

CentralNic Group

M&A & placing

Acquisition of Codewise and £30m placing

CentralNic has announced the conditional US\$36m asset-based acquisition (payable in cash on completion) of one of Team Internet's closest competitors, Codewise, a domain monetisation business based in Poland. Based on the year to 30 June 2020, the deal values Codewise at 0.60x historical sales (US\$60.3m) and 4.9x adjusted EBITDA (US\$7.4m). The deal is being funded by way of a share placing, with CentralNic having placed 40m shares (21% of the equity) at 75p per share (a 6% discount to the 10 September closing price), raising gross proceeds of £30m. Assuming a year end completion date, we estimate that the deal will be materially (c 18%) EPS enhancing in FY21. The acquisition is highly complementary to the successful Team Internet acquisition, completed in December 2019, building CentralNic's technology base and market share in domain monetisation, diversifying its client base and strengthening the group's development capability and senior management team.

Year end	Revenue (US\$m)	PBT* (US\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/18	56.0	7.4	5.83	0.0	18.7	N/A
12/19	109.2	12.8	8.16	0.0	13.4	N/A
12/20e	217.8	17.4	5.60	0.0	19.5	N/A
12/21e	295.3	27.7	8.74	0.0	12.5	N/A

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

US\$36m acquisition of Codewise

Codewise is a monetisation and digital marketing group, with two principal businesses: Zeropark (an online ad-exchange connecting advertisers with domain investors/publishers) and Voluum (SaaS analytics, measurement, optimisation and media buying). CentralNic is also taking on all of Codewise's employees (140 staff, based in Krakow, Poland), including its development team to deepen CentralNic's talent pool. Codewise has similar characteristics to CentralNic, including operating a subscription model, high recurring revenues and near 100% cash conversion. The deal is conditional on completion of a business restructuring (among other conditions) and is not expected to complete until around 31 October 2020.

40m shares placed at 75p per share, raising £30m

The total consideration for the acquisition is US\$36m (subject to working capital adjustments) on a cash-free, debt-free basis, payable in cash on completion. This represents 4.9x adjusted EBITDA of US\$7.4m for the 12 months to 30 June 2020. In parallel with the acquisition, CentralNic has completed a placing of 40m shares (20.8% of existing share capital) at 75p per share (a 6% discount to the prior closing price of 79.75p) to existing and new institutional investors, raising gross proceeds of £30m (c US\$39m) to fund the acquisition and associated costs.

Valuation: 18% EPS enhancement in FY21

We estimate the deal to be materially (18%) EPS enhancing in FY21. Even before the acquisition, CentralNic was trading at a substantial discount to its peers. This transaction further deepens the discount, with an FY21 P/E of 12.5x.

Software & comp services

14 September 2020
Price 85.25p
Market cap £198m

£1.28/US\$

Net debt (US\$m) at 30 June 2020 76.4

Shares in issue (post-placing) 232.1m

Free float 55.4%

Code CNIC

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 2.1 (0.9) 70.5

Rel (local) 4.2 (0.9) 104.3

52-week high/low 95.0p 40.0p

Business description

CentralNic Group is a leading global domain name services provider, operating through three divisions: Reseller (number two globally); Corporate; and SME. Services include domain name reselling, hosting, website building, security certification and website monetisation (added at the end of 2019).

Next events

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FY trading update February 2021

FY20 results April 2021

Analysts

Russell Pointon +44 (0)20 3077 5757

Richard Williamson +44 (0)20 3077 5700

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

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Acquisition and placing

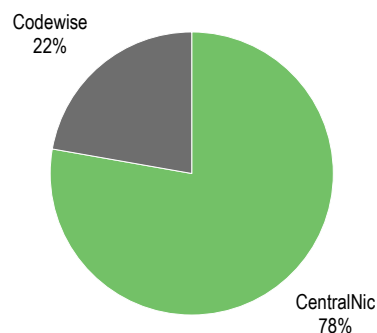
Codewise: A leading monetisation platform

Codewise is a very complementary transaction to the successful Team Internet acquisition, completed in December 2019, further building CentralNic's technology base and market share in domain monetisation, while diversifying the segment's client base. The deal offers cross-selling opportunities with the broader group and, with CentralNic taking on all of Codewise's 140 staff, the acquisition also strengthens the group's development capability and senior management team.

