EDISON

Claranova

FY20 results

On track for strong earnings growth

Software & comp services

Claranova reported strong organic revenue growth in FY20 while the EBITDA margin reflected the immediate strategic priorities of PlanetArt and Avanquest. The recent acquisition of CafePress is part of PlanetArt's evolution to become a provider of personalised e-commerce and we have revised our forecasts to incorporate the deal. We note the group's strong cash position which provides funding for future internal and external investment.

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	26.0
06/20	409.1	17.4	11.3	0.20	0.0	31.9
06/21e	482.4	27.4	21.0	0.30	0.0	21.7
06/22e	550.6	36.8	30.4	0.44	0.0	14.4

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

FY20: 20% organic revenue growth

In FY20, Claranova reported revenue growth of 56%, of which 20% was organic. By division, organic growth was 29% for PlanetArt, 9% for Avanquest and 51% for myDevices. Group EBITDA was 9% ahead of our forecast and grew 9% y-o-y although the margin declined 1.8pp to 4.3%. For PlanetArt, the acquisition of loss-making Personal Creations depressed the margin. For Avanquest, the ongoing shift to subscription licensing weighed on the margin. Claranova reported its first positive net income since FY15 and closed the year with net cash of €13.9m.

Group targets maintained

Management continues to target group revenue of €700m and an EBITDA margin of 10% by FY23. PlanetArt's recent acquisitions broaden its product range and geographic coverage and provide scope for cross- and up-selling. Avanquest is making good progress in growing the proportion of proprietary software and subscription licensing which should translate into higher margins and recurring revenues. We have made minor changes to forecasts and incorporated CafePress for the first time. We forecast earnings growth of 47% in FY21 and 50% in FY22.

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 €15.33 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 €12.12 per share (up from €11.52). Factors that could provide upside to our estimates would be sustained high demand for photo printing, successful adoption of the FreePrints Gift app in the US and returning recent acquisitions to profitability.

15 October 2020

Price	**€6.40**
Market cap	**€251m**
	$1.17/€
Net cash (€m) at end FY20	13.9
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	(2.9)	24.4	(12.8)
Rel (local)	(1.1)	25.0	(1.1)
52-week high/low		€9.30	€2.96

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 US and Canada.

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Claranova is a research client of Edison Investment Research Limited

Investment summary

Bringing innovative products to the mass market

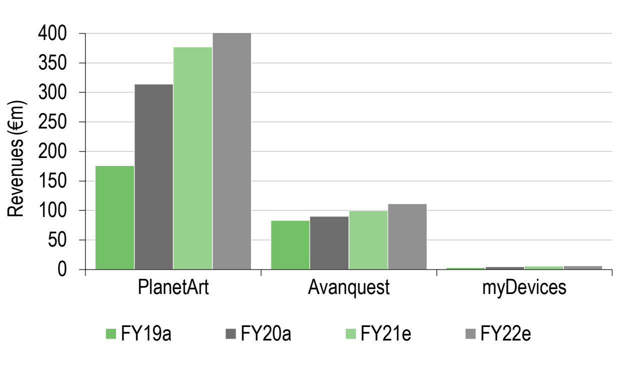
Claranova comprises three distinct businesses taking advantage of high-growth areas of internet and mobile technology: personalised e-commerce (PlanetArt), consumer software (Avanquest) and IoT (myDevices). Key investment considerations are as follows:

- PlanetArt and Avanquest are on track to show material revenue and profit growth, with further upside potential from targeted acquisitions.
- PlanetArt has an asset-light business model, with all printing and some customised product outsourced. This gives it significant flexibility to try out new products and new geographical markets without having to make large upfront investments.
- FreePrints (PlanetArt's photo printing service) is a market leader in the US and the UK.
- myDevices has secured contracts with mobile network operators and large distributors with a presence in the US and China, which should bring its IoT platform to a wide audience.
- The group is well funded with a net cash position of €13.9m at the end of FY20. We forecast net cash of €22.1m by the end of FY21 rising to €48.9m by the end of FY22. This should provide funds to support internal investment in growth and/or targeted acquisitions in the PlanetArt and Avanquest divisions.

