

Claranova

Growth strategy paying off

Claranova has reported another strong quarter, with organic constant currency revenue growth of 33% y-o-y in Q319, maintaining the same rate of growth as in H119. Geographic and product expansion are driving PlanetArt growth, while the recent acquisitions by Avanquest have reinvigorated the division. We have revised our revenue forecasts up to reflect stronger than expected growth, although this has a minimal impact at the EBITDA level.

Year end	Revenue (€m)	EBITDA (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)
06/17	130.2	(5.0)	(6.6)	(0.02)	0.0	N/A
06/18	161.5	3.9	3.1	0.01	0.0	133.2
06/19e	253.9	18.0	14.6	0.03	0.0	29.0
06/20e	317.9	30.0	26.7	0.05	0.0	17.1

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

Q319: 33% organic revenue growth

Claranova continued to enjoy strong organic growth during Q319. Reported group revenues increased 69% y-o-y; excluding the impact of the Avanquest acquisitions and currency effects, group revenue grew 33% y-o-y. European expansion and the launch of the Photo Tiles product in H119 resulted in reported growth of 49% for the PlanetArt business (41% on a constant currency basis). The new monetisation methods from the acquired businesses in the Avanquest division have benefited both the acquired and existing businesses, driving organic growth of 22% for both parts of the division. At less than 2% of Q3 group revenues, myDevices is not yet making a material contribution but the development of new routes to market, including a recent partnership with Microsoft, provides the foundation for growth.

Upgrading revenue forecasts

On the basis of better than expected growth in PlanetArt and Avanquest revenues in Q3, we have increased our FY19 revenue forecast by 2.0% and FY20 by 3.6%. As some of this upside is due to currency translation and we assume the company has increased marketing spend to acquire more customers, we make minimal changes at the EBITDA and EPS level.

Valuation: Small increase from revenue upside

Reflecting the different business models and minority interests for each division, we continue to use a sum-of-the-parts approach to valuation. Based purely on peer group averages per division, we calculate a fair value of €1.17 per share. However, once multiples are adjusted to reflect our views on the growth and profitability of each division, this increases to €1.31 per share (up from €1.28, driven by higher revenue estimates). Milestones that could provide upside to our forecasts include: successful adoption of FreePrints in India; growth of the acquired Adaware business; and distributors reselling the myDevices platform in the US and China.

Q3 revenue update

Software & comp services

15 May 2019

Price €0.84

Market cap €329m

\$1.12:€1

Net cash (€m) at end H119 42.8

Shares in issue 392.0m

Free float 91%

Code CLA

Primary exchange Euronext Paris

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 1.0 30.7 (17.2)

Rel (local) 4.2 24.3 (13.2)

52-week high/low €1.12 €0.52

Business description

Claranova consists of three businesses focused on mobile and internet technologies: PlanetArt (digital photo printing), Avanquest (consumer software) and myDevices (Internet of Things). It is headquartered in Paris with operations in Europe, the US and Canada.

Next events

Q4 revenue update 7 August

FY19 results 1 October

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Q3 revenue update confirms strong organic growth

Claranova's Q3 revenue update confirms that PlanetArt and Avanquest are seeing continued strong organic growth, with some benefit from the stronger dollar in the quarter. Group constant currency organic growth of 33% compares to 33% in Q219 and 32% in Q119.

Exhibit 1: Q3 revenues by division					
€m	Q319	Q318	y-o-y	y-o-y	y-o-y
			reported	organic	organic constant currency
PlanetArt	34.9	23.4	49%	49%	41%
Avanquest	20.4	8.6	136%	22%	20%
myDevices	0.9	1.2	(26%)	(26%)	(31%)
Total	56.2	33.2	69%	39%	33%
Source: Claranova					

PlanetArt: Growth from product and geographic expansion

The division saw reported growth of 49% in Q3, with 8% of this due to the weaker euro versus the dollar. Constant currency growth of 41% compares to 37% in Q219 and 44% in Q119. While the division saw growth across the board, the company pointed to strong demand in Europe. The launch of the app in Belgium and Netherlands earlier in the quarter was well received and the Photo Tiles product, which is available in five of the 10 countries in which PlanetArt is present, also contributed to growth.

