

Claranova

Post-lockdown hangover

Claranova has announced that it expects to report a 5% y-o-y decline in group revenue in Q122 due to lower than expected volumes in its PlanetArt division. After elevated activity during lockdowns, the division is seeing moderating demand, not helped by new privacy rules introduced by Apple. We have revised our forecasts to reflect lower demand in PlanetArt in FY22; we expect more clarity on both customer demand and the marketing environment when Claranova reports Q122 revenues in November.

Year end	Revenue (€m)	EBITDA* (€m)	PBT** (€m)	Diluted EPS** (€)	DPS (€)	P/E (x)
06/19	262.3	16.0	12.0	0.25	0.0	23.1
06/20	409.1	17.4	11.3	0.20	0.0	28.4
06/21e	471.9	34.6	27.6	0.44	0.0	12.9
06/22e	505.6	37.9	30.8	0.52	0.0	10.9

Note: *Pre-IFRS 16. **PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

PlanetArt Q122 revenue expected to decline

Claranova has announced that a combination of factors reduced volumes in the PlanetArt division during Q122: lower internet traffic as consumers took advantage of the lifting of lockdowns to socialise outside the home (a trend the company had started to see in Q421), and the effect of iOS 14.5 app tracking rules which make customer acquisition more difficult. Overall, this is likely to result in a 5% y-o-y decline in group revenue in Q122. PlanetArt is adapting its marketing strategy to the current environment and expects a return to growth from as early as Q222. The company has not seen any effect on its Avanquest or myDevices divisions and is still targeting FY23 group revenue of €700m and an EBITDA margin of 10% from a combination of organic growth and acquisitions.

Reducing PlanetArt growth expectations

The company stated that it does not anticipate that the profitability of its businesses will be significantly affected by the weaker revenue trend. We have revised our forecasts for PlanetArt to reflect the expected outturn in Q122 and lower growth for the remaining quarters of the year. Our FY22 group revenue forecast reduces by 7%, EBITDA (pre-IFRS 16) by 11% and normalised EPS by 13%.

Valuation: Reduction reflects forecast revision

Reflecting the different business models and minority interests for each division, we continue to use a sum-of-the-parts approach to valuation. Using EV/sales multiples that reflect our views on the growth and profitability of each division and are conservative compared to the peer group averages, we calculate a valuation of €10.6 per share (down from €12.9 when we last wrote). In our view, consistent growth in revenues and margins towards the company's FY23 targets will be key to reducing the discount to peers. Factors that could provide upside to our estimates include a faster recovery in volumes in PlanetArt and successful adoption of the FreePrints Gifts app in the United States and Personal Creations in the UK.

Revenue update

Software & comp services

6 October 2021

Price €5.7

Market cap €237m

\$1.18:€1

Net cash (€m) at end H121 46.7

Shares in issue 41.6m

Free float 93%

Code CLA

Primary exchange Euronext Paris

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (21.3) (17.0) (10.2)

Rel (local) (19.8) (17.1) (32.5)

52-week high/low €8.81 €5.03

Business description

Claranova consists of three businesses focused on mobile and internet technologies: PlanetArt (digital photo printing; personalised gifts), Avanquest (consumer-focused software) and myDevices (internet of things/IoT). Its headquarters are in Paris and it has operations in Europe, the United States and Canada.

Next events

FY21 results 20 October 2021

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Reducing PlanetArt expectations

The company has announced that PlanetArt has seen lower sales activity in Q122 compared to Q121 (the quarter from 1 July to 30 September). As a result, group revenue is expected to decline c 5% y-o-y for Q122. The company has attributed this slowdown to two factors:

- **Lifting of lockdowns:** during the periods of lockdown last year and earlier this year, demand was strong for online activity, be it shopping, photo printing, playing games or streaming TV. As lockdowns have been lifted, consumers have returned to activities outside of the house and this has affected internet traffic. We note that other internet-focused businesses have seen similar, or worse, declines in volume. In Q221 (June quarter), CEWE's photofinishing business saw a 20% y-o-y decrease in volumes printed and a 15% decline in revenue. In the same quarter, PlanetArt saw a 7% decline in organic constant currency revenue. Although it recently upgraded its FY22 revenue guidance (year to 30 April), Moonpig still expects to see a c 25% revenue decline for the year. In July, Moonpig commented that customer purchase frequency had started to normalise from elevated levels and it expects this to continue until frequency is c 5% ahead of pre-COVID 19 levels. Desenio (online art prints) noted that it saw a dip in demand from the end of May related to the ending of lockdowns, although from July it had started to improve again. Netflix saw net new subscribers dip to 1.5m in Q221 compared to 10.0m in Q220.
- **Changes in iOS 14 software:** in its iOS 14.5 software update, Apple introduced its App Tracking Transparency feature. This requires apps to ask users if they are willing to be tracked across other companies' apps and websites. If a user denies this permission, PlanetArt can still track them on any PlanetArt-owned apps and websites but not anywhere else. While this is likely to result in the user receiving less targeted and relevant advertising, the majority of users do not allow tracking. Per Statista, as at 12 September, of those who had installed iOS 14.5, the opt-in rate was c 21%. The result for PlanetArt has been that it is more difficult to personalise marketing campaigns, and this is therefore slowing customer acquisition.

