EDISON

Scale research report - Update

CLIQ Digital

Media

8 October 2018

Muted H1, marketing spend to drive H2 uptick

Due to product launch delays at the end of FY17, CLIQ Digital (CLIQ) saw H1 revenues and operating profits fall by 12% and 38% y-o-y. However, net income benefited from a non-recurring credit of €0.8m due to reductions in estimated contingent consideration. Nevertheless, we are encouraged by the growing marketing expenditure, which should drive improved performance in H2. The shares trade at a substantial discount to peers.

H118 results: Flat income supported by one-off items

CLIQ reported muted interim numbers. Revenues declined 12.5% on the back of delayed product launches due to contract slippage and longer than anticipated integration times in Q417, which hampered investment into customer acquisition over this period. Despite lower amortisation of capitalised marketing spend, EBIT fell 38% y-o-y to €1.5m. However, net income of €1.4m was broadly unchanged due to €0.8m in one-off gains due to changes in estimates of the fair value of contingent liabilities. We estimate that net income declined 12% on an organic basis.

Marketing expenditure returns to growth

On a positive note, the company returned to growth in marketing spend (+10% year-on-year). This is a crucial indicator of the health of the business, suggesting that management sees attractive investment opportunities. After a period of consolidating expenditure in 2017, we are encouraged to see this KPI trend back in the right direction. As a result of this spend, the 'CLIQ factor' (a measure of return of marketing spend per €) came down from the historic highs seen last year (1.48) closer to CLIQ's long-term average of 1.39. On an operational level, we note that completion of the acquisitions of CMind (67% to 80% share) and AffiMobiz in the first half should help drive increasing efficiency of marketing expenditure, potentially underpinning future improvements in the CLIQ factor.

Valuation: Discount to peers

At 0.6x FY18e consensus sales and 8.8x FY18e earnings, CLIQ trades at a substantial discount to the wider peer group of user acquisition groups. Investors are likely cautious about the slowdown in H1 performance and required ramp in H2 to meet both consensus estimates and management guidance for the full year. Delivery on these measures could see the discount to peers narrowing.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/16	65.3	3.6	0.43	0.0	9.8	0.0
12/17	70.5	4.5	0.55	0.0	7.7	0.0
12/18e	65.0	4.4	0.48	0.0	8.8	0.0
12/19e	71.5	4.5	0.49	0.0	8.6	0.0

Source: Bloomberg, Edison Investment Research

Price	€4.21
Market cap	€26m

Share price graph

Share details

Code	CLIQ
Listing	Deutsche Börse Scale
Shares in issue	6.2m
Last reported net debt as at 30 June 2018	€8.2 m

Business description

CLIQ Digital is a sales and marketing group for digital products and services. It also operates a proprietary payments platform. It is headquartered in Dusseldorf and has offices in Amsterdam, London and Paris. Via its network of affiliate partners and its own direct media buying platform, it has customers across the globe. In 2017 76% of sales were generated in Europe, 13% in the Asia Pacific region and 8% in Africa.

Bull

- Exposure to the fast-growth mobile marketing sector.
- Experienced management.
- Strong revenue momentum over the last few years.

Bear

- As the group scales it may become harder to maintain the same rate of marketing efficiency.
- Dependent on major mobile carriers and gateways for customer access and invoicing.
- Limited exposure to the potentially faster growth developing markets.

Analysts

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Review of H118 results

Exhibit 1 below details CLIQ's operational performance over the first half of FY18.

Exhibit 1: Development of key performance indicators

	H117	2017	H118
Revenues (€m)	**34.9**	**70.5**	**30.6**
Growth - revenues	12%	8%	-12.5%
Number of sales	1,331,705	2,066,018	NA
ARPU (€)	10.85	13.16	NA
CPA (€)	7.33	8.98	NA
ARPU/CPA (CLIQ factor)	**1.48**	**1.47**	**1.38**
Growth - CLIQ factor	2%	4%	-7%
Customer base value (€m)	**27**	**26**	**25**
Growth - CBV	40%	24%	-7%
Marketing spend (€m)	**9.6**	**18.6**	**10.6**
Growth - marketing spend	-6%	-14%	10%

Source: Company accounts, Edison Investment Research

Marketing spend returns to growth

CLIQ's H118 revenues were 12.5% lower than in H117. Management attributed this reduction to the product launch delays seen in Q417 and early Q118, with the knock-on effect of decreasing marketing spend over this time period. We understand these delays were caused by contract slippage and longer than anticipated integration times for the new product roster. However, the successful launch of this new product suite in Q1 has underpinned a significant (+10% y-o-y) increase in marketing spend across the period as a whole. We also highlight that Q2 marketing expenditure was 16% higher than in Q1. However, the knock-on effect of this increase was a slight reduction in the CLIQ factor, the company's measure of the efficacy of marketing spend.

