

# Claranova

## Boosting organic growth with US acquisition

Revenue growth accelerated in Q419, resulting in Claranova reporting revenue growth of 62% and organic revenue growth of 37% for FY19. Increased investment in customer acquisition was behind much of this growth. The company completed the acquisition of Personal Creations (PC) post year-end, adding a new range of personalised products to the PlanetArt business in the US. We have revised our forecasts to reflect recent trading, the PC acquisition and the recent reverse stock split.

Year end	Revenue (€m)	EBITDA (€m)	PBT* (€m)	Dil. EPS* (€)	DPS (€)	P/E (x)
06/17	130.2	(5.0)	(6.6)	(0.18)	0.0	N/A
06/18	161.5	3.9	3.1	0.06	0.0	135.7
06/19e	262.3	14.2	10.9	0.23	0.0	37.3
06/20e	425.8	30.0	26.4	0.51	0.0	16.8

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

## Investment in customer acquisition drives upside

Reported revenue growth accelerated to 73% in Q419, up from 69% in Q3, resulting in FY19 revenue growth of 62%, 3.3% ahead of our forecast. Revenue from both the mobile and internet businesses came in ahead of our forecasts, with constant currency organic growth of 40% and 14% respectively in FY19. The company noted that it had increased investment in growing its customer base in both businesses, which we believe was the key driver of revenue outperformance. The IoT business (1.2% of FY19 revenues) came in below our forecasts; we continue to view this business as in build-out mode.

## Estimates revised to reflect trading plus M&A

We have revised our forecasts to reflect stronger revenue growth in Q419, increased investment in customer acquisition costs, the Personal Creations acquisition and the recent reverse stock split and bond issue. Overall, we raise our revenue forecast by 34% in FY20. We reduce our FY19 EBITDA forecast from €18.0m to €14.2m and maintain our FY20 forecast of €30.0m. Net cash reduces from €17.2m to €16.2m at the end of FY19 and from €44.6m to €28.7m at the end of FY20. The company will report full FY19 results on 1 October.

## Valuation: Stronger revenue growth suggests 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 €12.9 per share. However, once multiples are adjusted to reflect our views on the growth and profitability of each division, this increases to €13.41 per share (up from €13.10). Milestones that could provide upside to our forecasts include the successful adoption of FreePrints in India; launch of the Payaware product; successful integration of Personal Creations and distributors reselling the myDevices platform in the US and China.

## Q4 revenue update

### Software & comp services

9 August 2019

**Price** €8.56

**Market cap** €336m

\$1.12:€1

Net cash (€m) at end H119 42.8

Shares in issue 39.2m

Free float 91%

Code CLA

Primary exchange Euronext Paris

Secondary exchange N/A

### Share price performance



% 1m 3m 12m

Abs 8.1 2.0 (0.5)

Rel (local) 11.6 2.6 2.8

52-week high/low €11.18 €5.20

### Business description

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

### Next events

FY19 results 1 October

### Analyst

Katherine Thompson +44 (0)20 3077 5730

[tech@edisongroup.com](mailto:tech@edisongroup.com)

[Edison profile page](#)

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## Q4 revenue update

Claranova reported Q419 revenue growth of 73% year-on-year, which resulted in FY19 revenue growth of 62%, 3.3% ahead of our forecast.

<b>Exhibit 1: Q419 and FY19 divisional revenues</b>							
Revenues (€m)	Q419	Q418	y-o-y reported	FY19	FY18	y-o-y reported	y-o-y Constant currency organic
Mobile	43.4	29.4	48%	176.1	122.0	44%	40%
Internet	22.5	7.5	200%	83.0	35.8	132%	14%
IoT	0.6	1.5	(60%)	3.2	3.7	(13%)	(17%)
Total	66.5	38.4	73%	262.3	161.5	62%	33%

Source: Claranova

## Mobile: Another year of strong organic growth for PlanetArt

<b>Exhibit 2: Mobile year-on-year revenue growth</b>					
	Q119	Q219	Q319	Q419	FY19
Reported	45%	40%	49%	48%	44%
Constant currency organic	44%	37%	41%	N/A	40%

Source: Claranova

The Mobile business (PlanetArt) reported revenue growth of 44% for FY19, or 40% on a constant currency basis, and revenue growth of 48% for Q419. The company noted that it had invested substantially in growing its customer base, particularly in Europe. FY19 revenues were 2.2% ahead of our forecast (see Exhibit 4).