PlanetArt is working closely with partners such as Facebook and other mobile marketing channels to adapt its marketing to the new environment. Like many companies that rely on internet traffic, PlanetArt has for many years had to deal with changes to Google's algorithms that reduce the effectiveness of marketing campaigns so has experience in adapting its customer acquisition approach to market conditions. The company expects a return to growth for the PlanetArt businesses as early as Q222. We note this is seasonally the strongest quarter for PlanetArt as it encompasses Thanksgiving and Christmas. Despite these short-term fluctuations in demand, we believe that consumers' propensity to transact online is still higher now than it was before the pandemic.

Changes to forecasts

The company noted that to date, it has not experienced similar problems in its two other divisions, so we have left our Avanquest and myDevices forecasts unchanged. We have reduced our revenue forecasts for all three PlanetArt businesses (photo-printing, Personal Creations, Café Press) for Q122, with divisional revenue reducing from €82.3m (+19.1% y-o-y) to €61.6m (-10.9% y-o-y). Taking a conservative approach, we have reduced our Q222 y-o-y revenue growth assumption from 14% to 5%, Q322 from 14% to 10% and slightly increased Q422 from 14% to 15%. Overall, this results in a 5% divisional revenue growth forecast for FY22, down from 15%. We have reduced our cost forecasts accordingly, reflecting lower product and shipping costs and reduced marketing spend. Our PlanetArt EBITDA forecast reduces from €32.2m (7.4% margin) to €27.5m (6.9% margin).

Exhibit 1: Changes to forecasts

€m	FY21e				FY22e			
	Old	New	Change	y-o-y	Old	New	Change	y-o-y
Revenues	471.9	471.9	0.0%	15.3%	540.9	505.6	(6.5%)	7.1%
EBITDA	38.2	38.2	0.0%	85.3%	46.2	41.5	(10.2%)	8.7%
EBITDA margin	8.1%	8.1%	0.0%	3.1%	8.5%	8.2%	(0.3%)	0.1%
EBITDA - pre IFRS 16	34.6	34.6	0.0%	98.2%	42.6	37.9	(11.0%)	9.6%
EBITDA margin - pre IFRS 16	7.3%	7.3%	0.0%	3.1%	7.9%	7.5%	(0.4%)	0.2%
Normalised operating profit	33.3	33.3	0.0%	110.6%	41.3	36.6	(11.4%)	10.0%
Normalised operating profit margin	7.1%	7.1%	0.0%	3.2%	7.6%	7.2%	(0.4%)	0.2%
Reported operating profit	24.7	24.7	0.0%	216.3%	38.0	33.3	(12.4%)	35.0%
Reported operating margin	5.2%	5.2%	0.0%	3.3%	7.0%	6.6%	(0.4%)	1.4%
Normalised PBT	27.6	27.6	0.0%	144.5%	35.5	30.8	(13.2%)	11.6%
Reported PBT	19.0	19.0	0.0%	476.7%	32.2	27.5	(14.6%)	44.6%
Normalised net income	17.6	17.6	0.0%	119.8%	25.2	21.9	(13.2%)	24.6%
Reported net income	10.7	10.7	0.0%	N/A	22.7	19.4	(14.7%)	81.3%
Normalised basic EPS (€)	0.45	0.45	0.0%	119.0%	0.61	0.53	(13.2%)	18.6%
Normalised diluted EPS (€)	0.44	0.44	0.0%	119.8%	0.60	0.52	(13.2%)	19.1%
Reported basic EPS (€)	0.27	0.27	0.0%	N/A	0.55	0.47	(14.7%)	72.5%
Net debt/(cash)	(24.2)	(24.2)	0.0%	74.4%	(2.8)	3.3	(215.8%)	(113.6%)
Divisional revenues								
PlanetArt	380.2	380.2	0.0%	21.1%	436.0	400.7	(8.1%)	5.4%
Avanquest	87.9	87.9	0.0%	(2.7%)	100.8	100.8	0.0%	14.7%
myDevices	3.8	3.8	0.0%	(20.4%)	4.0	4.0	0.0%	4.7%
Total revenue	471.9	471.9	0.0%	15.3%	540.9	505.6	(6.5%)	7.1%
Divisional EBITDA								
PlanetArt	27.8	27.8	0.0%	96.9%	32.2	27.5	(14.6%)	(1.1%)
Avanquest	10.1	10.1	0.0%	41.1%	13.6	13.6	0.0%	34.7%
myDevices	(3.3)	(3.3)	0.0%	(13.3%)	(3.2)	(3.2)	0.0%	(3.9%)
Total EBITDA - pre IFRS 16	34.6	34.6	0.0%	98.2%	42.6	37.9	(11.0%)	9.6%