Codewise is a leading competitor to CentralNic's Team Internet, based in Krakow, Poland. It has two principal businesses, Zeropark and Voluum:

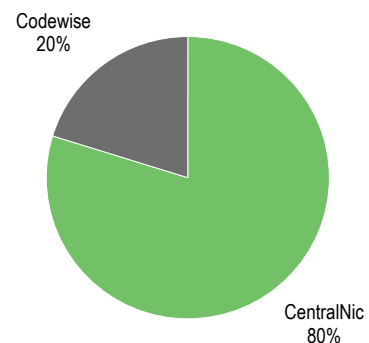
- **Zeropark** is a real-time-bidding ad-exchange platform, connecting advertisers and domain investors and publishers via its marketplace. It operates on a commission basis, taking a commission-based fee from advertiser payments.
 - Zeropark is highly complementary to Team Internet, significantly increasing CentralNic's market share in domain monetisation.
 - Team Internet is highly reliant on a single key customer for c 90% of its revenues. Through its ad-exchange, Zeropark works directly with thousands of publishers and advertisers and therefore substantially reduces the segment's reliance on a single key client.
 - Zeropark brings CentralNic new subscription revenue and recurring contract revenue, as well as introducing a suite of new products and technologies that can be applied across the group.
 - Zeropark will also be able to offer marketing solutions to CentralNic's Direct client base.
- **Voluum** is a SaaS marketing management suite for SMEs and brands, operating a monthly subscription model that enables online ad analytics, tracking, media buying and AI-powered optimisation. Its software allows companies to establish and manage broad-based advertising campaigns, managing traffic from multiple sources, analysing campaign performance and providing automated optimisation of campaigns through the use of machine learning and AI (A/B testing, traffic redirection and filtering).
 - In particular, Voluum's anti-fraud solutions will be attractive to CentralNic's existing client base, allowing early identification and removal of unwanted advertisements appearing on corporate websites.

Exhibit 1: Pro-rata revenue contribution for 12 months to 30 June 2020



Source: CentralNic

Exhibit 2: Pro-rata adjusted EBITDA contribution for 12 months to 30 June 2020



Source: CentralNic

Benefits of the deal: Technology and expertise

The combination of Team Internet and Codewise should be highly complementary, with Team Internet's business reliant on a single client for c 90% of its internet traffic and monetisation, whereas Zeropark operates an ad-exchange platform, directly connecting a diversified pool of advertisers with the websites of investors.

Codewise's technology stack is state-of-the-art (eg programmatic SMS), with the platform supported by a dedicated development team. CentralNic will be taking on all of Codewise's 140 staff, based in Krakow in Poland. CentralNic's management team has also emphasised the strength of Codewise's management, who will be joining CentralNic's senior team.

Management believes that the combination of Codewise (6,000+ paying clients across 190 countries) with Team Internet brings together two leading monetisation platforms. As such, management expects the acquisition to deliver both revenue synergies through cross-selling (applying Codewise's technology to Team Internet's clients (and vice versa)) as well as cost synergies, by combining the two technology suites, leveraging bulk discounts and marketing efficiencies. Management also sees the potential for cross-selling additional advertising solutions to the SME and Corporate client base within the Direct segment.

Management has identified approximately US\$1m of synergies to date.

Timing of completion

With the placing successfully completed, during the period between announcement and completion of the acquisition, the sellers will continue to operate and manage the Zeropark and Voluum businesses. This will include a pre-completion restructuring of the businesses, with CentralNic's prior consent required for any material decisions. We understand from management that they expect the acquisition to complete around 31 October 2020.

