

# CentralNic Group

Q123 results

Cash allocated to deliver on objectives

CentralNic's Q123 results showed robust revenue and profit growth, as well as a further deleveraging of its balance sheet. Its product comparison business VGL's entry into France provides a strong organic growth opportunity, with potential to expand into other regions. The group continues to showcase its commitment to shareholder returns with its latest share buyback programme.

Year end	Revenue (US\$m)	Adjusted EBITDA* (US\$m)	PBT* (US\$m)	Diluted EPS* (c)	EV/EBITDA (x)	P/E (x)
12/21	410.5	46.3	31.9	10.9	9.9	13.1
12/22	728.2	86.0	64.3	21.4	5.3	6.7
12/23e	833.7	94.4	80.7	20.1	4.8	7.1
12/24e	909.6	103.0	89.3	22.5	4.4	6.4

Note: \*Excludes impact of share-based payments, foreign exchange charges and non-core operating costs.

## Organic growth platform built via strategic progress

CentralNic's Q123 results were in line with our [previous update](#), with the group reporting year-on-year increases of 24%, 15% and 15% in gross revenue, net revenue and adjusted EBITDA, respectively. Post quarter-end, management announced the first international expansion for VGL, one of its largest business lines, through meilleurs.fr in France, the second largest European market for its primary e-commerce partner Amazon. CentralNic believes that the cadence of VGL's international expansion should now increase, providing a key growth lever (as per our [March outlook](#)) and reducing risk from country-specific exposure. Management's recent agreement with Microsoft Bing further adds to the company's growth potential and lowers risk by diversifying its advertiser demand pool. We maintain our headline income statement forecasts, in line with management's reiterated guidance.

## Free cash flow allocated to strategic priorities

CentralNic's introduction of a waterfall model in its Q123 results outlines the allocation of free cash flow (FCF) to its strategic priorities, including shareholder returns, deleveraging the balance sheet and growth. The company's commitment to a more balanced approach to capital allocation is shown by its latest £4m/US\$5m share buyback programme, which is in addition to the US\$4m of buybacks completed in Q123. The group's greater focus on improving shareholder returns is reinforced by its progressive dividend policy, starting with a 1p FY22 maiden dividend (c 6% of FY22 FCF). We have increased our FY23 net debt forecast, reflecting the latest planned share buybacks and the c US\$5.5m (3.6m shares) share purchase by the employee benefit trust (EBT). This equates to 0.3x our adjusted EBITDA forecast, still significantly below the group's 2x ceiling.

## Valuation: Strategic priorities could close discount

CentralNic trades at an average 65% discount on EV/sales across FY23e and FY24e, falling to an average discount of 25% on an EV/EBITDA basis. Delivering on its latest strategic priorities could act as a catalyst to stock performance.

Software and comp services

16 May 2023

**Price** **114p**

**Market cap** **£327m**

US\$1.25/£

Net debt (US\$m) at 31 March 2023 49.2

Shares in issue 288.4m

Free float 49.4%

Code CNIC

Primary exchange AIM

Secondary exchange N/A

### Share price performance



% 1m 3m 12m

Abs (8.3) (13.6) (11.2)

Rel (local) (7.4) (10.9) (14.1)

52-week high/low 159p 111p

### Business description

CentralNic Group is a global internet company that derives recurring revenue from privacy-safe, AI-based customer journeys that help online consumers make informed choices, as well as from the distribution of domain names.

### Next events

H123 trading update 18 July 2023

H123 results 30 August 2023

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## Waterfall model, Q123 results and changes to forecasts

### Waterfall model outlines free cash flow allocation

Management introduced a waterfall model in its Q123 results presentation, allocating FCF to each of the group's strategic priorities, which we summarise below:

- **Progressive dividend policy:** starting with a 1p FY22 maiden dividend (payable on 16 June), c 6% of FY22 FCF.
- **Organic growth:** investing in positive net present value projects, including platform integration, content repository expansion and international growth, if all business units continue to generate positive EBITDA.
- **Accretive bolt-ons:** more rigorously assessing potential returns on investment from an acquisition versus returns from share buybacks.
- **Share buybacks:** remaining FCF will be used for share buybacks. Shares may also be reissued to finance acquisition opportunities.
- **Debt repayment:** any remaining funds will be used to reduce gross debt. Debt reduction will be prioritised over share buybacks if net debt to EBITDA breaches the 2x ceiling.

