

# Claranova

Q320 revenue update

## Lockdown drives FreePrints user growth

Claranova reported 8% organic revenue growth for Q320, despite COVID-19 starting to affect the business from March. Demand has increased in the Printing business since lockdown and in May the Gifting facility in the US started production again. We have increased our FY20 revenue forecast by 3.5% to reflect these factors and increased our EBITDA forecast from €11m to €13m. Our FY21 forecasts are substantially unchanged.

Year end	Revenue (€m)	EBITDA (€m)	PBT* (€m)	Diluted EPS* (€)	DPS (€)	P/E (x)
06/18	161.5	3.9	3.1	0.06	0.0	82.4
06/19	262.3	16.0	12.0	0.25	0.0	21.1
06/20e	382.6	13.1	4.9	0.09	0.0	58.0
06/21e	459.3	32.5	24.1	0.35	0.0	14.8

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

## Q320: 8% organic growth despite disruption

COVID-19 started to affect the business from March, with staff moved to remote working and the closure of the US Gifting facility. Despite this, the group managed to achieve 8% organic growth. Since the lockdown started (second half of March in most places), Claranova has seen growing demand for its FreePrints services, with an increase in new users and increased usage from existing customers. Enforced periods of time at home are potentially giving customers more time to sort through photos, and increased levels of remote working could trigger higher demand for security-related software products. As Printing & Gifting and Software are online businesses, ordering is unaffected by lockdown; the supply side (printing, delivery) is holding up so far.

## Minor changes to forecasts

In April, we cut our estimates to reflect COVID-19 risk. Post the Q3 revenue update, we have reflected Q3 revenues and slightly increased our Q4 revenue forecasts in the Printing & Gifting and Software divisions. This results in an increase in EBITDA (on an IFRS 16 basis) from €11.0m to €13.1m in FY20. Our FY21 forecasts are substantially unchanged.

## Valuation: Sum-of-parts 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 €12.51 per share. However, once multiples are adjusted to reflect our views on the growth and profitability of each division, we calculate what we believe to be a more realistic valuation of €11.42 per share (up from €11.04). In the short term, the main factor that could provide upside to our estimates would be a faster return to normal trading than forecast. Post COVID-19 restrictions, other factors would include faster than expected growth of the Software business (which, in turn, should lead to better profitability), returning Personal Creations to consistent profitability, and launch of the PayAware solution.

## Software & comp services

15 May 2020

Price **€5.20**

Market cap **€204m**

\$1.08:€1

Net cash (€m) at end H120 27.5

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 26.7 (28.8) (39.1)

Rel (local) 33.3 0.9 (24.0)

52-week high/low €9.30 €3.0

## Business description

Claranova consists of three businesses focused on mobile and internet technologies: Printing & Gifting (digital photo printing; personalised gifts), Software and Internet of Things (IoT). Its headquarters are in Paris, and it has operations in Europe, the US and Canada.

## Next events

Q420 revenue update 11 August 2020

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## Q320 revenues: 8% organic growth

Claranova reported a 30% increase in revenues in Q320, of which 8% was organic.

Exhibit 1: Q3 revenues by division					
Revenues (€m)	Q320	Q319	y-o-y	y-o-y	y-o-y
			Reported	Organic	Constant currency organic
Printing & Gifting	49.7	34.9	43%	7%	6%
Software	22.1	20.4	8%	8%	7%
IoT	1.3	0.9	39%	39%	35%
Total	73.0	56.2	30%	8%	7%

Source: Claranova

### Printing & Gifting

The division saw 43% y-o-y revenue growth in Q320, of which 7% was organic (6% in constant currency).

The **Gifting** business contributed revenues of €12.2m (no comparative available), substantially lower than the €55.4m in the prior quarter due to the strong seasonality of the business. In addition, due to COVID-19, in March the Gifting business closed its facility in the US (Illinois) where all personalisation is undertaken. It continued to take orders but warned customers of longer delivery times. Taking into account all necessary safety measures, the company reopened the facility in May. We expect it will take some time to work through the backlog, and it is possible that further closures may be necessary depending on infection rates, but this is a positive step for the business.