Financials and valuation

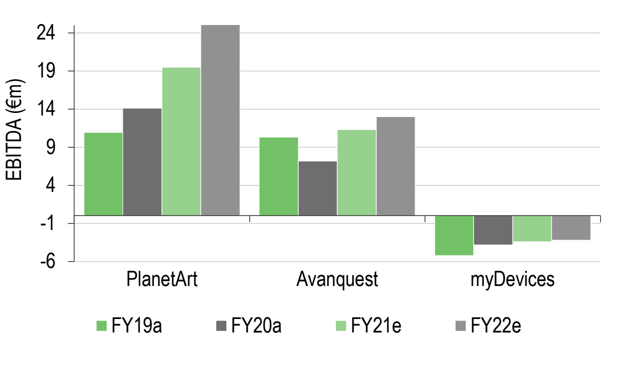
We forecast 20% group revenue growth for FY21 (11% organic) and 14% for FY22 (13% organic). We forecast group EBITDA (pre-IFRS 16) of €27.4m for FY21 (5.7% margin), rising to a 6.7% margin in FY22e. With limited capex requirements, this translates to normalised operating margins of 5.3% in FY21e and 6.4% in FY22e, and EPS growth (on a normalised basis) of 47% in FY21e and 50% in FY22e.

Exhibit 1: Divisional revenues (€m), FY19–22e



Source: Claranova, Edison Investment Research

Exhibit 2: Divisional EBITDA (€m), FY19–22e



Source: Claranova, Edison Investment Research

Taking into account the differing growth trajectories and profitability of each division, as well as the different levels of minority investment in each, we use a sum-of-the-parts approach to valuation and estimate a fair value of €12.12 per share.

Factors influencing growth and profitability

In addition to the usual competitive pressures and the requirement to keep abreast of technology, our forecasts and the share price are sensitive to the pace and success of geographic expansion for PlanetArt, supplier dependence for PlanetArt, changes to search engine policies for the Avanquest business, integration of acquisitions, and the US dollar/euro and sterling/euro exchange rates.

Company description: Online technology developer

Claranova is a group consisting of three businesses focused on mobile and internet technologies with high growth potential. After a long period of restructuring and refocusing the business, the group is demonstrating strong revenue growth and improving profitability.

Background

Claranova was originally founded in 1984 as a consumer software publisher called BVRP Software. In 1996, the company changed its name to Avanquest and listed on Euronext. From 2007 to 2012, it acquired multiple businesses. By 2013, growth had slowed and the company was loss-making – the decision was taken to restructure the business. The company raised €34.5m in equity in June 2015 through the issue of 345m shares at €0.10 per share. Also in FY15, it wrote off €10.7m of debt and converted €2.6m of debt to equity. As part of the restructuring, the company sold off a number of non-core businesses and restructured the remaining businesses into three divisions:

- **PlanetArt** – personalised e-commerce, including online and mobile photo printing and online and mobile personalised gifts (77% of FY20 revenues).
- **Avanquest** – online developer and retailer of consumer-focused software; internet traffic monetisation. It is the world's largest distributor of third-party software (22% of FY20 revenues).
- **myDevices (IoT)** – platform to manage connected devices in the cloud (1% of FY20 revenues).

In 2017, Claranova organised each division into its own legal entity – this has enabled the company to seek out minority investors in each of the divisions in order to accelerate growth. At the same time, it changed the company name from Avanquest to Claranova. Reflecting its growth ambitions, the company has made acquisitions in the gifting and software space over the last three years.

Group strategy: Monetise internet traffic and connected devices

The company is focused on driving the growth and profitability of each business. In 2019, the company unveiled its ambitious five-year growth plan, which targets group revenues growing from €162m in FY18 to €700m by FY23 and a group EBITDA margin of 10% by FY23.

PlanetArt is building a personalised e-commerce business. It started by exploiting the popularity of photography on smartphones – its FreePrints business enables consumers to order prints of their photos directly from their smartphones in a simple and cheap fashion. It has shown rapid growth, particularly in the UK and the US, and over the last two years has expanded across Europe and into India. It has grown its product offering to include a wider range of customised products, helped by the recent acquisitions of online personalised gift providers Personal Creations and CafePress in the US. The business is focused on integrating CafePress and developing a comprehensive personalised e-commerce service that combines the photo printing and gifting businesses.

Avanquest is focused on developing proprietary software and shifting customers to subscription licensing. Once the majority of products have shifted to subscription licensing, revenue growth should accelerate and margins expand.