Avanquest: Reinvigorated by acquired businesses

The original Avanquest business saw 22% growth y-o-y, accelerating from the 16% growth reported in Q219 and 3% in Q119. More business is shifting to subscription rather than upfront licensing, providing recurring revenues and better predictability. The acquired businesses also saw 22% organic growth in the quarter, versus 23% for H119. The company's strategy has been to increase monetisation of visitors to its sites. The acquired businesses, particularly Adaware, bring new methods of monetisation to the division – with each visitor on average generating more revenue for Avanquest, this provides additional funds for marketing, which in turn attracts new visitors to Avanquest sites.

myDevices: Building out routes to market

myDevices reported a 26% revenue decline compared to Q318; however, in Q318 the division benefited from a one-off payment of \$1m from Sprint. Excluding this, the rest of the division grew 129% y-o-y. In February, myDevices signed a partnership with Microsoft to provide IoT data analytics tools to Azure customers. Added to partnerships signed with Sprint, Dr Peng, Alibaba Cloud and Ingram Micro, myDevices now has a variety of routes to market in the US, Europe and China.

Changes to forecasts

We have revised our forecasts to reflect stronger than expected revenue growth in PlanetArt and Avanquest. As some of this was due to currency translation effects and we expect some of the remaining growth will have resulted from higher marketing spend, we have made minimal changes at the EBITDA level. We note that PlanetArt has not yet seen a material contribution to revenues from India, and Avanquest has yet to launch Payaware (a new secure payments solution) – both are potential growth drivers for FY20.

Exhibit 2: Changes to forecasts

€m	FY19e		FY19e		FY20e		FY20e		
	Old	New	Change	y-o-y	Old	New	Change	y-o-y	
Revenues	248.9	253.9	2.0%	57.2%	306.8	317.9	3.6%	25.2%	
EBITDA	18.0	18.0	0.2%	362.6%	29.8	30.0	0.7%	66.3%	
EBITDA margin	7.2%	7.1%	-1.7%	4.7%	9.7%	9.4%	-2.9%	2.3%	
Normalised operating profit	17.4	17.4	0.2%	412.9%	29.3	29.5	0.7%	69.2%	
Normalised operating profit margin	7.0%	6.9%	-0.1%	4.8%	9.6%	9.3%	-0.3%	2.4%	
Reported operating profit	12.3	12.3	0.3%	N/A	27.1	27.3	0.7%	121.2%	
Reported operating margin	4.9%	4.9%	-0.1%	8.6%	8.8%	8.6%	-0.2%	3.7%	
Normalised PBT	14.6	14.6	0.3%	372.3%	26.5	26.7	0.8%	82.1%	
Reported PBT	9.5	9.5	0.4%	N/A	24.3	24.5	0.8%	156.4%	
Normalised net income	11.5	11.6	0.5%	340.7%	19.5	19.6	0.8%	69.5%	
Reported net income	7.6	7.6	0.7%	N/A	17.8	17.9	0.9%	134.4%	
Normalised basic EPS (€)	0.03	0.03	0.5%	342.6%	0.05	0.05	0.8%	69.5%	
Normalised diluted EPS (€)	0.03	0.03	0.5%	359.5%	0.05	0.05	0.8%	69.5%	
Reported basic EPS (€)	0.02	0.02	0.7%	N/A	0.05	0.05	0.9%	134.3%	
Net debt/(cash)	(16.6)	(17.2)	4.1%	-54.0%	(43.0)	(44.6)	3.8%	158.7%	

