

# Claranova

Q1 revenue update

## Strong organic growth in Q1

Claranova's Q1 revenue growth of 61% y-o-y was made up of 33% organic growth and 27% growth from the recent acquisitions in the Avanquest business. All divisions showed organic growth in the quarter, prompting an upgrade to our forecasts. We lift our normalised EPS forecast by 1.9% in FY19 and 1.4% in FY20.

| Year end | Revenue (€m) | EBITDA (€m) | PBT* (€m) | EPS* (€) | DPS (€) | P/E (x) | EV/EBITDA (x) |
|----------|--------------|-------------|-----------|----------|---------|---------|---------------|
| 06/17    | 130.2        | (5.0)       | (6.6)     | (0.02)   | 0.0     | N/A     | N/A           |
| 06/18    | 161.5        | 3.9         | 3.1       | 0.01     | 0.0     | 138.0   | 84.6          |
| 06/19e   | 234.6        | 16.9        | 13.6      | 0.02     | 0.0     | 44.7    | 19.5          |
| 06/20e   | 274.8        | 28.5        | 25.3      | 0.04     | 0.0     | 23.4    | 11.6          |

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

## Q1 organic revenue growth of 33%

Claranova reported revenue growth of 61% y-o-y for Q119, with 45% growth in PlanetArt, 101% in Avanquest (3% organic) and 49% in myDevices. Organic revenue growth for the group was 33%, up from 24% for FY18. The acquired businesses in Avanquest added 27% growth to reported revenues and saw organic growth of 24% for Q119.

## Upward revision to forecasts

We have revised our forecasts to reflect the stronger than expected growth in all divisions in Q1. This results in a 1.1% increase in FY19 and FY20 revenues. At the EBITDA level, this drives an increase of 1.2% in FY19 and 0.9% in FY20. We have also reflected the share buy-backs made in October. Overall, we increase our normalised EPS forecast by 1.9% in FY19 and 1.4% in FY20. We note that the recently announced reseller agreements in the myDevices business have not yet contributed to revenues; however, the scale of these distributors means that they could add materially to myDevices revenues in the longer term. Similarly, as the FreePrints service was only launched in India at the end of September, we do not expect a meaningful contribution to revenues in FY19 but could start to see a material contribution in FY20.

## Valuation: Upside based on growth outlook

Reflecting the different business models and minority interests for each division, we use a sum-of-the-parts approach to valuation. Based purely on peer group averages per division, we calculate a fair value of €0.91 per share. Due to market weakness, this is lower than the €0.95 we calculated the last time we wrote, despite the upgrade to forecasts. However, once multiples are adjusted to reflect our views on the growth and profitability of each division, this increases to €1.11 per share. Milestones that could provide upside to our forecasts include: successful adoption of FreePrints in India; growth of the acquired Adaware business; and recently signed distributors reselling the myDevices platform in the US and China.

## Software & comp services

8 November 2018

Price **€0.87**

Market cap **€340m**

US\$1.14/€1

Net cash (€m) at end-FY18 37.5

Shares in issue 391.2m

Free float 91%

Code CLA

Primary exchange Euronext Paris

Secondary exchange N/A

## Share price performance



% 1m 3m 12m

Abs (9.3) 0.5 74.0

Rel (local) (5.5) 7.8 84.4

52-week high/low €1.2 €0.4

## 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 event

AGM 29 November 2018

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## Q1 revenue update

Claranova reported Q119 revenues of €48.2m, a 61% increase y-o-y. Organic growth increased to 33% y-o-y from 31% in Q418 and 24% for FY18. The table below breaks down revenues on a divisional basis.

| <b>Exhibit 1: Divisional Q1 revenues</b> |             |             |            |                   |                  |
|--|-------------|-------------|------------|-------------------|------------------|
| Revenues (€m)                            | Q119        | Q118        | y-o-y      |                   | y-o-y<br>Organic |
|  |             |             | Reported   | Constant currency |                  |
| PlanetArt                                | 30.4        | 21.0        | 45%        | 44%               | 45%              |
| Avanquest                                | 16.9        | 8.4         | 101%       | 99%               | 3%               |
| myDevices                                | 0.9         | 0.6         | 49%        | 47%               | 49%              |
| <b>Total</b>                             | <b>48.2</b> | <b>30.0</b> | <b>61%</b> | <b>59%</b>        | <b>33%</b>       |

Source: Claranova

### PlanetArt – strong organic growth continues

This division exhibited another strong quarter. On a constant currency basis, growth of 44% was slightly lower than the 51% in Q418 and ahead of the 37% in Q318. The company saw the majority of growth from its FreePrints and FreePrints Photobooks apps, with the recently launched Photo Tiles app making a promising start. FreePrints service in India, launched at the end of September, has not had time to make a material contribution.