## US online gifts business acquisition

At the end of June 2019, the company announced that it had made a bid to buy Personal Creations, the online gifts business of FTD Companies, Inc (FTD), for \$18.1m in cash. The deal was approved on 31 July and the acquisition completed on 2 August. PC operates two websites ([www.gifts.com](http://www.gifts.com), [www.personalcreations.com](http://www.personalcreations.com)), only in the US.

In CY17, PC generated revenues of \$116m and in CY18 it was reported to have grown revenues by 9% to \$126m. In CY18, EBITDA was slightly negative, after several profitable years. The company expects Personal Creations to generate positive EBITDA in the first year of ownership, albeit on potentially lower revenues, and sees synergies in terms of marketing and administrative costs. We would expect the management team to focus on integrating Personal Creations into PlanetArt and returning it to profitability before considering expansion beyond the US.

## Shutterfly/Snapfish merger to alter the competitive landscape

In June, private equity firm Apollo Global Management announced that it planned to acquire Shutterfly for \$51.0 per share in cash (total EV of \$2.7bn). Shutterfly had been in the midst of a strategic review so news that it was being acquired was not totally unexpected. However, linked to this deal, Apollo announced it was also acquiring Snapfish, a competing photo printing business, and that it plans to merge the two businesses. The Snapfish acquisition is contingent on the completion of the Shutterfly acquisition. Snapfish is currently owned by District Photo, a large printing company that prints photos for its own brands (Snapfish and Truprint) as well as businesses such as Walgreens, Amazon and Tesco in the US and Europe. The price for this deal has not been disclosed, although press articles suggest a figure of \$300m.

Shutterfly consists of three businesses, only one of which competes with PlanetArt in the US (Shutterfly Consumer). Shutterfly Consumer generated revenues of \$972m in CY18 (-3% y-o-y).

The business offers both web-to-print and mobile printing of both photos and personalised products, with mobile-generated business making up 32% of Shutterfly-branded revenues in its last quarterly results. Snapfish is active in the US and the UK, and also has a presence in France, Germany, Ireland, Italy, Australia and New Zealand. We understand that it has a higher mobile presence than Shutterfly.

We would expect that the initial focus for the combined business will be to merge the two businesses operationally while servicing the debt put in place to make the acquisitions. In the short-term, we do not expect PlanetArt to suffer from increased competition from the merged entity, although it is possible in the longer term.

## Internet: acquisitions have helped to accelerate organic growth

Exhibit 3: Internet year-on-year revenue growth					
	Q119	Q219	Q319	Q419	FY19
Reported	101%	106%	136%	200%	132%
Constant currency	99%	107%	N/A	N/A	129%
Organic	3%	16%	22%	N/A	16%
Constant currency organic	N/A	N/A	20%	N/A	14%

Source: Claranova

The internet business (previously called Avanquest) saw reported growth of 132% for FY19 and 200% for Q419. Stripping out the businesses acquired in July 2018, the underlying business grew 16%, or 14% on a constant currency basis. We estimate that the acquired businesses grew at 38% compared to revenue generated in the year prior to acquisition. The company noted that it also invested significantly in this business in H219, to support the shift from one-off to subscription license sales. It believes this should have a positive impact in future periods. FY19 revenues were 6.8% ahead of our forecast.

## IoT – still in build out mode

The IoT business (myDevices) reported a revenue decline of 13% for FY19 and 60% for Q419. As H218 included a one-off contribution from Sprint, the company noted that excluding this, revenues grew 56% in H219 versus H218. FY19 revenues were 15.8% below our forecast.

## Changes to forecasts

We have revised our forecasts to take account of the following factors:

- **Revenues:** we have increased FY19 and FY20 forecasts to reflect Q419 reported revenues as well as adding in Personal Creations for FY20.
- **EBITDA:** based on comments about increased investment in the Mobile and Internet businesses in H219, we have increased our H219 and FY20 cost forecasts. We have also factored in the Personal Creations acquisition.
- **EPS:** we have revised our forecasts to reflect the reverse stock split that took place on 1 August. For every ten shares held, shareholders were issued with one share, reducing the share count from 394.4m to 39.4m.
- **Debt:** Claranova was committed to paying the final €17m payment for the acquired Canadian businesses by the end of FY19. It had always planned to finance this through debt (and we had modelled debt being put in place in Q419), and at the end of June the company announced it had issued bonds worth €19.7m (19,655 bonds with a nominal value of €1,000 per bond). The five-year bonds bear interest at 6% pa and are repayable on 27 June 2024. We have factored in payment for Personal Creations in FY20.