Finally, the **myDevices** IoT platform is at an early stage of commercialisation. The business is focused on broadening the distribution channels for its technology and is seeing accelerating numbers of installations by end customers. As this division is still at the early stages of revenue generation, it has not been included in the five-year growth targets for the group.

Management

Claranova is headed up by Pierre Cesarini, Chairman & CEO. Mr Cesarini joined the company in May 2013 to effect the restructuring of the group. He is supported by the management team:

Sébastien Martin (EVP), Jean-Yves Quentel (CFO), Roger S Bloxberg (CEO PlanetArt), Todd Helfstein (president PlanetArt), Daniel Assouline (CEO Avanquest) and Kevin Bromber (CEO myDevices).

The group is overseen by a Board made up of seven members: Pierre Cesarini, Caroline Le Bigot, Luisa Munaretto, Jean Loup Rousseau, Joanna Gordon, Francis Meston and Jérôme Bichut.

PlanetArt: personalised e-commerce

Historically PlanetArt focused on providing photo-printing services to consumers. With the acquisition of Personal Creations in August 2019, the business widened its offering into the market for mass customisation of consumer products, or what it calls 'personalised e-commerce'. The division aims to provide easy-to-use services with a focus on value for money. The longer-term goal is to fully integrate photo printing and customised gifts to provide a comprehensive personalised e-commerce service.

Photo printing: From standard prints to customised products

Several years ago, the company identified photo printing as an area ripe for innovation. It entered the market with Web-to-print (a number of websites that offer printing services) before launching FreePrints in 2013. FreePrints is focused on printing photos using apps on mobile devices. The two businesses share the same fulfilment infrastructure and marketing teams. The majority of the division's revenues are currently generated in the US and the UK, with a growing contribution from France, Germany, Ireland, Spain and Italy.

FreePrints: Exploiting the shift in photography to phones

The FreePrints app (called '**FreePrints**') is available for use on Apple and Android mobile devices in 12 countries. The app allows customers to print photos that are saved on the mobile device or stored on popular websites such as Facebook, Instagram, Flickr and Dropbox. The offer varies by country. For example, in Europe, customers are offered 500 free prints per year, or 45 free prints per month, for which they pay postage only. In the UK, this works out at up to £4; in Europe, it costs up to €6. In the US, the offer is for 1,000 free prints per year, or 90 per month. The free prints offer is for prints of 6" x 4"/15cm x 10cm – if a customer wants larger prints, different shaped prints (eg square), borders, duplicates or different finishes, these are available for an additional charge. Once an order is placed, customers are then offered extra printing services, such as customised mugs, fridge magnets or T-shirts. Building on the success of the FreePrints app, additional apps have since been launched:

- In early 2016, the business launched the **FreePrints Photobooks** app, which offers a free 20-page softcover photobook every month, again for the cost of postage only (UK c £6, Europe €8). Upgrades are available for larger formats, more pages and for hardback covers. This is also available in 12 countries.
- In FY19, PlanetArt launched the **FreePrints Photo Tiles** app. This enables customers to order one free PhotoTile (an 8" x 8" canvas picture suitable to stick on the wall) per month, again for the cost of postage (£5.99 in the UK). This has so far been launched in the US, the UK, Belgium, France, Germany, Italy, Ireland, the Netherlands and Spain.
- In 2019, the **FreePrints Cards** app was launched in the US and the UK. Customers can order one free greetings-style postcard per month and pay just 76p to cover delivery. They can upgrade to a standard card format with envelope for £1.99.

All of the apps charge for printing on a per-job basis with no subscription required. This business is not particularly seasonal. Overall, 70–85% of monthly revenues come from returning customers; the average order value is in the range €7–8.

Geographical expansion ongoing

In FY19, the FreePrints app was launched in Belgium, India and the Netherlands, and in FY20, in Austria and Poland. In all cases, the photo-printing app is launched first, and depending on demand, photobook, tile and card apps are introduced later.

Focus on customer service to maintain high ratings and rankings

FreePrints aims to maintain its app store ratings at as close to 5/5 as possible as this is a key factor in consumers' decision-making when downloading apps. Currently, it is rated at 4.8/5 on the Apple App Store and 4.9/5 on Google Play. This compares favourably to competitors who receive lower average review scores on significantly fewer reviews. We note that the Photobox photo printing app is not available on Android devices, only iOS. The business also aims to maintain high rankings within both app stores, as this also influences consumers' propensity to download. For example, in the UK today on Google Play, in the free photography apps category, FreePrints is ranked No. 1, FreePrints Cards No. 6 and FreePrints Photobooks No. 16. On the App Store in the UK, FreePrints ranks as the fifth most popular app in the Photography & Video category, after Instagram, SnapChat, YouTube and PicsArt photo editing – so is in fact the top ranked photo printing app.

