

CLIQ Digital

Media
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Increased marketing to drive revenue growth

CLIQ Digital experienced a weak Q3, given a lower CLIQ factor, which undermined the potential recovery in H2 expected at the interim results. Having retrenched marketing spend and focused on integrating acquisitions, marketing is back on an upward trend and the customer base value has increased from Q318 to Q418, as expected. This has given management the confidence to guide to a better 2019. The shares continue to trade at a substantial discount to peers.

Profit helped by cost savings and one offs

Revenue fell by over 17% in FY18 on the back of the issues highlighted at the H1 results (delayed product launches and lower customer acquisitions), and a much weaker than expected Q3. An improved gross margin, headcount reductions and one-off accounting benefits in financial charges and tax helped to mitigate the decline in revenue so that diluted EPS fell by 35%. The acquisitions, establishing a firm presence in the important US market and in media buying to improve the efficiency of marketing through better access to media providers, added 13% to revenue and 6% to net income.

Better prospects for FY19

Following a 'challenging' FY18, the better trajectory from Q418 has continued into the start of FY19; therefore, management feels confident to guide to a return to "steady organic growth" for FY19. This will be driven by an increase in marketing, a stable "CLIQ factor" (the ratio of revenue from a customer compared to the cost of a customer) versus FY18 and cost savings. Consensus is expecting revenue growth of 5% in FY19 and much better EBIT growth of 34%, but the normalisation of the one-off benefits in finance charges and tax seen in FY18 could restrict the growth in net income to 7%.

Valuation: Discount to peers

At 0.4x FY19e consensus sales and 7.3x FY19e earnings, CLIQ trades at a substantial discount to the broader peer group of user acquisition groups, albeit the range of multiples is very wide, reflecting their very different growth dynamics. The range of sales multiples is 0.9–1.8x and the range of P/E multiples is 5.9–26.2x. Delivery on improving revenue and margin could lead to this discount to the peers narrowing.

Consensus estimates

| Year end | Revenue (€m) | PBT (€m) | EPS (€) | DPS (€) | P/E (x) | Yield (%) |
|----------|--------------|----------|---------|---------|---------|-----------|
| 12/17 | 70.5 | 4.5 | 0.52 | 0.0 | 5.2 | N/A |
| 12/18 | 58.2 | 3.4 | 0.34 | 0.0 | 7.9 | N/A |
| 12/19e | 61.1 | 3.4 | 0.37 | 0.0 | 7.3 | N/A |
| 12/20e | 64.2 | 3.7 | 0.40 | 0.0 | 6.8 | N/A |

Source: Refinitiv

Price €2.70
Market cap €16m

Share price graph



Share details

Code CLIQ
Listing Deutsche Börse Scale
Shares in issue 6.2m
Last reported net debt as at 31 December 2018 €6.8m

Business description

CLIQ Digital is a sales and marketing group for digital products and services. It also operates a proprietary payments platform. Via its network of affiliate partners and its own direct media buying platform, it has customers across the globe. In 2018 80% of sales were generated in Europe, 11% in North America, 5% in the Asia-Pacific region and 4% in Africa.

Bull

- Exposure to the fast-growth mobile marketing sector.
- Experienced management.
- Return to revenue and profit growth

Bear

- As the group scales it may become harder to maintain the same rate of marketing efficiency.
- Dependence on major mobile carriers
- Limited exposure to the potentially faster growth developing markets.

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Review of FY18 results

Exhibit 1 below details CLIQ's operational performance during FY18 and the trends between H118 and H218 where possible.