**Exhibit 4: Revenue forecasts (€m)**

	FY19e	FY19a	Diff	y-o-y	FY20e old	FY20e new	Change	y-o-y
Mobile	172.4	176.1	2.2%	44.3%	225.7	325.5	44.2%	84.8%
Internet	77.7	83.0	6.8%	131.8%	84.9	95.7	12.7%	15.3%
IoT	3.8	3.2	-15.8%	-13.5%	7.3	4.6	-37.0%	43.8%
<b>Total</b>	<b>253.9</b>	<b>262.3</b>	<b>3.3%</b>	<b>62.4%</b>	<b>317.9</b>	<b>425.8</b>	<b>33.9%</b>	<b>62.3%</b>

Source: Claranova, Edison Investment Research

**Exhibit 5: Changes to forecasts**

€'m	FY19e	FY19e			FY20e	FY20e		
	Old	New	Change	y-o-y	Old	New	Change	y-o-y
<b>Revenues</b>	<b>253.9</b>	<b>262.3</b>	<b>3.3%</b>	<b>62.4%</b>	<b>317.9</b>	<b>425.8</b>	<b>33.9%</b>	<b>62.3%</b>
<b>EBITDA</b>	<b>18.0</b>	<b>14.2</b>	<b>-21.3%</b>	<b>264.1%</b>	<b>30.0</b>	<b>30.0</b>	<b>0.0%</b>	<b>111.3%</b>
EBITDA margin	7.1%	5.4%	-23.8%	3.0%	9.4%	7.0%	-25.3%	1.6%
Normalised operating profit	17.4	13.6	-22.0%	300.0%	29.5	29.5	0.0%	116.9%
Normalised operating profit margin	6.9%	5.2%	-1.7%	3.1%	9.3%	6.9%	-2.4%	1.7%
Reported operating profit	12.3	8.5	-31.1%	N/A	27.3	27.3	0.0%	221.2%
Reported operating margin	4.9%	3.2%	-1.6%	7.0%	8.6%	6.4%	-2.2%	3.2%
Normalised PBT	14.6	10.9	-25.3%	252.9%	26.7	26.4	-1.1%	141.1%
Reported PBT	9.5	5.8	-38.8%	N/A	24.5	24.2	-1.2%	313.9%
Normalised net income	11.6	9.0	-21.9%	244.0%	19.6	20.1	2.2%	122.0%
Reported net income	7.6	5.1	-33.2%	N/A	17.9	18.4	2.5%	259.5%
Normalised basic EPS (€)	0.03	0.23	680.6%	245.5%	0.05	0.51	922.5%	122.0%
<b>Normalised diluted EPS (€)</b>	<b>0.03</b>	<b>0.23</b>	<b>692.0%</b>	<b>263.9%</b>	<b>0.05</b>	<b>0.51</b>	<b>937.4%</b>	<b>122.0%</b>
Reported basic EPS (€)	0.02	0.13	568.0%	N/A	0.05	0.47	924.6%	259.4%
Net debt/(cash)	(17.2)	(16.2)	-5.8%	-56.7%	(44.6)	(28.7)	-35.6%	76.8%

Source: Edison Investment Research

## Valuation

**Exhibit 6: Sum-of-the-parts valuation**

	FY19e	FY20e	EV based on FY19e sales multiple (€m)	Minority interest	Value to shareholders (€m)
EV/Sales multiple (x)	2.2	1.4	575.0		542.1
PlanetArt	2.3	1.2	396.2	7.1%	368.1
Avanquest	2.0	1.7	166.0	0.0%	166.0
myDevices	4.0	2.8	12.8	37.7%	8.0
Implied EV/EBITDA multiple (x)					
PlanetArt	42.0	20.5			
Avanquest	18.6	12.4			
myDevices	N/A	N/A			
Upside/(downside)					
Net cash at end H119 (€m)	42.8		Equity value (€m)	<b>525.9</b>	
Adjustments for acquisitions (€m)	(59.0)		Per share value (€)	<b>13.41</b>	57%
Adjusted net debt (€m)	(16.2)				
No. of shares (m)	39.2				

Source: Edison Investment Research

We have revised our sum-of-the-parts valuation to reflect our new forecasts. As the valuation is based on FY19 sales multiples, which excludes Personal Creations, we have included PC at its acquisition cost of \$18m. We recognise that the purchase price was low on an EV/Sales basis (0.14x CY18) and would expect the new business to create more value over time as it is successfully integrated into PlanetArt and returns to profitability. We have reduced the revenue multiple used for IoT from 6x to 4x in FY19 reflecting the slower pace of growth than originally expected. This results in an increase in our valuation from €13.10 to €13.41 per share.