Web-to-print: Most orders originate from mobile browsers

Web-to-print was the original photo-printing service that has been offered by the company since the acquisition of SimplytoImpress in 2010. The business operates through four dedicated websites and generates most of its business in the US.

- SimplytoImpress: high style cards and stationery products with text and photos
- PhotoAffections: wide variety of personalised photo products
- CanvasWorld: turns photos into canvas wall art
- MyCustomCase: personalised cases for mobile phones, tablets and other devices

Although called Web-to-print, the majority of orders come from mobile browsers (rather than mobile apps). The business is very seasonal, with a large volume peak in November-December covering Thanksgiving and Christmas. This business typically has a higher order value ($70–80) than the FreePrints business. Customers tend to order less frequently than for FreePrints, typically once a year.

Acquiring to enter the personalised gift market

In August 2019, Claranova acquired Personal Creations, the online gifts business of FTD Companies (FTD), for $18.1m in cash. Personal Creations operates two websites in the US (www.personalcreations.com, www.gifts.com). It differs from the existing PlanetArt services in that it does not depend on customer photos for personalisation. When acquired, Personal Creations did not have a mobile app. PlanetArt focused on integrating Personal Creations during FY20 and it now shares the PlanetArt back office.

In July, the business launched **FreePrints Gifts** to provide a free customised gift each month, in the same manner as the other FreePrints apps. Users can also access a large catalogue of products that they can personalise. The business intends to launch this app in Europe.

In September 2020, PlanetArt acquired the assets of CafePress from Shutterfly for an undisclosed amount. CafePress is an online personalised product company headquartered in Kentucky, US. CafePress products are developed almost entirely by third-party content contributors and sold via

CafePress websites in the US, the UK, Canada and Australia as well as via custom stores that can be set up by any user. CafePress is a licensee of hundreds of high-profile properties including Hasbro and Marvel. CafePress was acquired by Shutterfly subsidiary Snapfish in 2018 for $25m. Recent financial data are not available, but CafePress reported revenue of $86m (-16% y-o-y) and an EBITDA loss of $4m in CY17. We see scope for Claranova to create cost synergies by integrating CafePress with PlanetArt's back-office functions and possibly using the Personal Creations manufacturing facility. PlanetArt does not currently operate in Canada or Australia so CafePress could offer an entry into those markets.

Ultimately, the division wants to offer a comprehensive personalised e-commerce service, where consumers can buy a wide variety of items that can be customised in some way. This would not be restricted to gifting, but would also include items for consumers' own use, such as clothing or household items.

Personalised gifts present significant opportunity

Since the advent of the smartphone more than 10 years ago, consumers have increasingly shifted from taking photos using digital cameras to using their phones for the majority of their photography. This shift is only likely to continue as smartphone manufacturers constantly improve the camera technology on phones. Mobile apps for photo printing are designed to make the process of printing out the photos taken by mobiles simple and cheap.

In 2018, Future Market Insights estimated that the market for global photo printing and merchandise was worth $16.9bn in 2018 and is likely to grow at a CAGR of 2.6% to reach $22bn by 2028. This masks the shift in distribution channels – in 2018 c 49% of the value was expected to be generated from online services, forecast to grow to 55% by 2028, which implies a CAGR of 3.9%. Within this category, we expect a continuing shift from web-based to mobile app-based printing.

The global market for personalised gifts is a much larger than the photo printing market. A ResearchandMarkets report from 2020 estimates that the market will be worth $25.8bn this year (of which $7.6bn is in the US) and will grow at a CAGR of 7.7% over the seven years to 2027. Non-photo personalised gifts (c two-thirds of the market this year) are expected to grow at a CAGR of 7.1% over the same period.

A competitive market with a shifting landscape

FreePrints competes against large, multinational companies such as Snapfish, Photobox and CEWE, as well as local players such as Lalalab in France and Bob Books in the UK. **Web-to-print** competes against services from larger online players such as Shutterfly, Photobox and Vistaprint, as well as services offered by pharmacies and retailers such as Walmart, Walgreens, Boots and Tesco, and by specialist photography companies such as Snappy Snaps and Jessops.

