EDISON Scale research report - Update

CLIQ Digital

Media

12 August 2021

Set to reach strong growth targets in FY21

CLIQ Digital's (CLIQ) H121 results highlight that the group's direct media buying strategy is continuing to drive growth. H121 EBITDA, at €11.6m, was up 83% on the prior year. Management expects performance to continue to build strongly in H2 and has reaffirmed guidance for FY21 revenues of at least €140m and EBITDA of c €22m. Its Hype ventures minority acquisition in the period had an immediate impact on EPS, which should lead to a considerable rise in full year dividend given the group's targeted 40% payout policy.

Direct media buying continuing to pay off

Gross revenue increased to €63.2m in H121, up 34% y-o-y, with all geographies growing robustly. Marketing spend, up 29% y-o-y to €21m, continues to be the group's main value driver and directly influences its core key performance indicators. Direct media buying, rather than affiliate marketing, now forms most of its marketing spend at 75% (H120: 46%), supporting EBITDA growth of 83% y-o-y to €11.6m. CLIQ factor, calculated by dividing average revenue per user (ARPU) by the costs of acquiring them (CPA), was 1.59x for the first six months of 2021 and has consistently remained ahead of its minimum 1.4x level. Enriched content on its all-in-one platform, especially in family, gaming and sport, should improve customer retention. Diluted EPS rose to €1.12 (+138% y-o-y), also supported by CLIQ's acquisition of the remaining shares in its subsidiary Hype Ventures.

FY21 guidance maintained

Management's guidance for FY21 gross revenue of over €140m and EBITDA of c €22m has been maintained and would indicate y-o-y growth of 31% and 38% respectively. Current market consensus for FY21 is a little ahead, showing revenue of €143m and EBITDA of €23m. We believe that the company should meet FY21 guidance and current consensus, with growth accelerating in H221 as it continues to develop its direct media buying strategy in Europe following its successful implementation in the North America. However, we keep our view that margins should soften over time as the group enters new markets.

Valuation: Trading at a discount to peers

CLIQ's share price is up 749% since the start of 2020, supported by management delivering on its strategy and heightened demand for mobile entertainment during the pandemic. CLIQ remains at a significant discount to other global entertainment and customer acquisition peers on consensus EV/sales, EV/EBIT and P/E.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	EV/EBIT (x)	P/E (x)	Yield (%)
12/19	63.1	3.9	0.4	0.0	29.4	53.3	N/A
12/20	107.0	14.4	1.2	0.3	9.2	17.8	1.4
12/21e	143.4	21.3	2.2	0.8	6.3	9.7	3.8
12/22e	173.1	27.6	2.8	1.1	5.0	7.6	5.2

Source: Company data, Refinitiv

Price	€21.3
Market cap	€138m

Share price graph

Share details

Code	CLIQ
Listing	Deutsche Börse Scale
Shares in issue	6.5m
Last reported net debt at 30 June 2021	€1.6m

Business description

CLIQ Digital is a leading direct marketing and sales organisation for digital products, with its own global payments and distribution platform. It works in 34 countries. In 2020 45% of sales were generated in Europe, 48% in North America, 7% in other regions.

Bull

- The pandemic's positive impact on demand for mobile entertainment.
- All-in-one platform offers music, movies, sports, games and audiobooks, providing a recognisable competitive advantage.
- Subscription-based model provides robust revenue visibility.

Bear

- As the group scales it may become harder to maintain the same rate of marketing efficiency.
- Uncertainty around content costs when entering new geographies.
- Competitive markets.

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Review of H121 results

Gross revenue increased by 34% y-o-y and 6% h-o-h to €63.2m in H121, of which €33.1m (Q121: €26.9m) was reported in Q221 showing that growth accelerated in the second quarter. North America was its fastest growing region, where sales grew 58% in H121 to €30.9m and it continues to be the greatest contributor to revenue of all CLIQ's operating geographies at 49%. Key to this was management's choice of piloting its direct media buying strategy in North America at the start of 2020. The introduction of direct media buying in its European market during H121 has already had a positive impact on sales development, with gross revenue increasing by 10% y-o-y to €26.5m (42% of total revenue). We believe that this strategy will drive further growth in H221 as it continues to build momentum in both its North American and European markets, however this will be slower in Europe as the strategy needs to be implemented country by country. Previously, CLIQ carried out most of its marketing and member recruitment through affiliates which would earn a cut. Through direct media buying, management can focus its marketing spend on audiences that should deliver greater profitability by cutting out fees paid to intermediaries.

Management is also executing on its strategy to increase the variety of payment solutions available to customers, where historically it has relied on premium SMS, a type of mobile billing method. The predominant and fastest-growing payment means during the period was credit card, amounting to 67% of gross revenue (H220: 51%). Customers' adoption of credit cards for mobile purchases benefits gross margin as it reduces the costs of sales attributable to third parties, such as fees charged by a mobile carrier.