Despite the moderate fall (-7% y-o-y) in the CLIQ factor, we see this as a positive development for the company, as it indicates that management is seeing additional profitable opportunities for marketing investment, regardless of the fact that the marginal user becomes increasingly expensive to convert. Moreover, the H117 figure of 1.48 was the highest value the company has ever recorded, with the H118 figure of 1.38 still in line with the long-term average (FY13-17 average: 1.39), despite marketing spend increasing substantially over the same time period (FY13: €12.5m).

Reduced KPI disclosure

We also note that CLIQ has altered the way it reports its KPI information. It no longer discloses the number of sales, the average revenue per user (ARPU) or the cost per acquisition (CPA). As ARPU and CPA are the components of the CLIQ factor, the company must have experienced an increase in average acquisition costs or a reduction in revenues per user, or both. We hope to see disclosure of the full levels of granularity with regard to the KPIs with the FY18 results. We highlight that historically, the CLIQ factor and its components have been heavily influenced by country mix. For instance, we understand that CPA of users varies between €1 and €40 depending on the territory of that user. Due to these disparate levels, tracking of the core KPI of the CLIQ factor itself remains the most important metric by which investor can gauge operational progress.

Exhibit 2: P&L highlights

	H117	H217	H118	% change y-o-y	% change h-o-h
Revenues	**34.92**	**35.58**	**30.55**	**-12.5**	**-14.1**
Gross profit	19.18	19.32	16.76	-12.6	-13.3
Total opex	6.43	5.97	6.37	-0.9	6.7
EBITDA	12.74	13.36	10.38	-18.5	-22.3
Adjusted EBITDA (after amortisation and impairment of CAC)	**2.5**	**3.0**	**2.0**	**-20.0**	**-33.3**
EBIT	**2.4**	**2.8**	**1.5**	**-37.5**	**-46.4**
PBT	**2.04**	**2.46**	**2.05**	**0.5**	**-16.7**
Net income	1.52	1.94	1.81	19.1	-6.9
Net income less minority interests	**1.47**	**1.90**	**1.41**	**-4.1**	**-25.9**
Basic EPS	0.24	0.29	0.23	-4.2	-20.7
Net debt	13.5	5.5	8.2	-39.3	49.0
Gross profit margin	54.9%	54.3%	54.9%		
EBITDA margin	36.5%	37.5%	34.0%		
Adjusted EBITDA margin	7.2%	8.4%	6.5%		
EBIT margin	6.9%	7.9%	4.9%		
Net profit margin (less MI)	4.2%	5.4%	4.6%		

Source: Company accounts, Edison Investment Research

Profits boosted by acquisitions and finance income

Driven by the reduction in revenues, gross profits fell by 12.6% (flat gross margins) which, combined with relatively flat opex, led to a 19% reduction in EBITDA to €10.4m. However, the lower marketing expenses incurred in FY17 led to lower amortisation and impairment charges of customer acquisition costs (H118: €8.4m vs H117: €10.3m).

A positive swing of €1m (H118: €0.6m, H117: -€0.4m) in finance income due to the revaluation of contingent consideration (a one-off, non-cash credit to P&L of €0.8m due to changes in management estimates) meant that PBT was substantially unchanged y-o-y. Further improvements were seen in the tax charges, which at c €243k were less than half of the equivalent figure in H117 (€516k), underpinning an increase of 19% in group net income. The decrease in the effective tax rate was partly due to a larger weighting of earnings in the UK (tax rate 19%), while fair value movements of contingent considerations also reduced this year's charge by c €240k. As with the finance income, we would not expect this value to recur. Once the enlarged minority interests (principally due to the UME acquisition) are taken into account, income attributable to shareholders was €1.41m, down 4% on a year ago.