The division has seen a slight reduction of competition in this market, as some smaller players have been acquired or left the market, however the recent Shutterfly/Snapfish merger could alter the competitive landscape. Shutterfly consists of three businesses, only one of which, Shutterfly Consumer, competes with the FreePrints business in the US. The business offers both web-to-print and mobile printing of both photos and personalised products, with mobile-generated business making up around a third of Shutterfly-branded revenues in its last reported quarterly results. Snapfish is active in the US and the UK with a presence in France, Germany, Ireland, Italy, Australia and New Zealand. We understand that it has a higher mobile presence than Shutterfly. FreePrints has not seen increased competition from the merged entity to date, although it is possible in the longer term.

We note that the printing business has no legacy film printing services and does not own any printing or retail facilities, unlike many of its competitors. This affords it the flexibility to enter new markets at lower cost and with less risk.

In the **personalisation** market, Claranova competes against subsidiaries of greetings card businesses (American Greetings, Card Factory, Hallmark Cards, funkypigeon.com), photo printing companies such as Cimpress and Snapfish, specialist providers (eg Not On The High Street in the UK, society6 in the US, Minted in the US, Personalization Mall in the US, Things Remembered in the UK/US, Zazzle in the US) and e-commerce retailers such as Etsy.

Business model

Sales strategy and customer retention

The division targets revenue growth from a combination of growing the customer base and encouraging the existing customer base to order more frequently and buy a wider range of products. The recent acquisitions of Personal Creations and CafePress bring a whole new range of products that could be sold into FreePrints, and vice versa.

Advertising costs are almost completely variable, with spend being dialled up or down depending on the cost of advertising at any given time, and the availability of cash. The division's experience is that this has a direct relationship with the number of new users acquired.

To win new customers, the division focuses its advertising on Facebook, where it can use micro-targeting, as well as on Twitter and Pandora (internet radio). Occasionally, the company buys TV advertising, and during the pandemic has taken advantage of much cheaper TV ad rates. To retain and encourage existing customers to spend, the business sends app notifications and emails with special offers and runs a loyalty programme. It also has a 'refer a friend' scheme. The business makes use of the FreePrints customer base to sell the Photobooks, Photo Tiles, Cards and Gifts services.

Logistics: Outsourced printing; some in-house customisation

The division outsources all photo printing to one printer in the US, one in the UK and one in the Czech Republic. In India, it has set up a network of several printers to ensure national coverage. As the mobile app service is less seasonal, it can provide good volumes through the year, not just at Christmas time. During the Christmas peak, it can push delivery out from five to 10 days to ensure stable pricing. The company has built the IT systems to manage high volumes and if a new country is added, the system can manage localisation.

Personal Creations has a facility in Illinois, US where items are customised. This had to close for a short period of time in Q420 due to lockdown regulations, but has since reopened and is operating at normal capacity. CafePress does not have any manufacturing facilities, outsourcing product manufacturing and customisation. As the business launches personalised e-commerce outside of the US, the intention is to work with manufacturing partners rather than vertically integrating.

Minority investment to fund growth

In September 2017, a group of investors including Cap Investissement, the family office of Groupe Riccobono (a French industrial printer), invested €11.4m in PlanetArt in return for a 7.1% stake. An additional €0.8m was invested in April 2018, for a total minority investment of 7.7%.

PlanetArt Financials: Marketing drives strong growth

When this business was launched, the aim was to reach critical mass without burning significant amounts of cash. It has grown rapidly since launch and moved into EBITDA profitability in FY18.

Sales growth has been driven by geographic and product expansion and more recently by the acquisition of Personal Creations.

Cost of sales consists of printing costs, the cost of items such as mugs or T-shirts, shipping costs and payment processing fees. FreePrints earns an estimated gross margin in the region of 35%, with the photo printing service earning an estimated 33–34% (we estimate 23–25% for basic photo printing, 60–65% for add-ons), and photobooks an estimated 40–45%. We estimate that web-to-print generates gross margins of c 60–65%.

Operating costs include variable costs such as marketing spend, and others that are more fixed in nature: support, marketing staff (staff in the US as well as several people in Paris to manage European marketing), developers, general admin and share of corporate costs (based on revenues). We note that the business hires temps to cover increased support demands during the seasonal peak of the web-to-print business in November and December, which results in higher staff costs in H1.