| Exhibit 1: P&L highlights | | | | | | |
|--------------------------------------|------|-------|-------|------|------|-------|
| | H117 | H217 | 2017 | H118 | H218 | 2018 |
| Revenue (€m) | 34.9 | 35.6 | 70.5 | 30.6 | 27.7 | 58.2 |
| Growth y-o-y % | | | | -13 | -22 | -17 |
| Gross profit (€m) | | | 17.9 | | | 16.1 |
| Growth y-o-y % | | | | | | -10 |
| Opex (€m) | | | 12 | | | 12 |
| Growth y-o-y % | | | | | | -2 |
| EBITDA (€m) | 2.5 | 3.0 | 5.5 | 2.0 | 1.9 | 3.9 |
| EBIT (€m) | 2.4 | 2.8 | 5.2 | 1.5 | 1.5 | 3.0 |
| Growth y-o-y % | | | | -38 | -46 | -42 |
| PBT (€m) | 2.04 | 2.46 | 4.5 | 2.05 | 1.35 | 3.4 |
| Attributable profit (€m) | 1.47 | 1.904 | 3.3 | 1.41 | 0.79 | 2.2 |
| EPS diluted (€) | 0.23 | 0.29 | 0.52 | 0.22 | 0.12 | 0.34 |
| Growth y-o-y % | | | | -4 | -59 | -35 |
| Gross profit margin | | | 25.4% | | | 27.7% |
| EBITDA margin | 7.2% | 8.4% | 7.8% | 6.5% | 6.9% | 6.7% |
| EBIT margin | 6.9% | 7.9% | 7.4% | 4.9% | 5.4% | 5.2% |
| Attributable profit margin | 4.2% | 5.4% | 4.7% | 4.6% | 2.9% | 3.8% |

Source: Company accounts, Edison Investment Research

Underlying revenue declines helped by M&A

FY18 results were below the expectations at the time of the H1 results, when consensus was expecting revenue of €65m, EBIT of €4.6m and net income of €3m.

The FY18 revenue fell by 17%, with a more significant fall in H218 of 22% than the 13% in H118. Geographically, the only region that grew was the US due to the €1.05m acquisition of Netacy, at the start of the year. The US represented 11% of revenue in 2018 versus 2% in 2017. Elsewhere, the revenue fall in Europe of 14% was better than the average for the group, but Asia, Australia and Africa were all worse than average, with declines of 59%, 75% and 60%, respectively. Combined, these regions represented 9% of group revenue in FY18 versus 21% in FY17. The acquisitions of Tornika SAS (French media buying) and Netacy (the foundation of a US subsidiary) added €607k and €6m, respectively, to revenue during the year; therefore, the underlying revenue decline was 27% from €70.5m to €51.6m.

Profitability helped by cost savings and one-offs

The company has adopted IFRS 15, Revenue from Contracts with Customers, for the first time with the FY18 results and restated FY17 results. As a result, the previously disclosed impairment of customer acquisition costs, which used to be reported below EBITDA, has been reclassified as a cost of sale, as these are equivalent to the amortisation of contract costs as required by the new IFRS. At this stage, the H1 numbers have not been restated, therefore a true like-for-like comparison between H1 and H2 is complicated.

Having held gross margin flat in H118, under the previous accounting standard, the gross profit margin for the full year, under the new accounting standard, improved by 230bp as the amortisation of customer acquisition costs was lower. Operating expenses fell during the year by 2%, which was entirely attributable to a reduction in staff costs, due to average headcount falling from 103 in FY17 to 99 in FY18, and also a movement in the fair value of the share option liability.

There was a large positive swing in financial income for the full year (FY18: €0.4m, FY17 -€0.7m), although this was all attributable to the movement seen at the H118 results from a change in the fair value of contingent consideration for acquisitions. In H218 the financial expense of €0.2m was modestly better than the H217 expense of €0.3m.

The effective tax rate for the year more than halved to 10.9% in FY18 from 25.5% in FY1, mainly attributable to the movements in fair values of the financial liabilities, which are non-taxable and unlikely to recur. The geographic changes, noted above, would have affected the tax rate too.

The acquisitions of Tornika SAS and Netacy added €51k and €80k to net income, respectively; therefore, on an underlying basis, the decline in net income before minorities was 15%, from €3.37m in FY17 to €2.86m in FY18.

Marketing spend increasing

Exhibit 2 below highlights how the KPIs have driven the P&L performance through 2017 and 2018.

| Exhibit 2: Development of KPIs | | | | | | |
|------------------------------------------------------|------|------|------|------|------|------|
| | H117 | H217 | 2017 | H118 | H218 | 2018 |
| Revenue (€m) | 34.9 | 35.6 | 70.5 | 30.6 | 27.7 | 58.2 |
| Growth y-o-y % | 12 | 4 | 8 | -13 | -22 | -17 |
| CLIQ factor (ARPA/ CPA) | 1.48 | | 1.47 | 1.38 | | 1.36 |
| Growth y-o-y % | 2 | | 4 | -7 | | -7 |
| Customer base value (€m) | 27 | | 26 | 25 | | 24 |
| Growth y-o-y % | 40 | | 24 | -7 | | -8 |
| Marketing spend (€m) | 9.6 | | 18.6 | 10.6 | | 18.8 |
| Growth y-o-y % | -6 | | -14 | 10 | | 1 |
| Source: Company accounts, Edison Investment Research | | | | | | |