Exhibit 1: P&L highlights

	H119	H219	2019	H120	H220	2020	H121
Revenue (€m)	28.2	34.9	63.1	47.2	59.8	107.0	63.2
Growth y-o-y %	-8	24	8	67	71	70	34
Net revenue (€m)	20.5	23.7	44.2	35.3	46.2	81.5	48.9
Growth y-o-y %	5	22	13	72	95	84	39
Gross profit (€m)	7.9	10.9	18.8	14.3	20.6	34.9	22.6
Growth y-o-y %	-6	42	16	81	89	86	58
Opex (€m)	6.1	6.9	13.0	8.0	11.0	19.0	11.1
Growth y-o-y %	-16	40	6	31	59	46	39
EBITDA (€m)	1.8	4.0	5.8	6.3	9.6	15.9	11.6
EBIT (€m)	2.4	2.4	4.8	6.0	9.3	15.2	11.1
Growth y-o-y %	1	60	60	150	288	153	85
PBT (€m)	1.9	2.0	3.9	5.6	8.8	14.4	10.4
Attributable profit (€m)	0.47	1.73	2.21	3.0	4.1	7.2	7.4
EPS diluted (€)	0.08	0.27	0.35	0.47	0.64	1.14	1.12
Growth y-o-y %	-64	125	3	488	137	226	138
Gross profit margin	28.0%	31.2%	29.8%	30.4%	34.4%	32.7%	35.8%
EBITDA margin	6.4%	11.5%	9.1%	13.4%	16.1%	14.9%	18.3%
EBIT margin	8.5%	6.9%	7.6%	12.6%	15.5%	14.2%	17.6%
Attributable profit margin	1.7%	5.0%	3.5%	6.4%	6.9%	6.7%	11.7%

Source: Company accounts

EBITDA grew by 83% y-o-y to €11.6m, which includes higher marketing expenses of €21m (+29% y-o-y). Management views marketing spend as a prime driver of revenue growth, underpinning both its shift towards direct media buying and expanding content offering, which needs to be tailored to the varied interests of its different geographies. Improving its content offering should support new customer acquisition and extend existing customer retention. Additionally, the lower third-party costs associated with payment service providers helped expand EBITDA margin, which was 18.3% versus 13.4% in H120.

Diluted EPS increased by 138% during the period to €1.12, with €0.29 attributed to CLIQ's acquisition of the remaining shares in its subsidiary Hype Ventures. More details of the acquisition are provided below; however, the reduction in minority interest and its subsequent positive impact on CLIQ's net income should result in a substantially higher full year dividend. Market consensus is guiding for an FY21 EPS of €2.1, which equates to a dividend of €0.8/share (+180% y-o-y) given management's targeted 40% payout ratio.

CLIQ's **balance sheet** remained robust, ending the period with net debt of €1.6m. The improved financial performance and limited capital requirements led to a 24.5% y-o-y increase in operating cash flow to €7.1m. Cash outflow from financing activities was €9.5m, which included €6m relating to the Hype minority acquisition and a €3.3m dividend distribution. There is potential for further M&A activities to support its expansion in content, category or licensing, or to gain footholds or step-ups in particular geographies.

Exhibit 2: Management maintains its guidance for the year

KPIs	2021 guidance	2020	y-o-y change (%)
Gross revenue (€m)	140	107	31
Marketing spend (€m)	46	34	35
EBITDA (€m)	22	16	38
CLIQ factor (ARPU/CPA)	1.60x	1.68x	

Source: Company accounts

Following CLIQ's strong performance in H121, management is not changing the guidance it first set out in the group's FY20 results. CLIQ is well positioned to exceed both its gross revenue target of at least €140m and EBITDA target of c €22m, and this is in line with current market consensus, which forecasts revenues of €143m and EBITDA target of €23m for FY21. That said, margins could soften in the medium term as the group enters new markets.

Its marketing spend target of around €46m is on track and highlights management's growth ambitions for FY22. The group's guided CLIQ factor of 1.6x is in line with current levels and although lower than FY20, is still significantly above its minimum level of 1.4x, equivalent to a 30% gross margin. CLIQ factor is key to determining the effectiveness of its marketing spend and is discussed in greater detail below.

Operational highlights

Exhibit 3 illustrates the strong progress CLIQ has made across all its KPIs over the last couple of years, where we have analysed revenue and marketing spend in detail. CLIQ factor represents the ARPU over six months divided by CPA and determines the efficiency of its marketing spend. This has fallen from 1.68x in FY20 to 1.59x in H121, as the new European marketing team gets up to speed. We anticipate that the continued switch to direct media buying is likely to lead to lower CPA, generating a higher and more sustainable CLIQ factor in the medium to long term. As shown in Exhibit 3 CLIQ factor rose from 1.4x to a high of 1.72x in the two years to end FY20.

