

## CLIQ Digital

**Media**

11 October 2019

### Improving profitability

CLIQ Digital's half year report shows progress quarter-on-quarter, although gross revenues were 8% down on prior year. Margins are starting to improve after earlier cost cutting, and customer base value (CLIQ's measure of expected future revenues) has edged ahead from the end FY18 level. Consumer appetite for digital entertainment remains very strong across product groups and the company needs to ensure that its content portfolio remains sufficiently attractive to bring in (and retain existing) subscribers. The market valuation is at a persistent discount to peers.

### Quarter-on-quarter progress

While gross and net revenues were both down against H118 (by 8% and 4% respectively), Q219 was 5% up on both measures over Q119, that quarter having shown 2% and 4% improvements over Q418. The CLIQ-Factor (the ratio of revenue from a customer compared to the cost of customer acquisition) also moved ahead over these three consecutive quarters, from 1.32x to 1.34x to 1.46x in Q219. Marketing spend has been relatively stable, implying that it has been more effectively focused through better use of data. Lower personnel costs following earlier headcount reductions helped lift the operational EBITDA margin to 8.3% in the half (6.5% after redundancy costs) compared to 6.6% in H118. A swing from net finance income of €0.6m in H118 to an expense of €0.4m is down to fair value movements on financial instruments taken through the P&L. The earnings impact was mostly offset by tax gains on prior year adjustments and reversals of temporary differences.

### Digital entertainment core activity

Of H119 revenues, 90% came from digital entertainment services; the balance from digital marketing services. FY18 revenues were generated 80% in Europe (a half year revenue split is not given). H119 accounts show a large increase in minority interests, at €1.0m of the €1.5m net income. Subsidiaries include Red27 Mobile in the UK, 51% owned, and Hype Ventures in The Netherlands, 80% owned.

### Valuation: Discount to peers

CLIQ trades at a discount of around 40% to a broad peer set of user acquisition groups, on an average of FY1 and FY2 EV/sales, EV/EBIT and P/E multiples. The range of multiples, however, is wide, reflecting different growth dynamics within the peer group. This discount in part reflects CLIQ's smaller size. Delivery on improving revenue and profit margins could lead to its narrowing.

#### Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	EV/EBIT (x)	P/E (x)	Yield (%)
12/17	70.5	4.5	0.52	0.0	4.0	3.9	N/A
12/18	58.2	3.4	0.34	0.0	7.0	6.0	N/A
12/19e	55.3	2.4	0.25	0.0	7.0	8.2	N/A
12/20e	57.0	3.3	0.35	0.0	5.5	5.9	N/A

Source: Refinitiv

**Price** €2.05  
**Market cap** €13m

#### Share price graph



#### Share details

Code CLIQ  
Listing Deutsche Börse Scale  
Shares in issue 6.2m  
Last reported net debt as at 30 June 2019 €8.0m

#### Business description

CLIQ Digital is a direct marketer of digital entertainment products to consumers via mobile and online marketing channels, using its own payment and distribution platform.

#### Bull

- Exposure to the fast-growth mobile marketing sector.
- Experienced management.
- Breadth of content.

#### Bear

- Regulated, fast-moving markets.
- Dependence on major mobile carriers
- Limited exposure to the potentially faster growth developing markets.

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## Review of H119 results

Exhibit 1 below details CLIQ's operational performance during H119 and the trends from H117 on. The key difference between the reported and the adjusted figures is the €0.5m of redundancy costs included in operating expenses within the reported figures.

<b>Exhibit 1: P&amp;L highlights</b>							
	H117	H217	2017	H118	H218	2018	H119
Revenue (€m)	34.9	35.6	70.5	30.6	27.7	58.2	28.2
Growth y-o-y %				-13	-22	-17	-8
Gross profit (€m)			17.9	8.4	7.7	16.1	7.9
Growth y-o-y %						-10	-6
Opex (€m)			12	6.7	5.3	12	5.6
Growth y-o-y %						-2	-16
EBITDA (€m)	2.5	3.0	5.5	2.0	1.9	3.9	1.8
Adj EBITDA (€m)				1.7			2.4
EBIT (€m)	2.4	2.8	5.2	1.5	1.5	3.0	1.4
Adj EBIT (€m)				1.2			1.9
Growth y-o-y %				-38	-46	-42	-8
PBT (€m)	2.04	2.46	4.5	2.05	1.35	3.4	0.95
Attributable profit (€m)	1.47	1.904	3.3	1.41	0.79	2.2	0.48
EPS diluted (€)	0.23	0.29	0.52	0.22	0.12	0.34	0.08
Growth y-o-y %				-4	-59	-35	-64
Gross profit margin			25.4%	27.5%	27.8%	27.7%	28.0%
EBITDA margin	7.2%	8.4%	7.8%	6.6%	6.9%	6.7%	6.5%
Adj ABITDA margin				5.6%			8.3%
EBIT margin	6.9%	7.9%	7.4%	4.9%	5.4%	5.2%	4.9%
Adj EBIT margin				3.6%			6.7%
Attributable profit margin	4.2%	5.4%	4.7%	4.6%	2.9%	3.8%	1.7%

Source: CLIQ Digital accounts, Edison Investment Research

### Underlying revenue declines easing

FY18 was a difficult year for CLIQ as it transitioned from affiliate marketing to direct media buying. Delays in new product launches meant that marketing spend was curtailed in Q417, affecting the sales of subscription services in the new calendar year. H218 continued to struggle, in part attributed to the warm summer. The improvements logged on a quarter-by-quarter basis from Q418 on are therefore welcome, albeit that the cumulative H119 revenue and gross profit figures are still below those achieved in the prior year. H219 figures will be against easier comparatives.

