EDISON Scale research report - Update

CLIQ Digital

Media

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Higher marketing spend key to growth

CLIQ Digital's FY17 results were slightly short of guidance and consensus estimates, yet still delivered 23% increase in net income underpinned by improved marketing efficiency and lower overall marketing spend in H217. With new products launched in Q118 and the benefit of the recent acquisitions, CLIQ plans to increase marketing spend again in FY18, key to delivering its target for another year of double-digit improvements to net income. While the backdrop of increasing media spend accountability has affected the overall sector rating, CLIQ trades at a 30%+ discount to peers on a multiples basis. Evidence of delivery to plan could prompt a re-rating.

FY17 results: Acquisitions drive growth

Driven by double-digit ARPU growth and a 24% y-o-y increase in the customer base value, mainly from the UME acquisition, CLIQ reported an 8% and 23% improvement to revenues and net income, respectively. Lower marketing spend and an elongated integration time for new products in Q4 meant revenues did not meet the 10%+ guided to by management or the 20% forecast by consensus. Organic performance was muted, with revenues down by 3.5%. Net debt stands at €5.5m, substantially down from €10.6m at year-end 2016.

Marketing efficiency improves as total spend falls

While the 'CLIQ factor' (marketing spend efficiency) continued its upward trajectory (up 4% y-o-y), overall marketing spend fell 14%, contrary to management's target and the enlarged group size. This is in part down to the group's efforts to ensure a high quality of traffic and in part the Q4 delays to new product launches. While the marketing cuts underpinned an increase to net income in FY17, looking forward, it is important for CLIQ to find profitable opportunities to increase this investment. Given recent product launches, the company expects to return marketing expenditure to plan.

Valuation: Sector-wide headwinds taking their toll

Increased scrutiny regarding online user targeting and a weaker H2 has seen the shares fall almost 50% from their peak, erasing all of 2017's gains. On a multiples basis, CLIQ trades at a 30%+ discount to the (imperfect) peer group of user acquisition groups. In our view, investors should look for renewed marketing spend increases, which could support a narrowing of the discount.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/16	65.3	3.6	0.44	N/A	11.5	N/A
12/17	70.5	4.5	0.53	N/A	9.6	N/A
12/18e	79.5	5.3	0.59	N/A	8.6	N/A
12/19e	87.5	5.9	0.67	N/A	7.6	N/A

Source: Bloomberg, company accounts

Price	€5.08
Market cap	€32m

Share price graph

Share details

Code	CLIQ
Listing	Deutsche Börse Scale
Shares in issue	6.2m
Last reported net debt (€m) at end December 2017	5.5

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 Dusseldorf 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.

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Review of FY17 results

Driven by a strong improvement in ARPU (up 12% y-o-y and 21% h-o-h) and the integration of UME, CLIQ Digital reported revenue growth of 8% for FY17. While the cost per acquisition (CPA) also increased, the critical CLIQ factor also nudged up 4% to 1.47. This is indicative of continuing improvements in the efficiency of marketing expenditure (our initiation report provides more information on the group's business model).

Exhibit 1: Development of key performance indicators

	2014	2015	2016	2017
Revenues (€m)	47.3	55.7	65.3	70.5
Number of sales per year	3,123,901	2,263,852	2,599,000	2,066,018
ARPU (€)	5.91	10.8	11.73	13.16
CPA (€)	4.37	7.74	8.32	8.98
ARPU/ CPA (CLIQ factor)	1.35	1.40	1.41	1.47
Customer base value (€m)	15	19.2	20.9	26
Marketing spend (€m)	13.7	17.5	21.6	18.6

Source: Company accounts

CLIQ Digital's business model is based on generating a return on user acquisition strategies. While a decrease in marketing expenditure underpinned an increase in net income in FY17, looking forward, it is important for the company to find profitable opportunities to increase this marketing investment.