Exhibit 3: PlanetArt quarterly revenues, Q118–Q420

€m	Q118	Q218	Q318	Q418	Q119	Q219	Q319	Q419	Q120	Q220	Q320	Q420
Revenues	21	48.2	23.4	29.4	30.4	67.4	34.9	43.4	48.5	137.7	49.7	78.1
y-o-y growth	36.4%	40.9%	25.1%	42.7%	44.8%	39.8%	49.1%	47.6%	59.6%	104.3%	42.4%	80.0%

Source: Claranova

Exhibit 4: PlanetArt annual forecasts

€m	FY17	FY18	FY19	FY20	FY21e	FY22e
Revenues	88.9	122.0	176.1	314.0	377.2	432.6
y-o-y growth	58%	37%	44%	78%	20%	15%
EBITDA	(0.3)	6.4	10.9	14.1	19.5	27.0
EBITDA margin	-0.3%	5.2%	6.2%	4.5%	5.2%	6.2%

Source: Claranova, Edison Investment Research

In FY20, divisional revenues grew 78% y-o-y, or 29% on an organic basis, with a contribution of €87.5m from Personal Creations. Revenues in Q420 were significantly higher than is normal for the time of year, boosted by strong demand during lockdown. The division achieved an EBITDA margin of 4.5% in FY20, down from 6.2% in FY19, due to the integration of loss-making Personal Creations from the beginning of August 2019. Management commented that Personal Creations did not contribute to EBITDA. If at best the Personal Creations business broke even in FY20, this implies that the remaining business generated an EBITDA of 6.3%, in line with the prior year.

We forecast a moderation of growth in the photo printing business in FY21e and FY22e and incorporate CafePress from September 2020. We assume that in FY21 Personal Creations moves to profitability while CafePress is slightly loss-making, before moving to profitability in FY22.

Avanquest: B2C focus

Avanquest is a consumer-focused online software business focused on three key verticals (photo editing, pdf, security/privacy). As well as selling software online, Avanquest monetises the traffic that visits its online properties via advertising, commission and transaction-based fees.

A long history as an online software retailer

Claranova has been developing and selling consumer-focused software since the company was founded in the 1980s. It currently sells a mixture of third-party software and own-IP software, with a focus on building up its proprietary software business. Up to the end of FY18, the company sold products that broadly fell within one of the following four categories:

- operating tools eg PC clean-up, anti-virus

- office tools eg PDF-based software
- interior/exterior design eg architecture software
- photo-related, imaging

Software was typically from less well-known brands and does not include household names such as Adobe, Microsoft or Norton. In July 2018, Avanquest acquired 50.1% of a group made up of three Canadian businesses: Adaware, Lulu Software and Upclick. All software IP is proprietary. We detail below the products offered by each business:

- **Adaware:** H20 (software installer tool), Web Companion (browser security tool), anti-virus software, ad-blocking software;
- **Lulu Software:** Soda PDF publishing software: converts documents to PDF and vice versa; and
- **Upclick:** E-commerce software: platform providing sales funnel optimisation and monetisation for merchants of digital goods and software

Prior to acquisition, Avanquest already had a good working relationship with the group; it used to sell Soda PDF as Expert PDF and was using Upclick to process around half of its e-commerce transactions. The division has since phased out the use of its proprietary e-commerce platform and shifted all e-commerce onto Upclick's platform. The acquired businesses have kept their existing business models and brands.

The legacy business saw declining revenues in FY16–18, partly due to a process of weeding out unprofitable product lines. However, this was reversed in FY19 when it reported growth of 16% (14% constant currency). Claranova no longer splits out revenue between legacy and acquired.

Product strategy

While Avanquest continues to sell third-party software, the focus now is very much on building the proprietary software side of the business.

Own IP products

The legacy business used to have more in-house developers but refocused many of them on PlanetArt to develop the photo-printing services. The division therefore has a number of legacy products and uses freelancers to keep them up to date. It also has a number of niche products where it has looked at the most commonly used functionality of popular software such as Photoshop, and developed a simplified version so that a consumer can use the software without being an expert eg InPixio. As noted earlier, the acquired businesses own their software IP.