Source: Edison Investment Research

Valuation

We have revisited our sum-of-parts valuation. We have reduced the multiple we use for PlanetArt to reflect lower growth prospects in FY22, from 1.3x to 1.0x. This results in a new valuation of €10.55 per share, down from €12.85. We note that this valuation factors in the Avanquest minority buyout, due by the end of October.

Exhibit 2: Sum-of-parts valuation

	FY21e	FY22e	EV based on FY21e sales multiple (€m)	Minority interest	Value to shareholders (€m)
<u>EV/Sales multiple</u>	1.2	1.1	548.4		513.1
PlanetArt	1.0	0.9	380.2	7.7%	350.8
Avanquest	1.7	1.5	152.9	0.0%	152.9
myDevices	4.0	3.8	15.3	38.7%	9.4
<u>Implied EV/EBITDA multiple</u>					
PlanetArt	13.7	13.8			
Avanquest	15.1	11.2			
myDevices	N/A	N/A			
€m					
Net cash at end FY21e	24.2		Equity value (€m)	482.5	
Cost of acquisitions	(46.9)		Per share value (€)	10.55	85%
Fund raise	15.0				
Promissory notes	(22.9)				
Adjusted net debt	(30.6)				
No. shares (m)	45.7				

Source: Edison Investment Research

Exhibit 3: Financial summary

	€'m	2015	2016	2017	2018	2019	2020	2021e	2022e
30-June		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT									
Revenue		93.1	117.4	130.2	161.5	262.3	409.1	471.9	505.6
EBITDA		(6.8)	(9.2)	(5.0)	3.9	16.0	20.6	38.2	41.5
Normalised operating profit		(11.4)	(16.0)	(5.8)	3.4	15.5	15.8	33.3	36.6
Amortisation of acquired intangibles		0.0	0.0	0.0	0.0	(1.5)	(2.4)	(3.3)	(3.3)
Exceptionals		15.6	(10.0)	0.4	(2.4)	(2.9)	(5.6)	(5.3)	0.0
Share-based payments		(0.0)	(0.1)	(4.8)	(7.1)	0.3	0.0	0.0	0.0
Reported operating profit		4.2	(26.1)	(10.1)	(6.1)	11.4	7.8	24.7	33.3
Net Interest		1.1	(1.7)	(0.9)	(0.3)	(3.5)	(4.5)	(5.6)	(5.8)
Joint ventures & associates (post tax)		0.0	(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	0.0
Profit Before Tax (norm)		(10.3)	(17.7)	(6.6)	3.1	12.0	11.3	27.6	30.8
Profit Before Tax (reported)		5.3	(27.8)	(11.0)	(6.4)	(37.7)	3.3	19.0	27.5
Reported tax		(0.6)	(0.8)	(0.4)	(1.8)	(3.7)	(2.1)	(4.7)	(6.3)
Profit After Tax (norm)		(10.9)	(18.5)	(7.0)	2.4	9.2	8.7	21.3	23.7
Profit After Tax (reported)		4.7	(28.6)	(11.4)	(8.2)	(41.4)	1.2	14.4	21.2
Minority interests		(8.1)	0.0	0.3	0.2	0.6	(0.7)	(3.7)	(1.8)
Discontinued operations		(3.2)	0.0	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	8.0	17.6	21.9
Net income (reported)		(6.5)	(28.6)	(11.0)	(7.9)	(40.8)	0.5	10.7	19.4
Basic ave. number of shares outstanding (m)		6	38	38	39	39	39	39	41
EPS - basic normalised (€)		(3.27)	(0.49)	(0.18)	0.07	0.25	0.20	0.45	0.53
EPS - diluted normalised (€)		(3.27)	(0.49)	(0.18)	0.06	0.25	0.20	0.44	0.52