Marketing spend was reduced through 2017, with the greatest declines being from Q417 and into Q118. Understandably, the customer base value began to fall in H118. It would appear from just looking at the H218 on H118 split that customer base value has been slow to respond to the increase in marketing spend given the fall for the year. However, this masks some large changes between the quarters. Marketing increased from Q218 and into Q418. By the year-end customer base value had increased to €24m from €22m at the end of Q3. The improvement in customer base value is welcomed but is coming at the expense of a higher marketing cost on a like-for-like basis as evidenced by the fall in CLIQ factor.

Cash flow

In FY18, the company generated €3.8m of operating cash flow (after tax and interest payments) and invested €0.6m in tangible and intangible fixed assets, so generating free cash flow of €3.2m. It invested a further €1.3m in acquisitions of subsidiaries and minority interests, and repaid €2.7m of borrowings. At the year-end there were available cash balances of €1.3m and bank borrowings of €8.1m to give a net debt position of €6.8m.

Forecasts and valuation

Following the improvement during Q418, in which marketing spend and customer base value increased, management expects growth in both revenue and gross margin in FY19. A stable CLIQ factor and slight increase in marketing suggests relatively muted growth compared to the company's history. Further down the P&L, operating expenses will be lower following the integration of the new subsidiaries in FY18; therefore, EBITDA and net income are expected to increase. Exhibit 3 below summarises the KPIs that have been provided.

| Exhibit 3: FY19 KPI targets | |
|------------------------------------|-----------------------|
| | FY19 target |
| Revenue | Steady organic growth |
| Gross margin | Increase |
| ARPU/CPA (CLIQ factor) | Stable |
| Marketing spend (€m) | Increase |
| EBITDA (€m) | Increase |
| Net income (€m) | Sustainable increase |
| Source: Company accounts | |

This guidance is reflected in consensus estimates, with FY19 expectations of revenue of €61.1m (+5%), EBIT of €4m (+34%), PBT of €3.4m (flat) due to normalising of financial charges, and net income of €2.3m (+7%).

Exhibit 4: Peer comparison

| Name | Market cap (m) | Sales growth (%) | | EV/sales (x) | | EV/EBIT (x) | | P/E (x) | | Hist div yield (%) |
|-----------------------|----------------|------------------|-------------|--------------|------------|-------------|------------|-------------|-------------|--------------------|
| | | 1FY | 2FY | 1FY | 2FY | 1FY | 2FY | 1FY | 2FY | Last |
| IMImobile | £201 | 27 | 9 | 1.5 | 1.4 | 15.2 | 13.8 | 20.1 | 18.5 | N/A |
| Acotel Group | €15 | (8) | 14 | 1.8 | 1.6 | N/A | N/A | N/A | N/A | N/A |
| XLMedia | £123 | (20) | 4 | 1.5 | 1.2 | 3.5 | 3.4 | 6.0 | 5.7 | 7.4 |
| Taptica International | £240 | 1 | 3 | 0.9 | 0.9 | 7.7 | 7.4 | 5.9 | 5.8 | N/A |
| Claranova | €342 | 53 | 21 | 1.2 | 1.0 | 18.6 | 11.1 | 26.2 | 15.4 | N/A |
| Kape Technologies | £122 | 43 | 18 | 1.6 | 1.4 | 10.0 | 7.5 | 15.9 | 11.7 | N/A |
| Average | | 25.5 | 11.4 | 1.4 | 1.3 | 11.0 | 8.6 | 14.8 | 11.4 | 7.4 |
| CLIQ Digital | €17 | 5.0 | 5.0 | 0.4 | 0.4 | 6.4 | 6.1 | 7.3 | 6.8 | N/A |
| Discount | | 80% | 56% | 71% | 58% | 42% | 29% | 50% | 40% | |

Source: Bloomberg. Note: Prices as at 17 April 2019. Note: Claranova is a research client of Edison Investment Research.

The shares still trade at a substantial discount to the wider peer group across all metrics. Of particular note are the year one FY1e EV/sales (CLIQ: 0.4x vs peers average 1.4x) and the P/E (CLIQ: 7.3x vs peers average 14.8x) multiples. Investors are likely to be reassured by the return to growth of marketing expenditure, which could be key to further expansion of the business.

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