Source: Edison Investment Research

Exhibit 3: Financial summary

	€m	2015	2016	2017	2018	2019e	2020e
30-June		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT							
Revenue		93.1	117.4	130.2	161.5	253.9	317.9
EBITDA		(6.8)	(9.2)	(5.0)	3.9	18.0	30.0
Normalised operating profit		(11.4)	(16.0)	(5.8)	3.4	17.4	29.5
Amortisation of acquired intangibles		0.0	0.0	0.0	0.0	(0.2)	(0.2)
Exceptionals		15.6	(10.0)	0.4	(2.4)	(4.2)	0.0
Share-based payments		(0.0)	(0.1)	(4.8)	(7.1)	(0.7)	(2.0)
Reported operating profit		4.2	(26.1)	(10.1)	(6.1)	12.3	27.3
Net Interest		1.1	(1.7)	(0.9)	(0.3)	(2.8)	(2.8)
Joint ventures & associates (post tax)		0.0	(0.0)	0.0	0.0	0.0	0.0
Exceptionals		0.0	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (norm)		(10.3)	(17.7)	(6.6)	3.1	14.6	26.7
Profit Before Tax (reported)		5.3	(27.8)	(11.0)	(6.4)	9.5	24.5
Reported tax		(0.6)	(0.8)	(0.4)	(1.8)	(2.2)	(5.6)
Profit After Tax (norm)		(10.9)	(18.5)	(7.0)	2.4	11.3	20.5
Profit After Tax (reported)		4.7	(28.6)	(11.4)	(8.2)	7.3	18.8
Minority interests		(8.1)	0.0	0.3	0.2	0.3	(0.9)
Discontinued operations		(3.2)	0.0	0.0	0.0	0.0	0.0
Net income (normalised)		(18.9)	(18.5)	(6.7)	2.6	11.6	19.6
Net income (reported)		(6.5)	(28.6)	(11.0)	(7.9)	7.6	17.9
Basic average number of shares outstanding (m)		58	375	375	394	392	392
EPS - basic normalised (€)		(0.33)	(0.05)	(0.02)	0.01	0.03	0.05
EPS - diluted normalised (€)		(0.33)	(0.05)	(0.02)	0.01	0.03	0.05
EPS - basic reported (€)		(0.11)	(0.08)	(0.03)	(0.02)	0.02	0.05
Dividend (€)		0.00	0.00	0.00	0.00	0.00	0.00
Revenue growth (%)		#DIV/0!	26.1	10.9	24.0	57.2	25.2
EBITDA Margin (%)		-7.3	-7.9	-3.8	2.4	7.1	9.4
Normalised Operating Margin		-12.3	-13.7	-4.4	2.1	6.9	9.3
BALANCE SHEET							
Fixed Assets		15.7	3.0	2.0	1.3	74.6	74.2
Intangible Assets		12.0	1.5	0.9	0.5	73.0	72.6
Tangible Assets		0.6	0.5	0.3	0.2	1.0	1.0
Investments & other		3.1	1.1	0.7	0.6	0.6	0.6
Current Assets		48.0	25.5	28.1	79.1	65.0	96.3
Stocks		5.9	5.0	3.7	3.7	7.0	8.7
Debtors		4.8	4.7	4.3	4.9	8.3	10.5
Cash & cash equivalents		30.5	11.1	17.1	65.7	44.9	72.3
Other		6.9	4.7	2.9	4.8	4.8	4.8
Current Liabilities		(32.0)	(25.3)	(28.1)	(37.2)	(47.0)	(57.0)
Creditors		(26.9)	(24.5)	(26.6)	(35.4)	(45.2)	(55.2)
Tax and social security		(0.3)	(0.0)	(0.3)	(1.7)	(1.7)	(1.7)
Short term borrowings		(4.8)	(0.7)	(1.1)	(0.1)	(0.1)	(0.1)
Other		0.0	0.0	0.0	0.0	0.0	0.0
Long Term Liabilities		(2.4)	(1.1)	(0.7)	(29.0)	(69.7)	(69.7)
Long term borrowings		(1.8)	(0.6)	0.0	(28.1)	(27.6)	(27.6)
Other long term liabilities		(0.7)	(0.5)	(0.7)	(0.9)	(42.1)	(42.1)
Net Assets		29.3	2.1	1.3	14.2	22.9	43.8
Minority interests		0.0	0.0	(0.1)	(1.8)	(4.1)	(5.0)
Shareholders' equity		29.3	2.1	1.2	12.5	18.9	38.8
CASH FLOW							
Op Cash Flow before WC and tax		(6.8)	(9.2)	(5.0)	3.9	18.0	30.0
Working capital		0.4	2.5	6.8	7.9	3.1	6.1
Exceptional & other		(3.8)	(4.3)	(2.2)	(5.2)	(8.4)	0.0
Tax		0.3	(0.3)	(0.0)	(1.2)	(2.2)	(5.6)
Net operating cash flow		(9.8)	(11.3)	(0.4)	5.5	10.6	30.5
Capex		(4.4)	(0.9)	(0.2)	(0.1)	(2.3)	(0.3)
Acquisitions/disposals		10.8	(0.4)	3.6	14.2	(23.8)	0.0
Net interest		(0.9)	(0.1)	(0.0)	(0.3)	(2.8)	(2.8)
Equity financing		33.2	(5.1)	1.9	2.0	(1.9)	0.0
Dividends		0.0	2.0	0.0	0.0	0.0	0.0
Other		0.1	0.1	0.1	(1.1)	0.0	0.0
Net Cash Flow		29.0	(15.7)	5.0	20.1	(20.3)	27.4
Opening net debt/(cash)		18.0	(23.9)	(9.8)	(16.0)	(37.5)	(17.2)
FX		0.1	(0.1)	(0.6)	0.4	0.0	0.0
Other non-cash movements		12.6	1.7	1.8	1.1	0.0	0.0
Closing net debt/(cash)		(23.9)	(9.8)	(16.0)	(37.5)	(17.2)	(44.6)

Source: Company data, Edison Investment Research

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