### Avanquest – organic and inorganic growth

The underlying Avanquest business generated revenues of €8.7m, up 3% y-o-y and ahead of our expectations of flat revenues in FY19. The recently acquired Canadian businesses were consolidated from 1 July 2018, contributing revenues of €8.2m in Q119, equivalent to organic growth of 24% y-o-y.

### myDevices – major contribution from Sprint contract

This division saw 47% revenue growth in constant currency. Sprint contributed nearly half of revenues in Q1. The recently signed partnerships with Ingram Micro, Alibaba Cloud and ARM have not yet had a chance to contribute to revenues, but offer potential for growth in coming quarters.

## Changes to forecasts

We have revised our forecasts to reflect the stronger than expected growth in all divisions in Q1. This results in a 1.1% increase in FY19 and FY20 revenues. At the EBITDA level, this drives an increase of 1.2% in FY19 and 0.9% in FY20. We have also reflected the share buy-backs made in October. Overall, we increase our normalised EPS forecast by 1.9% in FY19 and 1.4% in FY20.

**Exhibit 2: Forecast changes**

| €m                                 | FY19e  |        |        |        | FY20e  |        |        |        |
|------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
|                                    | Old    | New    | Change | y-o-y  | Old    | New    | Change | y-o-y  |
| Revenues                           | 232.0  | 234.6  | 1.1%   | 45.3%  | 271.9  | 274.8  | 1.1%   | 17.1%  |
| EBITDA                             | 16.7   | 16.9   | 1.2%   | 333.6% | 28.2   | 28.5   | 0.9%   | 68.5%  |
| EBITDA margin                      | 7.2%   | 7.2%   | 0.1%   | 4.8%   | 10.4%  | 10.4%  | -0.2%  | 3.2%   |
| Normalised operating profit        | 16.2   | 16.4   | 1.3%   | 382.2% | 27.8   | 28.1   | 0.9%   | 71.2%  |
| Normalised operating profit margin | 7.0%   | 7.0%   | 0.0%   | 4.9%   | 10.2%  | 10.2%  | 0.0%   | 3.2%   |
| Reported operating profit          | 10.8   | 11.0   | 1.9%   | N/A    | 25.8   | 26.1   | 1.0%   | 137.7% |
| Reported operating margin          | 4.6%   | 4.7%   | 0.0%   | 8.5%   | 9.5%   | 9.5%   | 0.0%   | 4.8%   |
| Normalised PBT                     | 13.4   | 13.6   | 1.5%   | 338.6% | 25.0   | 25.3   | 1.0%   | 85.9%  |
| Reported PBT                       | 8.0    | 8.2    | 2.6%   | N/A    | 23.0   | 23.3   | 1.1%   | 184.9% |
| Normalised net income              | 7.9    | 8.1    | 1.7%   | 207.1% | 15.2   | 15.4   | 1.1%   | 90.6%  |
| Reported net income                | 3.8    | 3.9    | 3.5%   | N/A    | 13.7   | 13.8   | 1.2%   | 255.7% |
| Normalised basic EPS               | 0.02   | 0.02   | 1.9%   | 208.8% | 0.04   | 0.04   | 1.4%   | 90.7%  |
| Normalised diluted EPS             | 0.02   | 0.02   | 1.9%   | 208.7% | 0.04   | 0.04   | 1.4%   | 90.7%  |
| Reported basic EPS                 | 0.01   | 0.01   | 3.8%   | N/A    | 0.03   | 0.04   | 1.5%   | 255.9% |
| Net debt/(cash)                    | (22.1) | (21.7) | -1.8%  | -42.3% | (45.1) | (44.9) | -0.4%  | 107.4% |