Its customer base value (CBV) represents the number of members (customers) multiplied by the remaining lifetime value per member and therefore represents the total net revenue expected to be generated by existing members. CBV grew 29% to €40m in H121, highlighting that customers are enjoying its more comprehensive all-in-one platform, which includes an improved and more varied content offering.

Exhibit 3: Development of KPIs

	H119	H219	FY19	H120	H220	FY20	H121	FY21e guidance
Revenue (€m)	28.2	34.9	63.1	47.2	59.8	107.0	63.2	>140
Growth y-o-y %	(8)	26	8	67	71	69	34	31
CLIQ factor (ARPU/CPA)	1.4	1.62	1.51	1.64	1.72	1.68	1.59	1.6
Growth y-o-y %	1	21	11	17	6	11	(3)	(5)
Customer base value (€m)	24.5		26	31		35	40	
Growth y-o-y %	(7)		(8)	(7)		(8)	29	
Marketing spend (€m)	10	12	22	16	18	34	21	46
Growth y-o-y %	(48)	25	80	(26)	9	92	29	35

Source: Company accounts

Attractive content offering

CLIQ has continued to develop its all-in-one platform by adding content in areas such as family, gaming and sport. Its recent partnership with Utomik has given it a less expensive way of growing its gaming content, providing a strong foothold in one of the fastest-growing digital media markets worldwide. Management's ambition to add cloud gaming in the near future should further add to the platform's appeal, enticing new customers and supporting existing customer retention. In July 2021, CLIQ announced that it had secured the exclusive live broadcasting rights in Germany, Austria and Switzerland for the Italian Serie B football championship. CLIQ's enriched content offering continues to be offered at an all-in-one price of €14.99 a month across all all-in-one portals.

Acquisition of Hype Ventures minority

On 28 April 2021 CLIQ announced the acquisition of the remaining 20% stake in Hype Ventures, another streaming entertainment service, for a €6m cash consideration, earnout of c €0.8m and an issuance of 320,000 new CLIQ shares. In FY20, Hype contributed c 59% of CLIQ's revenue and its share of EBITDA was even higher. Financially, the buyout will have a materially positive impact on net income and EPS, where CLIQ's pro forma net result after minority interests would have been €9.7m (+36%) versus €7.2m reported and pro forma basic EPS would have been €1.5 versus €1.16 reported. Operationally, the acquisition provides sustainable efficiency enhancements, as management can better align the interests of Hype with the overall interests of the group.

Consensus forecasts and valuation

Current market consensus is slightly ahead of management's guidance for FY21, highlighted by the bullet points below:

- Gross revenue: management – €140m; market consensus – €143m
- EBITDA: management – €22m; market consensus – €23m
- EBITDA margin: management – 15.7%; market consensus – 16.1%

For FY22, commenting analysts are looking for a further uplift in revenue of 21% to €173m and an improvement in EBITDA of 26% to €29m. Consensus forecasts EPS to rise to €2.2 in FY21 and €2.8 in FY22, up from FY20 levels of €1.2.

Exhibit 4: Peer comparison

Name	Market cap (m)	Sales growth (%)		EV/sales (x)		EV/EBIT (x)		P/E (x)		Hist div yield (%)
		1FY	2FY	1FY	2FY	1FY	2FY	1FY	2FY	Last
Cinedigm	$265	41	41	5.9	4.2	N/A	N/A	N/A	N/A	N/A
Stingray	C$401	12	6	2.6	2.5	10.8	8.5	8.5	7.5	4.0
Spotify	$42,062	19	19	3.6	3.0	N/A	N/A	N/A	N/A	N/A
Netflix	$232,314	19	14	8.1	7.1	39.1	31.4	50.3	41.0	N/A
Alchimie	€61	22	43	1.7	1.2	N/A	N/A	N/A	N/A	0.0
Pantaflix	€21	327	9	0.7	0.6	N/A	N/A	N/A	N/A	0.0
Nordic Entertainment	SEK36,747	2	20	3.2	2.6	46.8	43.3	55.8	51.9	0.0
Storytel	SEK15,275	26	32	4.8	3.7	N/A	N/A	N/A	N/A	0.0
Peer average		**59**	**20**	**3.4**	**2.8**	**39.1**	**31.4**	**50.3**	**41.0**	**0.0**
CLIQ Digital	€135	33	22	0.9	0.8	6.2	4.5	10.2	7.1	1.4
Premium/(discount)				**-72%**	**-73%**	**-84%**	**-86%**	**-80%**	**-83%**	

Source: Refinitiv. Note: Prices at 6 August 2021.

CLIQ's shares continue to trade at a significant discount to its global entertainment and customer acquisition peers across all metrics on consensus forecasts. The average discount across EV/sales, EV/EBIT and P/E across current year and the following forecast year is 79%. As many of CLIQ's peers are loss making, we could only compare to a small sample of three, which includes Netflix. We expect this discount to narrow as management continues to build a successful track record for its direct media buying strategy; however, this will be limited by CLIQ's relatively small size.

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