Product development is now focused around three core areas based on the main proprietary solutions:

- **Pdf:** SodaPDF
- **Photo editing:** InPixio
- **Security/privacy:** Adaware

The company has recently launched several new releases: SodaPDF 12, InPixio Studio 10, Adaware antivirus and Adaware Protect.

It has also developed a new service which was originally known as PayAware but has been rebranded as LastCard. This is designed to provide a secure and private way to make purchases online. The user registers with LastCard and provides details of a debit or credit card. Using the LastCard browser, when a user wants to pay for an item online, they press the LastCard button. This provides a one-time use card number that auto-fills in the payment page. By providing the one-time use number, even if it is intercepted it cannot be used again for another transaction. The transaction will show up on the user's credit card statement as a LastCard transaction. Via a separate dashboard, the user can log in and view all transactions made in this way. Avanquest is aiming to sell this service on a white-label basis.

Business model

The division generates revenues in four different ways:

- **Paid-for products**. While legacy software was mainly sold on a one-off licence basis, where the customer is likely to need to use the software on an ongoing basis the business has been focused on moving products to a subscription model, eg OneSafe PC Cleaner. Where a product is more suited to a one-off purchase as they tend to be linked to one-off projects, eg Architect 3D, they will continue to be sold as a one-off licence. Soda PDF was based on a one-off licence fee but has been converted to a subscription licence model.
- **Freemium products/services**. The legacy business offers a few freemium products, including Photo Editor by InPixio and InstaCards. Adaware offers its anti-virus software on a freemium basis; the paid version of the software is subscription-based.
- **Advertising/traffic-based**. Adaware's Web Companion tool is a browser add-in for secure browsing, ad-blocking and identifying phishing sites. As the software diverts browsers such as Firefox to search services provided by Google or Bing, Web Companion earns a revenue share based on the searches pushed to these search providers. Adaware's software installer tool is used by websites that offer software downloads. When a consumer decides to download software, they first download a small file onto their PC. Once clicked on, an executable file runs to fully download the software. In the process, the user is prompted to accept and install other complementary software products. If the user accepts any of these additional software products, Adaware will earn a commission from the third-party software provider.
- **Transaction-based.** Upclick sells its services on a business-to-business basis. Merchants sign up to use the platform on a per-transaction basis.

Distribution: Mostly web-based

The business sells across Europe and North America through the main channels below:

- the Avanquest and Micro Application websites;
- affiliates – either via a traditional distributor model, or paid on a revenue share of units sold; and
- sub-licensing.

The business only has limited retail activity in Germany and a larger presence in the US (combined making up 10% of divisional revenues and decreasing). As retailers in the US have shorter payment terms, this does not consume so much working capital for the business and also helps when signing up some third-party software suppliers.

Consolidating a fragmented market

The market for consumer software is made up of:

- solutions sold by well-known software companies such as Microsoft (Office suite), Adobe (Acrobat PDF, Photoshop) and Symantec (Norton anti-virus), which typically make the majority of their money from enterprise customers;
- a large number of very small independent software vendors, which often struggle to market their products; and
- a small number of larger companies specialising in online consumer software sales, typically leveraging their marketing expertise to reach a wide audience.

Avanquest falls into this last category, along with companies such as Avast, Kape and IronSource. Avast (LSE-listed, market cap £5.4bn) and Kape (AIM-listed, market cap £268m) both sell cyber-security and PC hygiene tools and have been actively buying software providers in the space. IronSource is a private Israeli company selling monetisation and distribution tools for software and app developers. Its InstallCore software download tool is one of the most widely used and operates a similar model to Adaware's H2O tool. As a private company financial data are hard to come by, but recent investor CVC has commented that Ironsource was on track to finish 2019 with revenue of approximately $1bn.

Growth strategy: Build a recurring revenue model

The company views one of the division's key skills as marketing, with unique expertise in acquiring customers online that was bolstered by the Canadian acquisitions. Using the acquired businesses' expertise in generating and monetising web traffic, the division has already managed to return to organic growth. The acquisitions also marked a shift in the division's strategy towards developing proprietary software which offers higher margin potential.

The business is keen to increase the level of recurring revenue, mainly through offering software on a subscription basis, and is already seeing the benefits of this shift: recurring revenues made up 46% of divisional revenues in FY20 compared to 35% in FY19.