Catalysts for the share price to move towards this valuation include revenue contributions to PlanetArt from new geographic areas (eg India, Benelux), continued strong revenue and margin



growth in the internet business, the successful launch of Payaware, returning Personal Creations to profitability and customer wins for myDevices.

We note that the Shutterfly deal values the business at a forward EV/Sales multiple of 1.25x (with forecast revenue growth of 10%), EV/EBITDA of 8.26x and P/E of 64.6x (based on consensus forecasts that have not changed since the offer was made in June). The offer price of \$51.0 was at a 31% premium to the share price on the day prior to the start of press speculation about the deal.

**Exhibit 7: Financial summary**

	€'m	2015	2016	2017	2018	2019e	2020e
30-June		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>INCOME STATEMENT</b>							
Revenue		93.1	117.4	130.2	161.5	262.3	425.8
EBITDA		(6.8)	(9.2)	(5.0)	3.9	14.2	30.0
Normalised operating profit		(11.4)	(16.0)	(5.8)	3.4	13.6	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)	8.5	27.3
Net Interest		1.1	(1.7)	(0.9)	(0.3)	(2.7)	(3.1)
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	10.9	26.4
Profit Before Tax (reported)		5.3	(27.8)	(11.0)	(6.4)	5.8	24.2
Reported tax		(0.6)	(0.8)	(0.4)	(1.8)	(1.3)	(5.6)
Profit After Tax (norm)		(10.9)	(18.5)	(7.0)	2.4	8.4	20.3
Profit After Tax (reported)		4.7	(28.6)	(11.4)	(8.2)	4.5	18.6
Minority interests		(8.1)	0.0	0.3	0.2	0.6	(0.2)
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	9.0	20.1
Net income (reported)		(6.5)	(28.6)	(11.0)	(7.9)	5.1	18.4
Basic average number of shares outstanding (m)		6	38	38	39	39	39
EPS - basic normalised (€)		(3.27)	(0.49)	(0.18)	0.07	0.23	0.51
EPS - diluted normalised (€)		(3.27)	(0.49)	(0.18)	0.06	0.23	0.51
EPS - basic reported (€)		(1.13)	(0.76)	(0.29)	(0.20)	0.13	0.47
Dividend (€)		0.00	0.00	0.00	0.00	0.00	0.00
Revenue growth (%)	#DIV/0!	26.1	10.9	24.0	62.4	62.3	
EBITDA Margin (%)		-7.3	-7.9	-3.8	2.4	5.4	7.0
Normalised Operating Margin		-12.3	-13.7	-4.4	2.1	5.2	6.9
<b>BALANCE SHEET</b>							
Fixed Assets		15.7	3.0	2.0	1.3	74.6	90.4
Intangible Assets		12.0	1.5	0.9	0.5	73.0	88.8
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	84.2	106.5
Stocks		5.9	5.0	3.7	3.7	7.2	11.7
Debtors		4.8	4.7	4.3	4.9	8.6	14.0
Cash & cash equivalents		30.5	11.1	17.1	65.7	63.6	76.1
Other		6.9	4.7	2.9	4.8	4.8	4.8
Current Liabilities		(32.0)	(25.3)	(28.1)	(37.2)	(49.4)	(66.9)
Creditors		(26.9)	(24.5)	(26.6)	(35.4)	(47.6)	(65.1)
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)	(89.3)	(89.3)
Long term borrowings		(1.8)	(0.6)	0.0	(28.1)	(47.3)	(47.3)
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	20.1	40.7
Minority interests		0.0	0.0	(0.1)	(1.8)	(3.8)	(4.0)
Shareholders' equity		29.3	2.1	1.2	12.5	16.3	36.7
<b>CASH FLOW</b>							
Op Cash Flow before WC and tax		(6.8)	(9.2)	(5.0)	3.9	14.2	30.0
Working capital		0.4	2.5	6.8	7.9	5.0	7.6
Exceptional & other		(3.8)	(4.3)	(2.2)	(5.2)	(8.4)	0.0
Tax		0.3	(0.3)	(0.0)	(1.2)	(1.3)	(5.6)
Net operating cash flow		(9.8)	(11.3)	(0.4)	5.5	9.4	32.1
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)	(16.2)
Net interest		(0.9)	(0.1)	(0.0)	(0.3)	(2.7)	(3.1)
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	(21.3)	12.5
Opening net debt/(cash)		18.0	(23.9)	(9.8)	(16.0)	(37.5)	(16.2)
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)	(16.2)	(28.7)

Source: Claranova, Edison Investment Research

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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  
1,185 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