

## 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 Düsseldorf 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

Alasdair Young +44 (0)20 3077 5700  
Fiona Orford-Williams +44 (0)20 3077 5700

[tech@edisongroup.com](mailto:tech@edisongroup.com)  
[Edison profile page](#)

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.

## Review of H118 results

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

<b>Exhibit 1: Development of key performance indicators</b>			
	<b>H117</b>	<b>2017</b>	<b>H118</b>
<b>Revenues (€m)</b>	<b>34.9</b>	<b>70.5</b>	<b>30.6</b>
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
<b>ARPU/CPA (CLIQ factor)</b>	<b>1.48</b>	<b>1.47</b>	<b>1.38</b>
Growth - CLIQ factor	2%	4%	-7%
<b>Customer base value (€m)</b>	<b>27</b>	<b>26</b>	<b>25</b>
Growth - CBV	40%	24%	-7%
<b>Marketing spend (€m)</b>	<b>9.6</b>	<b>18.6</b>	<b>10.6</b>
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
<b>Revenues</b>	<b>34.92</b>	<b>35.58</b>	<b>30.55</b>	<b>-12.5</b>	<b>-14.1</b>
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
<b>Adjusted EBITDA (after amortisation and impairment of CAC)</b>	<b>2.5</b>	<b>3.0</b>	<b>2.0</b>	<b>-20.0</b>	<b>-33.3</b>
<b>EBIT</b>	<b>2.4</b>	<b>2.8</b>	<b>1.5</b>	<b>-37.5</b>	<b>-46.4</b>
<b>PBT</b>	<b>2.04</b>	<b>2.46</b>	<b>2.05</b>	<b>0.5</b>	<b>-16.7</b>
Net income	1.52	1.94	1.81	19.1	-6.9
<b>Net income less minority interests</b>	<b>1.47</b>	<b>1.90</b>	<b>1.41</b>	<b>-4.1</b>	<b>-25.9</b>
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
<b>Average</b>		<b>18.2</b>	<b>10.1</b>	<b>1.4</b>	<b>1.3</b>	<b>9.4</b>	<b>7.5</b>	<b>16.2</b>	<b>13.3</b>	<b>3.1</b>

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.

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. 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 Pty Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. [www.edisongroup.com](http://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 2018 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 Investment Research Pty Ltd (Corporate Authorised Representative (1252501) of Myonlineadvisers Pty Ltd (AFSL: 427484)) and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. 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 2018. "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.