provide an update on our analysis of the underlying scope for dividend payouts to MUX shareholders, which we deem important as MUX is increasingly seen as income stock for many investors. As we show in Figure 5, we conclude that the MUX has the capacity to pay a dividend per share of up to €2.87 in FY21E, €3.27 in FY22E and even €4.02 in FY23E. This is all based on the assumption that the company's holding net income is 100% cash relevant and that management is committed to a full payout policy.

In our view, investor focus should be on the base dividend, which MUX intends to pay out from management fees, i.e., cash flow generated from consulting services and regular dividends from portfolio companies. Exit gains tend to be volatile and difficult to predict, despite management's improving track record of exit frequency. The implied base DPS sequence for FY21E, FY22E and FY23E, again all under the assumption of a 100% cash conversion and full payout, should be €1.81, €2.02 and €2.77. In relation to the closing price of 3 November, this implies a yield of 7.6-11.7%.

Our new DPS forecasts for MUX stand at €1.75, €2.40, €2.60 for FY21E, FY22E and FY23E, respectively.

Figure 5 - Scope for dividend payouts to shareholders

DIVIDEND ANALYSIS					
(Year end December), IFRS	FY 2020E	FY2021E	FY2022E	FY2023E	CAGR 20-23E
Holding net income	**33.4**	**47.1**	**65.6**	**80.6**	
Total number of shares	15.2	16.4	20.0	20.0	
Total dividend potential per share (€)	**2.19**	**2.87**	**3.27**	**4.02**	**22.4%**
Change, yoy	75.8%	31.0%	14.0%	22.9%	
Dividend yield (based on current share price)*	9.2%	12.1%	13.8%	16.9%	
Net income from management fees	**20.4**	**29.7**	**40.6**	**55.6**	
Total number of shares	15.2	16.4	20.0	20.0	
Dividend potential per share from management fees (€)	**1.34**	**1.81**	**2.02**	**2.77**	**27.5%**
Change, yoy	100.8%	35.2%	11.8%	37.0%	
Dividend yield (based on current share price)*	5.6%	7.6%	8.5%	11.7%	
Net income from performance fees	**13.0**	**17.4**	**25.0**	**25.0**	
Total number of shares	15.2	16.4	20.0	20.0	
Dividend potential per share from performance fees (€)	**0.85**	**1.06**	**1.25**	**1.25**	**13.5%**
Change, yoy	155.9%	24.3%	17.7%	0.0%	
Dividend yield (based on current share price)*	3.6%	4.5%	5.2%	5.2%	

*Source: Stifel estimates, *closing price as of 3 Nov*

Valuation update: price target raise to €30 (€22)

We update our valuation framework for Mutares. While we continue to value the stock on a mix of dividend discount model (DDM) and peer group-derived multiple analysis, we apply the target multiple not only to the company's total net income on the holding level but also to the net income derived from management fees. The rationale is that management fees should be largely of recurring nature, especially in comparison to exit gains, which tend to be volatile, depending on the overall market condition. Hence, the value of management fees should be seen as a base valuation for MUX's equity, in our view. Applying an equal weight to the results of both, the more granular peer group analysis and the DDM, we derive our new price target of €30, up from €22 previously.

Figure 6 - Price target calculation for MUX

Mutares SE & Co. KGaA: Price Target calculation		
(EUR m)		**Comment**
Peer group analysis (PE firms)	**32**	Based on FY22E P/E target multiple of 14x
Weight	***50%***	
Dividend discount model	**29**	Based on a DPS of €2.0 and g=1.5%
Weight	***50%***	
Price Target (EUR)	**30**	

Source: Stifel estimates

We show our multiple-based valuation approach in Figure 7. With regard to the DDM, we use a DPS of €2.0 and growth rate of 1.5%.

Figure 7 - Mutares - peer group multiple valuation

Mutares SE & Co. KGaA: Peer group multiple valuation		
(€m)	**FY22E**	**Comment**
Holding revenues	136.2	Total income on the holding level
Holding net income	65.6	Moderate assumptions on exit gains
Net income management fees	40.6	Consultancy fees and regular dividends from portfolio companies
Target multiple - P/E	**14.0**	Broad number of European Private Equity firms
Equity value, based on P/E, applied to total net income	**918.0**	
Equity value, based on P/E applied to management fees	**568.0**	**Applied to net income from management fees**
Discount to core peer group median	**15%**	MUX has build a strong track record over the last years; on the negative side, MUX does not run third party money but invests its own balance sheet; focus on special situations bears more risks but also offers higher growth opportunities; income streams on the holding level lack certain transparency
Shares outstanding (m)	20.0	Post capital increase
Equity value per share (€), total net income	**39**	
Equity value per share, management fees	**24**	**Based on net income from management fees**
Weighted equity value (50/50)	**32**	

Source: Stifel estimates, Bloomberg

Company Snapshot

Investment case summary

The Mutares equity story is based on the company's transformation from an investment holding to a private equity firm in the niche area of special situations. As a result, earnings streams should become much more transparent and, as such, easier to value for analysts and investors alike. Moreover, management decided to leverage MUX's strong market position by targeting larger acquisitions. Consequently, we expect a continued rerating of the shares over the next 12 months. Recurring revenue from consulting services to and dividends from its portfolio companies should cover management's ambitions for attractive dividend payouts to shareholders. Mutares also plans to reduce significantly the holding period of portfolio companies. Hence, a higher exit frequency over the next few years should not only strengthen investor trust in the quality of the portfolio companies, but also result in potential performance dividends.