### Q123 results summary

In its Q123 results, the group reported gross revenue of US\$194.9m, net revenue (gross profit) of US\$45.8m and adjusted EBITDA of US\$21.3m, year-on-year increases of 24%, 15% and 15%, respectively. Online Marketing and Online Presence saw double digit year-on-year growth in the period (28% and 14%, respectively) and strong organic progression over the trailing 12 months. We believe the quarterly falls in revenue and EBITDA were seasonal, where typically Q1 is the weakest quarter in Online Marketing and Q4 is the strongest.

Performance in Online Marketing, its largest segment, was driven by an increase in traffic volume and revenue per impression and benefited from a full month contribution from VGL. Online Presence also saw an increase in volumes and revenue per domain registration, but at a slower pace.

#### Exhibit 1: Q123 results summary

US\$m	Q123	Q122	y-o-y change	Q422	q-o-q change
Revenue	194.9	156.6	24%	201.5	(3%)
Net revenue (gross profit)	45.8	39.9	15%	49.4	(7%)
Gross margin	23%	25%	(2%)	25%	(1%)
Adjusted EBITDA	21.3	18.5	15%	24.0	(11%)
Adjusted EBITDA margin*	47%	46%	0%	49%	(2%)
Operating profit	7.7	10.0	(23%)	(1.5)	N/A
Adjusted operating cash conversion	94%	128%	(34%)	125%	(31%)
Profit/(loss) after tax	2.9	4.0	(28%)	(8.6)	N/A
EPS basic (c)	1.1	1.5	(31%)	(3.0)	N/A
Adjusted EPS (c)	5.5	4.5	23%	0.6	827%
Net debt	49.2	61.3	(20%)	55.6	(12%)

Source: CentralNic Group. Note: \*As a percentage of net revenue.

Adjusted operating cash conversion remained high, albeit lower than historical levels due to a temporary change in the working capital mix. Management believes this will return to over 100% for the full year.

## Changes to forecasts

We leave our revenue and normalised profit figures for FY23 and FY24 unchanged, with our FY23 expectations aligned with management's maintained guidance.

Using current exchange rates, we assume the company's latest share buyback programme will increase cash outflows by c US\$5m in the year. The EBT's purchase of an additional US\$5.5m of shares has resulted in an additional cash outflow of US\$9.5m, reflected in our net debt forecast for the year.

Our revised average share count for the year also reflects the latest share buyback programme.

### Exhibit 2: Summary of forecast changes

US\$'000s Year end 31 December	FY23e				FY24e			
	Old	New	Change	y-o-y	Old	Forecast	Change	y-o-y
Gross revenue	833,705	833,705	-	14%	909,572	909,572	-	9%
Net revenue	190,585	190,585	-	7%	208,116	208,116	-	9%
Adjusted EBITDA	94,416	94,416	-	10%	103,017	103,017	-	9%
Profit Before Tax (norm)	80,720	80,720	-	26%	89,308	89,307	(0.0)%	11%
Profit Before Tax (reported)	19,623	19,623	-	32%	37,211	37,210	(0.0)%	90%
Net income (normalised)	58,118	58,118	-	1%	64,302	64,301	(0.0)%	11%
Basic average number of shares outstanding (m)	289	286			289	284		
EPS - basic normalised (c)	20.14	20.31	0.9%	(6)%	22.28	22.68	1.8%	12%
EPS - diluted normalised (c)	19.96	20.13	0.9%	(6)%	22.08	22.47	1.8%	12%
Revenue growth (%)	14.5	14.5			9.1	9.1		
Gross margin (%)	22.9	22.9			22.9	22.9		
Adjusted EBITDA margin (%)	11.3	11.3			11.3	11.3		
Adjusted EBITDA/net revenue (%)	49.5	49.5			49.5	49.5		
Capex	(5,667)	(5,667)	-	(13)%	(5,819)	(5,819)	-	3%
Closing net debt/(cash)	18,209	28,134	54.5%	(50)%	(32,317)	(22,313)	(31.0)%	N/A