Revised estimates based on the acquisition and placing

We have revised our estimates based on the following assumptions:

- The Codewise deal completes in FY20, with all costs borne in FY20 and assuming a full year of impact from the acquisition in FY21.
- We have added Codewise's adjusted EBITDA of US\$7.4m to CentralNic's FY21 EBITDA estimate, but otherwise, on a conservative basis, we have not included any synergies (US\$1m indicated in the announcement). This implies a slight dilution to the FY21 adjusted EBITDA margins (from 14.3% to 13.7%), recognising a level of dilution to group margins from the slightly lower margins at Codewise. We have then assumed FY22 EBITDA margins start to pick up to 14.0%.

We calculate that the Codewise acquisition will be 18% EPS enhancing in FY21 and 15% in FY22. Our old and new estimates are summarised in Exhibit 3 below.

Exhibit 3: Revised estimates

Year end 31 -December US\$000s, IFRS	Old 2020e	New 2020e	Change	Old 2021e	New 2021e	Change	Old 2022e	New 2022e	Change
Revenue	217,823	217,823	-	230,824	295,345	28%	244,709	313,424	28%
Gross profit	70,792	70,792	-	76,172	98,645	30%	80,754	104,684	30%
Adjusted EBITDA	30,670	30,670	-	32,944	40,321	22%	35,832	43,774	22%
Normalised operating profit	30,402	30,402	0%	27,908	36,027	29%	29,204	37,534	29%
Profit before tax (norm)	17,423	17,423	0%	19,628	27,747	41%	21,326	29,658	39%
Profit before tax (reported)	2,469	(531)		10,021	10,865	8%	11,523	12,440	8%
Reported tax	(2,729)	(1,739)		(3,857)	(4,153)		(4,278)	(4,599)	
Net income (normalised)	11,617	11,617	0%	14,265	20,273	42%	15,379	21,461	40%
Basic av. shares outstanding (m)	187,269	207,269	11%	192,052	232,052	21%	192,052	232,052	21%
EPS - basic normalised (c)	6.20	5.60	(10)%	7.43	8.74	18%	8.01	9.25	15%
Revenue growth (%)	99.5	99.5		6.0	35.6		6.0	6.1	
Gross margin (%)	32.5	32.5		33.0	33.4		33.0	33.4	
EBITDA margin (%)	14.1	14.1		14.3	13.7		14.6	14.0	
Normalised operating margin (%)	14.0	14.0		12.1	12.2		11.9	12.0	
Capex	(2,287)	(2,287)	-	(3,001)	(3,839)	28%	(3,181)	(4,075)	28%
Closing net debt	75,991	79,039	4%	69,925	61,663	(12)%	62,640	41,061	(34)%