### Profitability helped by personnel cost savings

Personnel expenses of €4.1m were 9% lower than the comparative period, with this figure including €0.5m of redundancy costs (FTE down by 20 people). Excluding this sum, H119 EBITDA margin would have increased from 5.6% to 8.3%, underpinning consensus forecasts that are looking for a 7.0% margin figure for the full year and the assumption of 8.0% for FY20e. The absence of any impairment charges in H119 resulted in a broadly flat EBIT margin on prior year of 5.2%.

### Marketing spend stable over the half

Exhibit 2 below highlights how the KPIs have driven the P&L performance from FY17 to date.

**Exhibit 2: Development of KPIs**

	H117	H217	2017	H118	H218	2018	H119
Revenue (€m)	34.9	35.6	70.5	30.6	27.7	58.2	28.2
Growth y-o-y %	12	4	8	-13	-22	-17	-8
CLIQ factor (ARPA/CPA)	1.48		1.47	1.38	1.33	1.36	1.40
Growth y-o-y %	2		4	-7		-7	+1
Customer base value (€m)	27		26	25	24	24	24.5
Growth y-o-y %	40		24	-7		-8	-2
Marketing spend (€m)	9.6		18.6	9.9	8.9	18.8	9.8
Growth y-o-y %	-6		-14	10		1	-1

Source: CLIQ Digital accounts, Edison Investment Research

Marketing spend held just below €10m for the half year, but the emphasis has shifted from the scale of the investment to its efficacy, by reducing media spend on less profitable segments. This should improve the quality of the business as well as lifting the CLIQ-Factor (ARPU divided by CPA), ARPU being average net revenue per user over the first six months and CPA being the cost of acquiring that user.

The pick-up in the CLIQ-Factor should also presage an improvement in profitability and margin.

## Cash flow

In H119, the company saw an operating cash outflow of €0.1m from an inflow of €1.2m in H118, mostly down to swings in working capital. The overhead reduction and improving efficiency of marketing spend should lead to a reversal in the second half.

During the reporting period, CLIQ renegotiated its financing facilities, extending them by €0.5m to €13.5m with a maturity in March 2022 and adding Postbank AG to Commerzbank AG as providers.

There were no new acquisitions in the period and contingent acquisition consideration at the half year was €0.6m, all in current liabilities.

## Forecasts and valuation

Consensus estimates were reviewed following the Q119 figures published in May, when a more cautious view was taken by investors on the potential for short-term revenue growth. Revenue expectations were adjusted to a 5% year-on-year decline for FY19 and flat EBIT, implying an improvement in margin.

For the following year, FY20, market expectations are for modest top-line growth of 3%.

Exhibit 3 below summarises the earlier FY19 KPIs provided by the company and progress towards them to date.

**Exhibit 3: FY19 original KPI targets**

	FY19 target	H119 progress
Revenue	Steady organic growth	Revenues <b>down 8%</b> y-o-y, but customer base value up on 31 December, revenues picking up quarter-on-quarter and easier comparatives for H2
Gross margin	Increase	Increase of 2% y-o-y, due to shift in billing method
ARPU/CPA (CLIQ factor)	Stable	<b>Increase</b> from 1.38 in H118, 1.33 in H218 to <b>1.40</b> in H119
Marketing spend (€m)	Increase	<b>Broadly flat</b> y-o-y at €9.8m
Operational EBITDA* (€m)	Increase	<b>40% increase</b> y-o-y from €1.7m to €2.4m
Operational net income* (€m)	Sustainable increase	Operational net income <b>up 70%</b> to €1.4m (prior year adjustments, fair value movements and redundancy costs result in a 17% decrease in net profit)

Source: CLIQ Digital accounts, Edison Investment Research. Note: \*Operational EBITDA and net income as defined by the company.

The share price started the year at €1.91 then had a strong run up to €3.31 in early February. From early April, the price drifted off, trading in a range of €1.90 to €2.50 from early May to date as earlier expectations of improved FY19 financial performance moderated.

The shares still trade at a substantial discount to the wider peer group across all metrics. Of particular note are FY1e EV/sales (CLIQ: 0.4x vs peers average 1.1x) and the P/E (CLIQ: 8.8x vs peers average 15.8x) multiples. Some of this discount reflects CLIQ's smaller size. Delivery on improving revenue and margins could lead to its narrowing.

**Exhibit 4: Peer comparison**

Name	Market cap (m)	Sales growth (%)		EV/sales (x)		EV/EBIT (x)		P/E (x)		Hist div yield (%)
		FY1	FY2	FY1	FY2	FY1	FY2	FY1	FY2	Last
IMImobile	£243	13	18	1.6	1.3	16.0	13.8	20.6	18.2	0.0
XLMedia	£111	(32)	(2)	1.2	1.2	3.9	3.5	7.3	6.1	5.5
Tremor Video	£166	44	13	0.3	0.3	2.6	2.0	3.9	3.4	0.0
Claranova	€268	62	55	0.9	0.6	17.3	8.8	31.6	13.9	0.0
Kape Technologies	£117	37	17	1.5	1.3	9.3	6.6	15.4	10.9	0.0
<b>Average</b>		<b>24.8</b>	<b>20.2</b>	<b>1.1</b>	<b>0.9</b>	<b>9.8</b>	<b>6.9</b>	<b>15.8</b>	<b>10.5</b>	<b>1.1</b>
CLIQ Digital	€14	(5.0)	3.0	0.4	0.4	7.3	5.8	8.8	6.3	0.0
Discount				64%	55%	26%	16%	44%	40%	

Source: Refinitiv. Note: Prices as at 1 October 2019. Claranova is a research client of Edison Investment Research.

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