The **Printing** business grew 7% y-o-y to €37.5m. The company noted that it had focused customer acquisition investment on Europe as costs were lower there during Q3 and it saw double-digit growth in the region in Q3. As the US makes up more than half of Printing revenues, limited growth there brought down the average for the business. In the current quarter, customer acquisition costs have fallen in both the US and Europe as advertising demand has declined globally.

Since lockdown (of which only a few weeks fell into Q3), the FreePrints app has attracted both new users and increased usage from existing customers, with new customers up 69% y-o-y and photo product printing up 77% y-o-y. FreePrints gained more than 350,000 new users in the month 15 March to 15 April. The business launched a card saying 'I'm thinking of you' within its FreePrints Cards app with a target of sending one million over the next 30 days (from 21 April).

### Software

The Software business saw 8% revenue growth in Q320 (7% constant currency), a similar rate of growth to the prior quarter. The company has been shifting its licensing to a subscription model from a one-off purchase model. This has the effect of generating a lower absolute revenue in year one, but if a customer renews the contract after the first year, this results in a better customer lifetime value. Recurring revenues made up 46% of revenues, up from 42% in H120. The company noted that subscription-based software sales now make up 47% of InPixio sales, 59% of OneSafe and 84% of SodaPDF.

The company noted that COVID-19 had had a limited impact on this division; in fact, there appears to be stronger demand for products linked to the increase in activity online (eg security, photo editing).

## IoT

The IoT business reported Q3 growth of 39% y-o-y (35% constant currency). Stripping out the contractual payments from Sprint, underlying revenue growth was 60% y-o-y. At the end of Q320, the division had 463 customers (+65% q-o-q) and 123 resellers (+28% q-o-q).

The main applications of myDevices contributing to revenue growth include temperature management solutions and the No Dead Zone panic button for hotel staff. myDevices recently partnered with Eolane to integrate its technology into the BOB Assistant predictive maintenance solution; this expands the addressable market to sectors such as energy and water treatment.

The business is likely to see some impact on revenue growth as on-site deployment is suspended during lockdown.

## Changes to estimates

We have revised our forecasts to reflect Q320 revenues. After cutting our estimates in April to reflect COVID-19 risk, we have slightly increased our revenue forecasts for the Printing & Gifting and Software divisions in Q420, reflecting better demand during lockdown and the reopening of the Gifting facility in the US. This results in a small increase in EBITDA in FY20; our FY21 EBITDA forecast is unchanged.

Exhibit 2: Changes to forecasts									
€m	FY20e				FY21e				
	Old	New	Change	y-o-y	Old	New	Change	y-o-y	
Revenues	369.6	382.6	3.5%	45.9%	456.9	459.3	0.5%	20.0%	
EBITDA	11.0	13.1	19.1%	(18.1%)	32.5	32.5	0.0%	148.1%	
EBITDA margin	3.0%	3.4%	0.4%	(2.7%)	7.1%	7.1%	(0.0%)	3.7%	
EBITDA - pre IFRS 16*	7.8	9.9	26.9%	(38.2%)	29.3	29.3	0.0%	196.0%	
EBITDA margin - pre IFRS 16*	2.1%	2.6%	0.5%	(3.5%)	6.4%	6.4%	(0.0%)	3.8%	
Normalised operating profit	7.3	9.4	28.8%	(39.4%)	28.8	28.8	0.0%	206.4%	
Normalised operating profit margin	2.0%	2.5%	0.5%	(3.5%)	6.3%	6.3%	(0.0%)	3.8%	
Reported operating profit	2.0	4.1	105.0%	(64.0%)	26.5	26.5	0.0%	546.4%	
Reported operating margin	0.5%	1.1%	0.5%	(3.3%)	5.8%	5.8%	(0.0%)	4.7%	
Normalised PBT	2.8	4.9	74.5%	(59.0%)	24.1	24.1	0.0%	389.1%	
Reported PBT	(2.5)	(0.4)	(84.7%)	(99.0%)	21.8	21.8	0.0%	(5820%)	
Normalised net income	2.5	3.6	43.5%	(63.6%)	14.0	14.0	0.1%	291.0%	
Reported net income	(3.5)	(2.4)	(31.2%)	(94.1%)	12.2	12.2	0.1%	(610.0%)	
Normalised basic EPS (€)	0.06	0.09	43.5%	(63.6%)	0.36	0.36	0.1%	291.0%	
Normalised diluted EPS (€)	0.06	0.09	43.5%	(63.6%)	0.35	0.35	0.1%	291.0%	
Reported basic EPS (€)	(0.09)	(0.06)	(31.2%)	(94.1%)	0.31	0.31	0.1%	(610.0%)	
Net debt/(cash)	(6.0)	(8.7)	44.6%	(63.0%)	(33.8)	(35.7)	5.5%	308.2%	
<b>Divisional revenues</b>									
Printing & Gifting	281.5	290.0	3.0%	64.7%	357.4	356.5	(0.2%)	22.9%	
Software	83.4	87.9	5.3%	5.9%	94.0	97.2	3.4%	10.6%	
IoT	4.6	4.7	2.2%	46.9%	5.6	5.6	0.0%	19.1%	
Total	369.6	382.6	3.5%	45.9%	456.9	459.3	0.5%	20.0%	