On an organic basis, excluding contributions from Tornika SAS (AffiMobiz), net income attributable to shareholders would have been €117k (8%) lower, indicating an organic reduction in net income of 12% (including the one-off benefits of the contingent consideration revaluation). The company does not disclose the proportion of revenues and net income attributable to the €10m 2017 acquisition of UME, but UME reported revenues of €11.5m in the 12 months to April 2017.

Operational update: Creation of US subsidiary

As described in our previous note, in February 2018 CLIQ acquired an 80% interest in AffiMobiz in France (media buying), and increased its holding in Dutch subsidiary CMind to 80% from 67%. CLIQ maintains its view that the benefits of these acquisitions will be seen in lower marketing expenditures, as opposed to increasing near-term revenues. While the terms of the deals have not been disclosed, CLIQ reported a cash outflow of €0.3m (net of €0.2m cash assumed) as a result of the transactions.

As an indication of CLIQ's continuing internationalisation push, we would also highlight the purchase of a €1.2m licence agreement from Hippo Investments for the commencement of sales in the US, along with the establishment of a US subsidiary, Netacy. We understand that CLIQ aims to launch its streaming content portals in the US, which will be marketed via a range of media channels including licensed alliances. While the opportunity in the US is evidently significant, at this early stage, further details are limited.

Forecasts and valuation

Management has not provided updated guidance since the FY17 results in April. As such, we believe the figures shown in Exhibit 3 below are still valid although, as noted above, the company might not disclose some of these KPIs (eg number of sales, ARPU, CPA) with the FY18 results.

Exhibit 3: FY18 KPI targets

	FY18 target
Net income (€m)	Double-digit increase
Number of sales	Stable
ARPU (€)	(Slight) increase
CPA (€)	(Slight) increase
ARPU/CPA (CLIQ factor)	Stable
Customer base value (€m)	(Slight) increase
Marketing spend (€m)	(Slight) increase

Source: Company accounts

As of the H118 results, the company is seemingly lagging the targets (with the exception of marketing spend) in Exhibit 3, and as such we believe there may be downside risk to the guidance. However, with Q4 typically being the strongest quarter for the business, a pick-up in financial performance in H218 is to be expected. This view is mirrored by consensus estimates, which expect revenues of €64m, EBIT of €4.6m and net income of €3m (y-o-y reductions of 8%, 12% and 12% respectively) for the full year. To meet these forecasts, the implied h-o-h growth measures are 9%, 106% and 13%.

Exhibit 4: Peer comparison

Name	Market cap (m)	Sales growth (%)		EV/Sales (x)		EV/EBIT 9x)		P/E (x)		Hist div yield (%)
		1FY	2FY	1FY	2FY	1FY	2FY	1FY	2FY	Last
CLIQ Digital	27	(7.8)	10.0	0.6	0.5	7.9	7.2	8.8	8.6	N/A
Imimobile	229	14.5	9.8	1.8	1.6	N/A	N/A	23.8	20.8	N/A
Acotel Group	15	(5.8)	9.2	0.8	0.7	(1.8)	(4.1)	(4.7)	(12.5)	N/A
XLMedia	207	(5.3)	6.6	1.7	1.6	6.1	5.6	8.9	8.1	5.3
Taptica International	236	52.7	10.2	0.8	0.7	6.4	5.8	9.4	8.8	0.9
Rhythmone	163	61.4	7.0	0.5	0.5	5.3	4.0	6.0	4.6	N/A
Kape Technologies	180	(8.1)	17.9	2.8	2.4	19.7	14.6	32.9	23.9	N/A
Average		**18.2**	**10.1**	**1.4**	**1.3**	**9.4**	**7.5**	**16.2**	**13.3**	**3.1**

Source: Bloomberg. Note: Prices as at 8 October 2018.

The shares still trade at a substantial discount to the wider peer group across all metrics. Of particular note are the year 1 FY18e EV/Sales (CLIQ: 0.6x vs peers 1.4x) and the P/E (CLIQ: 8.8x vs peers 16.2x) multiples. Investors are likely to be reassured by the return to growth of marketing expenditure, which could be key to further expansion of the business. However, investors may be cautious about the muted performance in H1, coupled with the fact that the KPI disclosures have been reduced. Evidence of meeting the KPI targets for the full year could prompt a narrowing of the discount versus the peer group.

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