Source: Edison Investment Research

**Exhibit 3: Financial summary**

	\$'000s	2020	2021	2022	2023e	2024
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS
<b>INCOME STATEMENT</b>						
Revenue		240,012	410,540	728,237	833,705	909,572
Cost of Sales		(164,894)	(292,041)	(550,541)	(643,120)	(701,456)
Gross Profit		75,118	118,499	177,696	190,585	208,116
EBITDA		29,394	46,251	86,024	94,416	103,017
Normalised operating profit		27,310	42,737	83,045	90,839	99,115
Amortisation of acquired intangibles		(13,747)	(18,291)	(36,399)	(36,399)	(36,399)
Exceptionals		(10,529)	(7,087)	(7,395)	0	0
Share-based payments		(5,113)	(5,006)	(5,698)	(5,698)	(5,698)
Reported operating profit		(2,079)	12,353	33,553	48,742	57,018
Net Interest		(9,834)	(10,798)	(18,736)	(10,120)	(9,808)
Joint ventures & associates (post tax)		79	0	0	0	0
Exceptionals		0	0	0	(19,000)	(10,000)
Profit Before Tax (norm)		17,555	31,939	64,309	80,720	89,307
Profit Before Tax (reported)		(11,834)	1,555	14,817	19,623	37,210
Reported tax		975	(5,097)	(16,895)	(25,023)	(27,685)
Profit After Tax (norm)		14,044	25,551	57,414	58,118	64,301
Profit After Tax (reported)		(10,859)	(3,542)	(2,078)	(5,401)	9,525
Minority interests		0	0	0	0	0
Net income (normalised)		14,044	25,551	57,414	58,118	64,301
Net income (reported)		(10,859)	(3,542)	(2,078)	(5,401)	9,525
Basic average number of shares outstanding (m)		197	227	266	286	284
EPS - basic normalised (c)		7.14	11.24	21.61	20.31	22.68
EPS - diluted normalised (c)		6.86	10.91	21.41	20.13	22.47
EPS - basic reported (c)		(5.52)	(1.56)	(0.78)	(1.89)	3.36
Dividend (c)		0.00	0.00	0.01	0.01	0.01
Revenue growth (%)		119.8	71.0	77.4	14.5	9.1
Gross Margin (%)		31.3	28.9	24.4	22.9	22.9
EBITDA Margin (%)		12.2	11.3	11.8	11.3	11.3
EBITDA/Net Revenue (%)		39.1	39.0	48.4	49.5	49.5
Normalised Operating Margin		11.4	10.4	11.4	10.9	10.9
<b>BALANCE SHEET</b>						
Fixed Assets		270,578	271,830	365,062	351,663	329,264
Intangible Assets		255,716	254,169	347,938	334,539	312,140
Tangible Assets		8,677	8,601	7,358	7,358	7,358
Investments & other		6,185	9,060	9,766	9,766	9,766
Current Assets		77,606	128,391	193,650	232,356	287,764
Stocks		1,011	895	646	1,938	2,114
Debtors		47,941	71,363	98,231	107,354	112,139
Cash & cash equivalents		28,654	56,133	94,773	123,064	173,511
Other		0	0	0	0	0
Current Liabilities		96,421	137,129	197,712	222,866	241,570
Creditors		89,256	117,016	190,348	215,632	234,336
Tax and social security		0	0	0	0	0
Short term borrowings		5,819	18,276	5,456	5,326	5,326
Lease liabilities		1,346	1,837	1,908	1,908	1,908
Long Term Liabilities		137,867	149,110	193,667	211,822	214,501
Long term borrowings		107,820	119,251	145,872	145,872	145,872
Other long term liabilities		30,047	29,859	47,795	65,950	68,629
Net Assets		113,896	113,982	167,333	149,331	160,957
Minority interests		0	0	0	0	0
Shareholders' equity		113,896	113,982	167,333	149,331	160,957
<b>CASH FLOW</b>						
Op Cash Flow before WC and tax		3,997	23,360	54,195	59,598	77,511
Working capital		4,129	4,091	7,245	14,869	13,742
Exceptional & other		14,526	15,804	24,434	15,818	15,506
Tax		(1,957)	(2,230)	(8,399)	(6,868)	(25,006)
Net operating cash flow		20,695	41,025	77,475	83,417	81,754
Capex		(4,259)	(4,810)	(6,543)	(5,667)	(5,819)
Acquisitions/disposals		(37,065)	(18,344)	(81,396)	(19,000)	(10,000)
Interest paid		(9,512)	(8,695)	(7,766)	(10,120)	(9,808)
Equity financing		34,667	0	58,187	(14,494)	0
Change in borrowing		1,563	24,721	34,691	0	0
Dividends		0	0	0	(3,604)	(3,597)
Other		(4,734)	(3,700)	(30,730)	(2,241)	(2,083)
Net Cash Flow		1,355	30,197	43,918	28,291	50,446
Opening net debt/(cash)		74,998	84,985	81,394	56,555	28,134
FX		1,117	(2,718)	(5,278)	0	0
Other non-cash movements		(12,459)	(23,888)	(13,801)	130	0
Closing net debt/(cash)		84,985	81,394	56,555	28,134	(22,313)

Source: Company accounts, Edison Investment Research

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