Source: Edison Investment Research. Note: \*The company continues to report EBITDA before the impact of IFRS 16 – we have included this for comparison purposes.

**Exhibit 3: Financial summary**

	€m	2015	2016	2017	2018	2019	2020e	2021e
30-June		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>INCOME STATEMENT</b>								
Revenue		93.1	117.4	130.2	161.5	262.3	382.6	459.3
EBITDA		(6.8)	(9.2)	(5.0)	3.9	16.0	13.1	32.5
Normalised operating profit		(11.4)	(16.0)	(5.8)	3.4	15.5	9.4	28.8
Amortisation of acquired intangibles		0.0	0.0	0.0	0.0	(1.5)	(2.3)	(2.3)
Exceptionals		15.6	(10.0)	0.4	(2.4)	(2.9)	(3.0)	0.0
Share-based payments		(0.0)	(0.1)	(4.8)	(7.1)	0.3	0.0	0.0
Reported operating profit		4.2	(26.1)	(10.1)	(6.1)	11.4	4.1	26.5
Net Interest		1.1	(1.7)	(0.9)	(0.3)	(3.5)	(4.5)	(4.7)
Joint ventures & associates (post tax)		0.0	(0.0)	0.0	0.0	0.0	0.0	0.0
Exceptionals		0.0	0.0	0.0	0.0	(45.6)	0.0	0.0
Profit Before Tax (norm)		(10.3)	(17.7)	(6.6)	3.1	12.0	4.9	24.1
Profit Before Tax (reported)		5.3	(27.8)	(11.0)	(6.4)	(37.7)	(0.4)	21.8
Reported tax		(0.6)	(0.8)	(0.4)	(1.8)	(3.7)	(1.8)	(5.0)
Profit After Tax (norm)		(10.9)	(18.5)	(7.0)	2.4	9.2	3.8	18.5
Profit After Tax (reported)		4.7	(28.6)	(11.4)	(8.2)	(41.4)	(2.2)	16.8
Minority interests		(8.1)	0.0	0.3	0.2	0.6	(0.2)	(4.5)
Discontinued operations		(3.2)	0.0	0.0	0.0	0.0	0.0	0.0
Net income (normalised)		(18.9)	(18.5)	(6.7)	2.6	9.8	3.6	14.0
Net income (reported)		(6.5)	(28.6)	(11.0)	(7.9)	(40.8)	(2.4)	12.2
Basic ave. number of shares outstanding (m)		6	38	38	39	39	39	39
EPS - basic normalised (€)		(3.27)	(0.49)	(0.18)	0.07	0.25	0.09	0.36
EPS - diluted normalised (€)		(3.27)	(0.49)	(0.18)	0.06	0.25	0.09	0.35
EPS - basic reported (€)		(1.13)	(0.76)	(0.29)	(0.20)	(1.04)	(0.06)	0.31
Dividend (€)		0.00	0.00	0.00	0.00	0.00	0.00	0.00
Revenue growth (%)		N/A	26.1	10.9	24.0	62.4	45.9	20.0
EBITDA Margin (%)		-7.3	-7.9	-3.8	2.4	6.1	3.4	7.1
Normalised Operating Margin		-12.3	-13.7	-4.4	2.1	5.9	2.5	6.3
<b>BALANCE SHEET</b>								
Fixed Assets		15.7	3.0	2.0	1.3	75.1	98.2	93.2