Source: Edison Investment Research

Exhibit 4: Financial summary

	\$'000	2018	2019	2020e	2021e	2022e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT		US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Revenue	55,991	109,194	217,823	295,345	313,424	
Cost of Sales	(30,080)	(66,419)	(147,031)	(196,700)	(208,740)	
Gross Profit	25,911	42,775	70,792	98,645	104,684	
Adj. EBITDA	9,146	17,920	30,670	40,321	43,774	
Normalised operating profit	8,820	16,614	30,402	36,027	37,534	
Amortisation of acquired intangibles	(5,600)	(8,299)	(9,423)	(16,882)	(17,217)	
Exceptionals	(6,362)	(7,431)	(5,797)	-	-	
Share-based payments	(469)	(2,878)	(2,734)	-	-	
Reported operating profit	(3,611)	(1,994)	12,448	19,145	20,317	
Net Interest	(1,430)	(3,869)	(7,179)	(7,280)	(7,177)	
Joint ventures & associates (post tax)	45	74	-	-	-	
Exceptionals	-	-	(5,800)	(1,000)	(700)	
Profit Before Tax (norm)	7,435	12,819	17,423	27,747	29,658	
Profit Before Tax (reported)	(4,996)	(5,789)	(531)	10,865	12,440	
Reported tax	(1,428)	39	(1,739)	(4,153)	(4,599)	
Profit After Tax (norm)	7,435	14,227	11,617	20,273	21,461	
Profit After Tax (reported)	(6,424)	(5,750)	(2,270)	6,712	7,841	
Minority interests	5	64	-	-	-	
Discontinued operations	-	-	-	-	-	
Net income (normalised)	7,440	14,291	11,617	20,273	21,461	
Net income (reported)	(6,419)	(5,686)	(2,270)	6,712	7,841	
Basic average number of shares outstanding (m)	127,515	127,515	175,084	207,269	232,052	
EPS - basic normalised (c)	5.83	8.16	5.60	8.74	9.25	
EPS - diluted normalised (c)	5.56	7.92	5.46	8.54	9.04	
EPS - basic reported (c)	(5.03)	(3.25)	(1.10)	2.89	3.38	
Dividend (c)	0.00	0.00	0.00	0.00	0.00	
Revenue growth (%)	75.3	155.9	99.5	35.6	6.1	
Gross Margin (%)	46.3	39.2	32.5	33.4	33.4	
EBITDA Margin (%)	16.3	16.4	14.1	13.7	14.0	
Normalised Operating Margin	15.8	15.2	14.0	12.2	12.0	
BALANCE SHEET						
Fixed Assets	132,321	217,544	285,735	271,160	256,390	
Intangible Assets	127,267	206,055	271,298	257,369	243,286	
Tangible and Right-of-use Assets	931	6,427	10,014	9,367	8,681	
Investments & other	4,123	5,062	4,423	4,423	4,423	
Current Assets	51,378	67,433	63,248	95,706	122,548	
Stocks	3,906	491	545	738	940	
Debtors	24,382	40,760	37,683	52,571	58,610	
Cash & cash equivalents	23,090	26,182	25,020	42,396	62,998	
Other	-	-	-	-	-	
Current Liabilities	(62,443)	(78,767)	(74,984)	(87,482)	(92,490)	
Creditors	(59,719)	(75,683)	(68,394)	(80,564)	(85,496)	
Tax and social security	(452)	-	-	-	-	
Short term borrowings	(2,272)	(3,084)	(6,590)	(6,918)	(6,994)	
Other	-	-	-	-	-	
Long Term Liabilities	(43,188)	(129,206)	(128,384)	(137,207)	(139,265)	
Long term borrowings	(22,933)	(102,799)	(101,616)	(102,764)	(103,032)	
Other long term liabilities	(20,255)	(26,407)	(26,768)	(34,443)	(36,233)	
Net Assets	78,068	77,004	145,615	142,177	147,184	
Minority interests	(5)	69	-	-	-	
Shareholders' equity	78,063	77,073	145,615	142,177	147,184	
CASH FLOW						
PBT	(4,996)	(5,789)	(531)	10,865	12,440	
Depreciation and amortisation	5,926	9,605	10,553	18,415	18,844	
Share-based payments	469	2,878	-	-	-	
Working capital	7,783	8,136	(4,266)	(2,911)	(1,309)	
Exceptional & other	2,650	3,795	7,179	7,280	7,177	
Tax	(3,015)	(2,309)	(1,739)	(4,153)	(4,599)	
Net operating cash flow	8,817	16,316	11,197	29,496	32,553	
Capex	(4,920)	(15,497)	(2,287)	(3,839)	(4,075)	
Acquisitions/disposals	(27,568)	(63,840)	(42,838)	(1,000)	(700)	
Net interest	(682)	(1,970)	(7,179)	(7,280)	(7,177)	
Equity financing	30,869	2,133	39,004	-	-	
Dividends	-	-	-	-	-	
Other	-	-	(3,000)	-	-	
Net Cash Flow	6,516	(62,858)	(5,104)	17,376	20,601	
Opening net debt/(cash)	8,667	2,115	74,998	79,039	61,663	
FX	(1,374)	(10,974)	1,063	-	-	
Other non-cash movements	1,410	949	-	-	-	
Closing net debt/(cash)	2,115	74,998	79,039	61,663	41,061	

Source: Company accounts, Edison Investment Research. Note: *FY19 figures have been restated to reclassify FX on borrowings and administrative expenses to finance costs and other income respectively.

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Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia