

Claranova

Q1 growth supports FY20 forecasts

Claranova has reported another strong quarter of organic growth. In Q120 group revenues were 25% higher on an organic constant currency basis and 45% higher on a reported basis. The recently acquired Personal Creations was consolidated for the first time, contributing €8.5m to the Mobile division's revenues. Based on the growth rates achieved in Q1, we maintain our forecasts.

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	132.0
06/19	262.3	16.0	12.0	0.25	0.0	33.8
06/20e	411.1	28.8	25.2	0.33	0.0	25.0
06/21e	488.8	36.4	32.8	0.48	0.0	17.4

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

Q120 revenues: +25% organic

Claranova reported constant currency organic revenue growth of 30% in its Mobile business and 19% in its Internet business. The Internet of Things (IoT) business saw a decline reflecting one-off revenues from Sprint recognised in Q119. Personal Creations contributed a further €8.5m to the Mobile business and the company noted that it is taking measures to bring it in line with the rest of the business.

Buyout of Internet minority interest

Claranova announced on 31 October that it is planning to buy out the minority interests in its Internet business for a total of €87.9m in a mixture of cash and equity. On completion, Claranova will own 100% of its Internet business (up from the current c 40% level) and the sellers will own 15.87% of Claranova. In our view, this is a positive move as it gives the company full control over the business while incentivising the new shareholders to continue to contribute to the success of the group. We plan to factor the buy-out into our forecasts once the deal is approved.

Valuation: Sum-of-the-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 €14.08 per share. However, once multiples are adjusted to reflect our views on the growth and profitability of each division, we calculate a more realistic valuation of €13.74 per share. Factors that could provide upside to our forecasts include faster-than-expected growth of the Internet business (which, in turn, is likely to lead to better profitability), returning Personal Creations to profitability, launch of the PayAware solution and distributors selling myDevices in the US and China.

Q1 revenue update

Software & comp services

8 November 2019

Price €8.33

Market cap €327m

\$1.11:€1

Net cash (€m) at end FY19 23.6

Shares in issue 39.2m

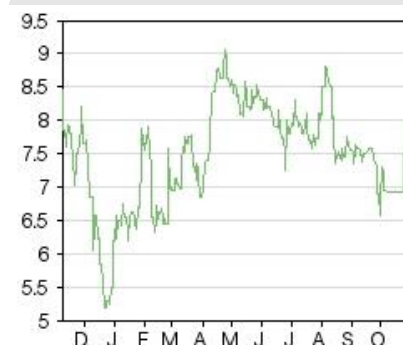
Free float 91.3%

Code CLA

Primary exchange Euronext Paris

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 20.2 (4.6) (4.1)

Rel (local) 12.8 (14.3) (14.9)

52-week high/low €9.30 €5.20

Business description

Claranova consists of three businesses focused on mobile and internet technologies: Mobile (digital photo printing), Internet (consumer software) and Internet of Things (IoT). Its headquarters are in Paris, and it has operations in Europe, the US and Canada.

Next events

Q220 revenues February 2020

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Q120 revenues: Strong organic growth

Exhibit 1: Quarterly revenues by division					
Revenues (€m)	Q120	Q119	y-o-y	y-o-y	y-o-y
			reported	constant currency	organic
Mobile	48.5	30.4	59%	57%	30%
Internet	20.8	16.9	23%	19%	19%
IoT	0.5	0.9	(39%)	(42%)	(42%)
Total	69.8	48.2	45%	42%	25%
Source: Claranova					

In Q120, Claranova reported 45% growth in revenues year-on-year. On a constant currency organic basis growth was 25% higher year-on-year. On a constant currency organic basis, the Internet business grew 19% year-on-year. On the same basis, the Mobile business grew 30% before the inclusion of €8.5m of revenues from the consolidation of Personal Creations from the start of August. The company noted it is taking measures to bring the acquired business into line with group standards. The IoT business saw lower revenues than a year ago, as Q119 benefited from one-off revenues from the Sprint partnership. Despite the decline in revenues, the company noted that sales to new customers increased significantly, with 300 customers currently deploying the technology.

Based on revenues reported in Q1, we maintain our forecasts for FY20 and FY21.

Proposed buy-out of Internet minority interests

On 31 October, Claranova announced plans to buy out the minority shareholders in Avanquest Canada (AC), the subsidiary of Avanquest SAS (the Internet division) that holds Adaware, SodaPDF and Upclick. Avanquest SAS acquired a 50.01% stake in AC in July 2018; due to the strong performance of the Internet division since then, the minority shareholders have the right to exchange their 49.99% stake in AC for c 60% of Avanquest SAS.

Terms of the buy-out

Claranova has agreed to pay a total of €87.9m to buy out the shares held by the original owners of the acquired businesses, giving it 100% ownership of the Internet business. The company plans to buy 70% through the issue of 7.443m Claranova shares at an assumed price of €8.22 and the remaining 30% in cash of \$29.6m, payable by the end of CY20. The cash element will be funded by existing resources or new debt.

The deal requires shareholder approval at the shareholder meeting scheduled for 9 December. Assuming approval is given, the company plans to complete the buy out on 6 January 2020 with the issue of the 7.4m Claranova shares. We expect the cash payment to be made later in CY20.

Estimated impact on forecasts and valuation

The Internet business is the highest-margin division within the Claranova group (12.4% EBITDA margin in FY19 versus 6.2% for the Mobile division and the loss-making IoT division). The company noted that based on its internal forecasts, the deal is likely to drive reported EPS accretion of c 30% in FY20 and FY21 (this calculation assumes the deal happened on 1 July 2019).

Until the deal has shareholder approval, we are not factoring the buy out into our forecasts. However, we estimate the cash element of the deal will reduce Claranova's net cash position to

€32.1m at the end of FY21 (assuming the payment happens in H121) from our current €58.7m estimate.

Our current sum-of-the-parts valuation calculates a fair value of €13.74 for Claranova. Factoring in the minority interest buy out has a small negative impact, reducing the fair value to €13.43.

Sellers motivated to contribute to Claranova performance

On completion, the sellers will own 15.87% of Claranova and combined with Pierre Cesarini, will own 20.8% of Claranova's shares and 21.92% of voting rights.

A majority of the selling shareholders and Pierre Cesarini have agreed to enter into a shareholders' and voting agreement on the completion date of the planned deal. Under the terms of this agreement, they undertake to act in concert with the aim of forming a stable group of key shareholders. The shareholders' agreement sets out the following governance rules: participating minority managers undertake to consult with Pierre Cesarini prior to all shareholders' meeting during a five-year period, to consolidate his CEO role for a minimum three-year period (for an unlimited duration), and not to request representation on Claranova's board of directors (to focus on Avanquest's activities). Furthermore, one of the main minority interests will undertake to vote with Pierre Cesarini at future Claranova General Shareholders' Meetings (except on compensation issues) during a period of five years. The agreement also provides that 65% of the newly issued Claranova shares will be covered by a one-year lock-up period. Thereafter, the sale of shares will remain subject to certain restrictions and notably a priority right granted to Claranova, subject to certain conditions, during a further six years. Finally, after the lock-up period and during an additional two years, minority shareholders will also be covered by a standstill obligation, under which they notably undertake not to exceed, in total, a certain shareholding percentage and not to acquire double voting rights.

Exhibit 2: Financial summary

	€'m	2015	2016	2017	2018	2019	2020e	2021e
30-June		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT								
Revenue		93.1	117.4	130.2	161.5	262.3	411.1	488.8
EBITDA		(6.8)	(9.2)	(5.0)	3.9	16.0	28.8	36.4
Normalised operating profit		(11.4)	(16.0)	(5.8)	3.4	15.5	28.3	35.9
Amortisation of acquired intangibles		0.0	0.0	0.0	0.0	(1.5)	(1.5)	(1.5)
Exceptionals		15.6	(10.0)	0.4	(2.4)	(2.9)	0.0	0.0
Share-based payments		(0.0)	(0.1)	(4.8)	(7.1)	0.3	(2.0)	(2.0)
Reported operating profit		4.2	(26.1)	(10.1)	(6.1)	11.4	24.8	32.4
Net Interest		1.1	(1.7)	(0.9)	(0.3)	(3.5)	(3.1)	(3.1)
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	25.2	32.8
Profit Before Tax (reported)		5.3	(27.8)	(11.0)	(6.4)	(37.7)	21.7	29.3
Reported tax		(0.6)	(0.8)	(0.4)	(1.8)	(3.7)	(5.0)	(6.7)
Profit After Tax (norm)		(10.9)	(18.5)	(7.0)	2.4	9.2	19.4	26.0
Profit After Tax (reported)		4.7	(28.6)	(11.4)	(8.2)	(41.4)	16.7	22.5
Minority interests		(8.1)	0.0	0.3	0.2	0.6	(6.1)	(6.9)
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	13.3	19.1
Net income (reported)		(6.5)	(28.6)	(11.0)	(7.9)	(40.8)	10.6	15.7
Basic average 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	0.34	0.49
EPS - diluted normalised (€)		(3.27)	(0.49)	(0.18)	0.06	0.25	0.33	0.48
EPS - basic reported (€)		(1.13)	(0.76)	(0.29)	(0.20)	(1.04)	0.27	0.40
Dividend (€)		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	56.7	18.9
EBITDA Margin (%)		-7.3	-7.9	-3.8	2.4	6.1	7.0	7.4
Normalised Operating Margin		-12.3	-13.7	-4.4	2.1	5.9	6.9	7.3
BALANCE SHEET								
Fixed Assets		15.7	3.0	2.0	1.3	75.1	89.8	88.3
Intangible Assets		12.0	1.5	0.9	0.5	69.9	84.5	82.9
Tangible Assets		0.6	0.5	0.3	0.2	1.4	1.5	1.6
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	112.7	150.2
Stocks		5.9	5.0	3.7	3.7	4.8	7.5	8.9
Debtors		4.8	4.7	4.3	4.9	11.6	18.2	21.6
Cash & cash equivalents		30.5	11.1	17.1	65.7	75.4	77.9	110.5
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)	(68.3)	(79.7)
Creditors		(26.9)	(24.5)	(26.6)	(35.4)	(54.8)	(62.6)	(74.0)
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	0.0	0.0
Long Term Liabilities		(2.4)	(1.1)	(0.7)	(29.0)	(52.0)	(52.0)	(52.0)
Long term borrowings		(1.8)	(0.6)	0.0	(28.1)	(49.1)	(49.1)	(49.1)
Other long term liabilities		(0.7)	(0.5)	(0.7)	(0.9)	(2.9)	(2.9)	(2.9)
Net Assets		29.3	2.1	1.3	14.2	63.6	82.2	106.8
Minority interests		0.0	0.0	(0.1)	(1.8)	(11.0)	(17.1)	(23.9)
Shareholders' equity		29.3	2.1	1.2	12.5	52.6	65.1	82.8
CASH FLOW								
Op Cash Flow before WC and tax		(6.8)	(9.2)	(5.0)	3.9	16.0	28.8	36.4
Working capital		0.4	2.5	6.8	7.9	(4.1)	12.9	6.6
Exceptional & other		(3.8)	(4.3)	(2.2)	(5.7)	(5.2)	0.0	0.0
Tax		0.3	(0.3)	(0.0)	(1.2)	(3.8)	(5.0)	(6.7)
Net operating cash flow		(9.8)	(11.3)	(0.4)	5.0	3.0	36.8	36.3
Capex		(4.4)	(0.9)	(0.2)	(0.1)	(2.5)	(0.5)	(0.5)
Acquisitions/disposals		10.8	(0.4)	3.6	14.2	(13.3)	(30.7)	0.0
Net interest		(0.9)	(0.1)	(0.0)	(0.3)	0.0	(3.1)	(3.1)
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	0.0	0.0
Net Cash Flow		29.0	(15.7)	5.0	20.1	(14.2)	2.5	32.7
Opening net debt/(cash)		18.0	(23.9)	(9.8)	(16.0)	(37.5)	(23.6)	(26.1)
FX		0.1	(0.1)	(0.6)	0.4	0.3	0.0	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)	(26.1)	(58.7)

Source: Claranova, Edison Investment Research

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