EPS - basic reported (€)		(1.13)	(0.76)	(0.29)	(0.20)	(1.04)	0.01	0.27	0.47
Dividend (€)		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Revenue growth (%)	#DIV/0!		26.1	10.9	24.0	62.4	56.0	15.3	7.1
EBITDA Margin (%)		-7.3	-7.9	-3.8	2.4	6.1	5.0	8.1	8.2
Normalised Operating Margin		-12.3	-13.7	-4.4	2.1	5.9	3.9	7.1	7.2
BALANCE SHEET									
Fixed Assets		15.7	3.0	2.0	1.3	75.1	93.7	97.1	192.1
Intangible Assets		12.0	1.5	0.9	0.5	69.9	70.5	74.1	169.3
Tangible Assets		0.6	0.5	0.3	0.2	1.4	15.7	15.5	15.3
Investments & other		3.1	1.1	0.7	0.6	3.8	7.5	7.5	7.5
Current Assets		48.0	25.5	28.1	79.1	100.9	116.3	130.4	177.8
Stocks		5.9	5.0	3.7	3.7	4.8	14.4	16.6	17.8
Debtors		4.8	4.7	4.3	4.9	11.6	9.9	11.4	12.2
Cash & cash equivalents		30.5	11.1	17.1	65.7	75.4	82.8	93.1	138.6
Other		6.9	4.7	2.9	4.8	9.1	9.2	9.2	9.2
Current Liabilities		(32.0)	(25.3)	(28.1)	(37.2)	(60.5)	(74.6)	(76.2)	(80.8)
Creditors		(26.9)	(24.5)	(26.6)	(35.4)	(54.8)	(64.3)	(65.9)	(70.5)
Tax and social security		(0.3)	(0.0)	(0.3)	(1.7)	(3.0)	(1.2)	(1.2)	(1.2)
Short term borrowings		(4.8)	(0.7)	(1.1)	(0.1)	(2.7)	(6.1)	(6.1)	(6.1)
Other		0.0	0.0	0.0	0.0	0.0	(3.0)	(3.0)	(3.0)
Long Term Liabilities		(2.4)	(1.1)	(0.7)	(29.0)	(52.0)	(73.1)	(73.1)	(146.1)
Long term borrowings		(1.8)	(0.6)	0.0	(28.1)	(49.1)	(62.8)	(62.8)	(135.8)
Other long term liabilities		(0.7)	(0.5)	(0.7)	(0.9)	(2.9)	(10.3)	(10.3)	(10.3)
Net Assets		29.3	2.1	1.3	14.2	63.6	62.3	78.2	143.1
Minority interests		0.0	0.0	(0.1)	(1.8)	(11.0)	(11.7)	(15.4)	(17.2)
Shareholders' equity		29.3	2.1	1.2	12.5	52.6	50.6	62.8	125.9
CASH FLOW									
Op Cash Flow before WC and tax		(6.8)	(9.2)	(5.0)	3.9	16.0	20.6	38.2	41.5
Working capital		0.4	2.5	6.8	7.9	(4.1)	22.5	(2.1)	2.6
Exceptional & other		(3.8)	(4.3)	(2.2)	(5.7)	(5.2)	(6.3)	(5.3)	0.0
Tax		0.3	(0.3)	(0.0)	(1.2)	(3.8)	(6.8)	(4.7)	(6.3)
Net operating cash flow		(9.8)	(11.3)	(0.4)	5.0	3.0	30.0	26.1	37.7
Capex		(4.4)	(0.9)	(0.2)	(0.1)	(2.5)	(1.2)	(1.0)	(1.0)
Acquisitions/disposals		10.8	(0.4)	3.6	14.2	(13.3)	(31.9)	(7.0)	(46.9)
Net interest		(0.9)	(0.1)	(0.0)	(0.3)	0.0	(0.5)	(5.6)	(5.8)
Equity financing		33.2	(5.1)	1.9	2.0	(1.4)	0.0	1.5	15.0
Dividends		0.0	2.0	0.0	0.0	0.0	0.0	0.0	0.0
Other		0.1	0.1	0.1	(0.6)	0.0	0.4	(3.6)	(3.6)
Net Cash Flow		29.0	(15.7)	5.0	20.1	(14.2)	(3.2)	10.3	(4.5)
Opening net debt/(cash)		18.0	(23.9)	(9.8)	(16.0)	(37.5)	(23.6)	(13.9)	(24.2)
FX		0.1	(0.1)	(0.6)	0.4	0.3	(0.8)	0.0	0.0
Other non-cash movements		12.6	1.7	1.8	1.1	0.0	(5.7)	0.0	(23.0)
Closing net debt/(cash)		(23.9)	(9.8)	(16.0)	(37.5)	(23.6)	(13.9)	(24.2)	3.3

Source: Claranova, Edison Investment Research

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