Intangible Assets		12.0	1.5	0.9	0.5	69.9	84.0	81.6
Tangible Assets		0.6	0.5	0.3	0.2	1.4	10.4	7.8
Investments & other		3.1	1.1	0.7	0.6	3.8	3.8	3.8
Current Assets		48.0	25.5	28.1	79.1	100.9	104.8	135.9
Stocks		5.9	5.0	3.7	3.7	4.8	8.4	10.1
Debtors		4.8	4.7	4.3	4.9	11.6	12.6	15.1
Cash & cash equivalents		30.5	11.1	17.1	65.7	75.4	74.7	101.7
Other		6.9	4.7	2.9	4.8	9.1	9.1	9.1
Current Liabilities		(32.0)	(25.3)	(28.1)	(37.2)	(60.5)	(69.5)	(78.9)
Creditors		(26.9)	(24.5)	(26.6)	(35.4)	(54.8)	(61.0)	(70.4)
Tax and social security		(0.3)	(0.0)	(0.3)	(1.7)	(3.0)	(3.0)	(3.0)
Short term borrowings		(4.8)	(0.7)	(1.1)	(0.1)	(2.7)	(2.7)	(2.7)
Other		0.0	0.0	0.0	0.0	0.0	(2.8)	(2.8)
Long Term Liabilities		(2.4)	(1.1)	(0.7)	(29.0)	(52.0)	(72.2)	(72.2)
Long term borrowings		(1.8)	(0.6)	0.0	(28.1)	(49.1)	(63.3)	(63.3)
Other long term liabilities		(0.7)	(0.5)	(0.7)	(0.9)	(2.9)	(8.9)	(8.9)
Net Assets		29.3	2.1	1.3	14.2	63.6	61.4	78.1
Minority interests		0.0	0.0	(0.1)	(1.8)	(11.0)	(11.2)	(15.7)
Shareholders' equity		29.3	2.1	1.2	12.5	52.6	50.2	62.4
<b>CASH FLOW</b>								
Op Cash Flow before WC and tax		(6.8)	(9.2)	(5.0)	3.9	16.0	13.1	32.5
Working capital		0.4	2.5	6.8	7.9	(4.1)	16.1	5.2
Exceptional & other		(3.8)	(4.3)	(2.2)	(5.7)	(5.2)	(3.0)	0.0
Tax		0.3	(0.3)	(0.0)	(1.2)	(3.8)	(1.8)	(5.0)
Net operating cash flow		(9.8)	(11.3)	(0.4)	5.0	3.0	24.4	32.7
Capex		(4.4)	(0.9)	(0.2)	(0.1)	(2.5)	(1.0)	(1.0)
Acquisitions/disposals		10.8	(0.4)	3.6	14.2	(13.3)	(31.6)	0.0
Net interest		(0.9)	(0.1)	(0.0)	(0.3)	0.0	(4.5)	(4.7)
Equity financing		33.2	(5.1)	1.9	2.0	(1.4)	0.0	0.0
Dividends		0.0	2.0	0.0	0.0	0.0	0.0	0.0
Other		0.1	0.1	0.1	(0.6)	0.0	(2.7)	0.0
Net Cash Flow		29.0	(15.7)	5.0	20.1	(14.2)	(15.4)	26.9
Opening net debt/(cash)		18.0	(23.9)	(9.8)	(16.0)	(37.5)	(23.6)	(8.7)
FX		0.1	(0.1)	(0.6)	0.4	0.3	0.5	0.0
Other non-cash movements		12.6	1.7	1.8	1.1	0.0	0.0	0.0
Closing net debt/(cash)		(23.9)	(9.8)	(16.0)	(37.5)	(23.6)	(8.7)	(35.7)

Source: Claranova, Edison Investment Research

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