In FY17, CLIQ posted a 14% reduction in marketing spend and a 21% fall in the number of sales over the period, which comes despite the acquisition of UME in July 2017. Furthermore, while the customer base value has grown significantly y-o-y (mainly due to UME), it was down slightly at €26m from €27m at the interim results.

These reductions are a result of the group's strategy of shifting focus towards more profitable geographies. As a result, marketing spend was faded down in several lower-margin territories (and on lower-margin products). Evidence for this shift can be seen in the regional breakdown of revenues, which saw higher ARPU in North America contribute 2% of revenues (FY16: 0%) and Australia contribute 8% (FY16: 4%). In the current environment of increased scrutiny regarding on online privacy, the group also stepped up its efforts to ensure its marketing spend is fully compliant, adopting a zero risk approach and deciding to reduce the number of marketing affiliate partners with which it works. Furthermore, the company experienced several delays in Q417 with regard to the roll-out of new product portfolios.

Exhibit 2: Summary of P&L

€m	2014	2015	2016	2017
Revenue	**47.3**	**55.7**	**65.3**	**70.5**
Gross profit	20	28.5	36.6	38.5
Gross profit margin	42%	51%	56%	55%
EBITDA	11.5	20.0	26.1	26.1
EBITDA margin	24%	36%	40%	37%
Amortisation and impairment of CAC	(9.3)	(15.4)	(21)	(20.6)
Adjusted EBITDA	**2.2**	**4.6**	**5.1**	**5.5**
Adjusted EBITDA margin	4.6%	8.3%	7.8%	7.8%
EBIT	**0.3**	**2.6**	**4.5**	**5.2**
EBIT margin	0.7%	4.7%	6.9%	7.4%
Profit before tax (as reported)	1.7	1.7	3.6	4.5
Net income (as reported)	**1.0**	**1.4**	**2.8**	**3.4**
EPS (basic) (€)	**0.22**	**0.22**	**0.44**	**0.53**

Source: Company accounts

On an organic basis, revenues and net profit were lower than in FY16. The UME acquisition added €7.5m to revenues and €1m to net income for the year. On an organic basis, revenues decreased 3.5% and net profit by 13.7% (although this does include one-off costs relating to the integration of the new products). After stripping out the UME acquisition costs, the enlarged group's EBITDA margins remained stable at 40%. Despite flat EBITDA, a combination of lower amortisation and impairment charges drove 15% and 20% improvements to EBIT and net income respectively.

Balance sheet and cash flow

Cash conversion (EBIT/operating cash net of investing activities) remained high, at c 100% which, coupled with a reduction in marketing expenditure, meant that net debt was substantially reduced to €5.5m.

Exhibit 3: Summary balance sheet and cash flow

	2014	2015	2016	2017
Balance sheet				
Total non-current assets	51.6	52.6	51.7	54.9
Total current assets	9.4	9.9	10.9	11.1
Total assets	61.0	62.4	62.6	66.1
Total current liabilities	(10.8)	(14.6)	(13.4)	(17.8)
Total non-current liabilities	(11.0)	(7.1)	(5.8)	(1.7)
Total liabilities	(21.8)	(21.7)	(19.2)	(19.5)
Total equity	39.2	40.7	43.4	46.6
Cash flow statement				
Net cash from operating activities	9.2	18.2	25.5	25.2
Net cash from investing activities	(13.9)	(17.3)	(21.2)	(20.0)
Net cash from financing activities	0.8	(4.8)	(3.8)	(0.1)
Net cash flow	(3.9)	(3.9)	0.5	5.1
Cash & cash equivalent (overdraft facility) at end of year	(7.2)	(11.1)	(10.6)	(5.5)
Financing				
Bank borrowings	15.5	14.9	10.6	5.7
Cash and equivalents	0.2	0.07	0.05	0.17

Source: Company accounts

Outlook: Marginal gains

The company is targeting another year of double-digit growth in net income in FY18, although Q118 may be affected by the lower marketing investment in Q417.