Source: Edison Investment Research

**Exhibit 3: 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  | 234.6  | 274.8  |
| EBITDA   | (6.8)   | (9.2)  | (5.0)  | 3.9    | 16.9   | 28.5   |
| Normalised operating profit                    | (11.4)  | (16.0) | (5.8)  | 3.4    | 16.4   | 28.1   |
| Amortisation of acquired intangibles           | 0.0     | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    |
| Exceptionals                                   | 15.6    | (10.0) | 0.4    | (2.4)  | 0.0    | 0.0    |
| Share-based payments                           | (0.0)   | (0.1)  | (4.8)  | (7.1)  | (5.4)  | (2.0)  |
| Reported operating profit                      | 4.2     | (26.1) | (10.1) | (6.1)  | 11.0   | 26.1   |
| 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    | 13.6   | 25.3   |
| Profit Before Tax (reported)                   | 5.3     | (27.8) | (11.0) | (6.4)  | 8.2    | 23.3   |
| Reported tax                                   | (0.6)   | (0.8)  | (0.4)  | (1.8)  | (1.9)  | (5.4)  |
| Profit After Tax (norm)                        | (10.9)  | (18.5) | (7.0)  | 2.4    | 10.5   | 19.5   |
| Profit After Tax (reported)                    | 4.7     | (28.6) | (11.4) | (8.2)  | 6.3    | 17.9   |
| Minority interests                             | (8.1)   | 0.0    | 0.3    | 0.2    | (2.4)  | (4.1)  |
| 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    | 8.1    | 15.4   |
| Net income (reported)                          | (6.5)   | (28.6) | (11.0) | (7.9)  | 3.9    | 13.8   |
| Basic average number of shares outstanding (m) | 58      | 375    | 375    | 394    | 391    | 391    |
| EPS - basic normalised (€)                     | (0.33)  | (0.05) | (0.02) | 0.01   | 0.02   | 0.04   |
| EPS - diluted normalised (€)                   | (0.33)  | (0.05) | (0.02) | 0.01   | 0.02   | 0.04   |
| EPS - basic reported (€)                       | (0.11)  | (0.08) | (0.03) | (0.02) | 0.01   | 0.04   |
| Dividend (€)                                   | 0.00    | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   |
| Revenue growth (%)                             | #DIV/0! | 26.1   | 10.9   | 24.0   | 45.3   | 17.1   |
| EBITDA Margin (%)                              | -7.3    | -7.9   | -3.8   | 2.4    | 7.2    | 10.4   |
| Normalised Operating Margin                    | -12.3   | -13.7  | -4.4   | 2.1    | 7.0    | 10.2   |
| <b>BALANCE SHEET</b>                           |         |        |        |        |        |        |
| Fixed Assets                                   | 15.7    | 3.0    | 2.0    | 1.3    | 27.8   | 27.6   |
| Intangible Assets                              | 12.0    | 1.5    | 0.9    | 0.5    | 27.1   | 26.9   |
| Tangible Assets                                | 0.6     | 0.5    | 0.3    | 0.2    | 0.1    | 0.1    |
| Investments & other                            | 3.1     | 1.1    | 0.7    | 0.6    | 0.6    | 0.6    |
| Current Assets                                 | 48.0    | 25.5   | 28.1   | 79.1   | 85.8   | 111.5  |
| Stocks   | 5.9     | 5.0    | 3.7    | 3.7    | 6.4    | 7.5    |
| Debtors  | 4.8     | 4.7    | 4.3    | 4.9    | 7.7    | 9.0    |
| Cash & cash equivalents                        | 30.5    | 11.1   | 17.1   | 65.7   | 66.9   | 90.1   |
| Other  | 6.9     | 4.7    | 2.9    | 4.8    | 4.8    | 4.8    |
| Current Liabilities                            | (32.0)  | (25.3) | (28.1) | (37.2) | (43.6) | (49.0) |
| Creditors                                      | (26.9)  | (24.5) | (26.6) | (35.4) | (41.8) | (47.2) |
| 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) | (46.0) | (46.0) |
| Long term borrowings                           | (1.8)   | (0.6)  | 0.0    | (28.1) | (45.1) | (45.1) |
| Other long term liabilities                    | (0.7)   | (0.5)  | (0.7)  | (0.9)  | (0.9)  | (0.9)  |
| Net Assets                                     | 29.3    | 2.1    | 1.3    | 14.2   | 24.1   | 44.0   |
| Minority interests                             | 0.0     | 0.0    | (0.1)  | (1.8)  | (4.2)  | (8.2)  |
| Shareholders' equity                           | 29.3    | 2.1    | 1.2    | 12.5   | 19.9   | 35.8   |
| <b>CASH FLOW</b>                               |         |        |        |        |        |        |
| Op Cash Flow before WC and tax                 | (6.8)   | (9.2)  | (5.0)  | 3.9    | 16.9   | 28.5   |
| Working capital                                | 0.4     | 2.5    | 6.8    | 7.9    | 0.8    | 3.1    |
| Exceptional & other                            | (3.8)   | (4.3)  | (2.2)  | (5.2)  | 0.0    | 0.0    |
| Tax  | 0.3     | (0.3)  | (0.0)  | (1.2)  | (1.9)  | (5.4)  |
| Net operating cash flow                        | (9.8)   | (11.3) | (0.4)  | 5.5    | 15.8   | 26.2   |
| Capex  | (4.4)   | (0.9)  | (0.2)  | (0.1)  | (0.2)  | (0.2)  |
| Acquisitions/disposals                         | 10.8    | (0.4)  | 3.6    | 14.2   | (9.9)  | 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    | (1.8)  | 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   | 1.153  | 23.3   |
| Opening net debt/(cash)                        | 18.0    | (23.9) | (9.8)  | (16.0) | (37.5) | (21.7) |
| 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    | (17.0) | 0.0    |
| Closing net debt/(cash)                        | (23.9)  | (9.8)  | (16.0) | (37.5) | (21.7) | (44.9) |

Source: Claranova, Edison Investment Research

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