Target price methodology

Mutares has decided to provide more transparency on the revenue and profit streams at the holding level, which form the basis for our valuation framework. We also take into account that management is highly committed to dividend payments. Our financial forecasts therefore flow into a private equity peer group analysis (FY22E P/E target multiple of 14x, applying a 15% discount to the median P/E peer group multiple to reflect differences in the business model) as well as a dividend discount model (DDM). The average of the two implied equity values, results in our price target of €30.00.

Risk to our valuation and rating

While a larger portfolio is the prerequisite for growth, it will naturally be more complex to manage. This requires more investment professionals, consultants and, as a consequence, higher fixed costs. We could argue that Mutares's holdings are in a restructuring mode for a reason and a longer-than-expected optimisation phase would postpone dividend income. In some cases, the turnaround does not materialise and potentially results in insolvency procedures. This would naturally lead to either a low or even negative selling price, or trigger a costly liquidation process. That said, we note that Mutares has a strong track record since inception and, in addition, has baked in such, probability-weighted, scenarios in its financial guidance.

Key dates

- Q2 2021 results: 9 Nov

Company description

Mutares is a leading private equity company with a focus on special situations, headquartered in Munich, Germany. It was founded in 2008 and went public in the same year. It is listed in the PRIME standard segment of the Frankfurt stock exchange.

Key products, clients and end markets

Mutares's investments are focused on medium-sized companies located throughout continental Europe. Management claims to have a particular expertise in investing in and managing special situations or turnaround cases, facilitated by its ~100 consultants FTEs. With offices in Munich, Frankfurt am Main, Vienna, Paris, Madrid, Milan, Stockholm, Helsinki, as well as London, and investment activities in Europe, North Africa, North and South America and Asia, Mutares has a global footprint. The current portfolio comprises more than 20 equity investments. The firm focuses on companies that operate in the sectors of automotive, engineering or goods & services.

Key shareholders

- Robin Laik (founder and CEO): 29%
- Mutares management: 11%
- Treasury shares: 3%

Senior management

- Robin Laik: CEO
- Johannes Laumann: CIO
- Mark Friedrich: CFO
- Dr. Kristian Schleede is CRO

Important Disclosures and Certifications

I, Benjamin Kohnke, certify that the views expressed in this research report accurately reflect my personal views about the subject securities or issuers; and I, Benjamin Kohnke, certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report.

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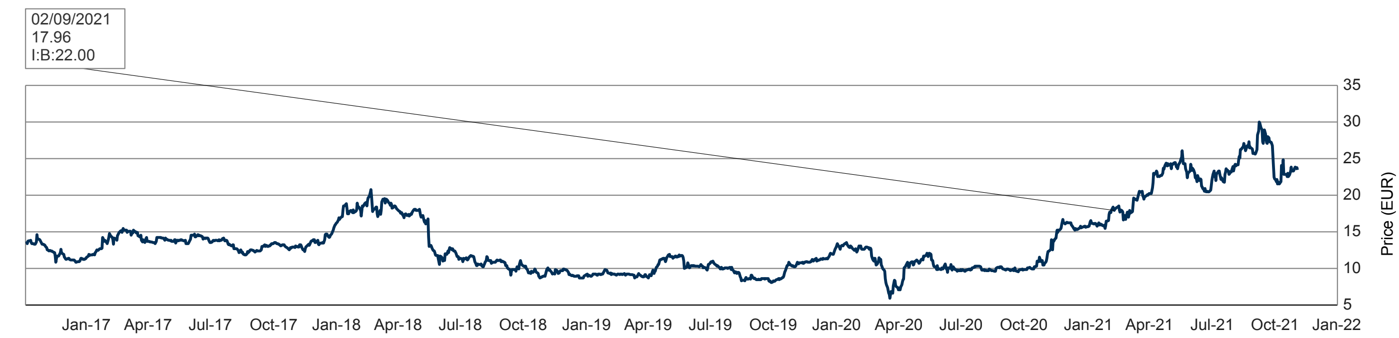
Mutares SE & Co KGaA (MUX GY) as of November 04, 2021 (in EUR)



*Represents the value(s) that changed.
Buy=B; Hold=H; Sell=S; Discontinued=D; Suspended=SU; Discontinued=D; Initiation=I

For a price chart with our ratings and any applicable target price changes for MUX GY go to http://stifel2.bluematrix.com/sellside/Disclosures.action?ticker=MUX GY

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Investment Rating System

Our investment rating system is defined as follows:

Buy - We expect a total return of greater than 10% over the next 12 months with total return equal to the percentage price change plus dividend yield.

Speculative Buy[1] **-** We expect a total return of greater than 30% over the next 12 months, with total return equal to the percentage price change plus dividend yield, accompanied by substantially higher than normal risk including the possibility of a binary outcome.

Hold - We expect a total return between -5% and 10% over the next 12 months with total return equal to the percentage price change plus dividend yield.

Sell - We expect a total return below -5% over the next 12 months with total return equal to the percentage price change plus dividend yield.

Occasionally, we use the ancillary rating of **Suspended (SU)** to indicate a long-term suspension in rating and/or target price, and/or coverage due to applicable regulations or Stifel policies. Alternatively, **Suspended** may indicate the analyst is unable to determine a "reasonable basis" for rating/target price or estimates due to lack of publicly available information or the inability to quantify the publicly available information provided by the company and it is unknown when the outlook will be clarified. **Suspended** may also be used when an analyst has left the firm.

[1] This rating is only utilised by Stifel Canada.

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