Maintaining a high CLIQ factor will likely be critical to meeting these projections, as is an increase in marketing spend overall. We understand that the integration issues surrounding the new product have been substantially resolved and the new products (including fitness programme, football and basket-ball highlights packages) have launched. We note that as marketing spend begins to increase again, it may become harder to maintain or improve the CLIQ factor as more of the 'low-hanging fruit' is taken, with corresponding decreasing marginal returns per dollar of marketing spend. The groups 'zero tolerance' policy to user acquisition fraud may also add margin pressure in the short term – although longer term it should strengthen the group's position.

Exhibit 4: 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

AffiMobiz and CMind acquisitions

Further to the €10m (of which €4m is contingent) UME acquisition in 2017, in February 2018 CLIQ acquired an 80% interest in media buying companies AffiMobiz (France) and increased its stake in CMind (Netherlands) from 67% to 80%. These acquisitions are complementary to the group's strategy, as they will reduce dependence on a small group of media partners, while improving the vertical integration of the business. The benefits of these acquisitions are likely to be seen in improved marketing efficiency as opposed to immediate revenue growth. Terms of the deals have not been disclosed.

Valuation

The shares have fallen almost 40% since their peak above €9 in January 2018 and now trade at their lowest level since the end of 2016.

Exhibit 5: Share price performance

Source: Bloomberg, Edison Investment Research

Management expects the rising penetration of mobile payments and improving bandwidth (4G/5G coverage) to provide a tailwind over the mid-term. These factors are expected to continue to drive consumption of digital content, thereby expanding the market opportunity available to the business. While the current environment of heightened scrutiny regarding online customer targeting may lead investors to approach the whole sector with more caution, based on consensus estimates against its peers, CLIQ trades at a significant discount on most metrics. The 8.6x FY18e P/E is a discount of 45% vs peers, and 7x FY18e EV/EBIT represents a 47% discount. However, these discounts narrow when looking at FY19e numbers, potentially indicating that the market is cautious about CLIQ's near-term growth potential.

Reassurance that the company can return marketing spend to growth (while maintaining a high CLIQ factor) could be the catalyst for a re-rating.

Exhibit 6: Peer comparison

Name	Market cap (m)	Sales growth FY1 (%)	Sales growth FY2 (%)	EV/Sales FY1 (x)	EV/Sales FY2 (x)	EV/EBIT FY1 (x)	EV/EBIT FY2 (x)	Hist P/E last (x)	P/E FY1 (x)	P/E FY2 (x)	Hist div yield last (x)
CLIQ Digital	32	12.7	10.1	0.5	0.5	7.0	6.4	15.3	8.8	7.8	N/A
Imimobile	176	39.9	11.7	1.5	1.4	N/A	N/A	14.8	25.1	20.9	N/A
Acotel Group	17	15.6	8.0	0.5	0.5	(1.6)	(3.9)	N/A	(5.5)	(16.4)	N/A
XLMedia	338	10.0	6.6	2.9	2.8	10.5	9.9	17.8	14.0	12.7	3.6
Taptica International	206	55.7	10.5	0.9	0.8	8.3	7.3	28.0	10.7	9.6	1.2
Rhythmone	136	94.3	49.0	0.5	0.4	16.2	4.1	N/A	17.0	4.7	N/A
Jackpotjoy	594	8.9	8.0	2.7	2.5	17.3	14.5	N/A	7.0	6.3	N/A
Stride Gaming	161	10.8	11.8	1.4	1.3	9.4	7.3	N/A	10.5	8.6	1.4
Kape Technologies	148	13.5	8.1	1.9	1.8	16.8	12.9	N/A	27.3	22.7	N/A
Average		**31.1**	**14.2**	**1.6**	**1.4**	**13.1**	**9.3**	**17.8**	**15.9**	**12.2**	**2.1**

Source: Bloomberg. Note: Prices as at 17 April 2017.

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