Management has suggested that it would like to move more in the direction of the type of business operated by IAC, a US-listed media and internet company that owns 150 brands, including Ask.com, Dotdash, Investopedia and Vimeo. IAC revenues arise from the traffic generated on its websites – either through subscription services (eg Vimeo video services) or advertising. IAC's Applications division is most similar to Adaware's business – it provides browser extensions that enable users to run search queries directly from their browser tab, as well as mobile applications and device cleaner and security tools. In 2019, IAC generated $520m of revenues from its Applications division. In our view, consumers have become used to receiving online services for free (for example, Facebook or free anti-virus tools) and it is harder to persuade them to pay for software upfront. Monetising consumer software sales via advertising or by offering freemium services is the direction in which the industry is moving and the acquisition of the Canadian companies has helped the business address this market shift.

The division would also consider additional acquisitions, targeting profitable companies with high levels of web traffic.

Avanquest Financials: Undergoing transition to subscriptions

Exhibit 8 shows the quarterly revenue progression over the past three years; this business sees a seasonal peak in Q2 (ie calendar Q4). The cost of products (ie royalties paid to third-party software providers) ranges from 10–30% of sales. Other costs of sales include bank fees, distribution costs for physical goods and server hosting (c 15%), resulting in a gross margin of 60–65%. Operating costs include advertising, marketing, administrative and R&D. The division operates with single IT, marketing and finance teams.

In FY20, the Software business reported revenue growth of 9% (all organic). The FY20 EBITDA margin of 7.9% declined from the 12.4% achieved in FY19 due to the push to shift customers to a subscription licensing model. SodaPDF is now at c 90% subscription licensing, with InPixio the next highest and Adaware with the furthest to go. The annual price of a subscription licence tends to be lower than the price of a one-off licence and is spread over the year rather than being recognised on the date of sale. For the same number of product sales, this reduces the absolute level of revenue during the transition years. However, once the majority of the business is on a subscription model (which is the intention), the higher level of recurring revenue should provide better visibility and growth should accelerate. Management has suggested that 20% per annum growth rates for products such as pdf should be achievable (in fact SodaPDF grew 34% in FY20) and ultimately EBITDA margins in the region of 30% should be attainable.

We note that as a result of the acquisitions in 2018, there are significant minority interests in the division. Part of the deal consideration included the issue of preference shares to the vendors for the remaining 49.99% of the businesses. The preference shares were convertible into shares of Avanquest Software SAS (the parent company of this division) and resulted in the vendors holding 64.09% of Avanquest shares. Although this would technically mean that this division is an equity investment, because Claranova retains control over the business, it is fully consolidated and the 64.09% stake is treated as a minority interest in the accounts. The vendors remain with the business and are therefore motivated to drive the performance of the division.

Our forecasts reflect slightly stronger revenue growth in FY21 and FY22 reflecting the growing proportion of subscription revenues. We assume that this growth translates to EBITDA margin expansion over the forecast period.

Exhibit 5: Software quarterly revenues, Q118–Q420

€m	Q118	Q218	Q318	Q418	Q119	Q219	Q319	Q419	Q120	Q220	Q320	Q420
Revenues	8.4	11.3	8.6	7.5	16.9	23.2	20.4	22.5	20.8	25.1	22.1	22.3
y-o-y growth	(14.3%)	0.0%	(8.5%)	(6.3%)	101.2%	105.3%	137.2%	200.0%	22.8%	8.4%	8.2%	-0.7%

Source: Claranova

Exhibit 6: Software divisional forecasts

	FY17	FY18	FY19	FY20	FY21e	FY22e
Revenues	38.5	35.8	83.0	90.3	99.7	111.7
y-o-y growth	-3%	-7%	132%	9%	10%	12%
EBITDA	0.0	0.7	10.3	7.2	11.3	13.0
EBITDA margin	0.0%	2.0%	12.4%	7.9%	11.3%	11.6%

Source: Claranova, Edison Investment Research

myDevices: Simplifying IoT for SMEs and corporates

Claranova has developed a management platform for IoT applications. Its **IoT in a Box** turnkey solution is designed to enable businesses and consumers to remotely monitor assets.

After developing the platform in 2015, the business decided to encourage use of the technology by launching a developer tool, **Cayenne**. Developers use the drag-and-drop IoT project builder to develop prototypes. Cayenne can be used on Raspberry Pi and Arduino boards and is designed to work on LoRaWAN.[1] There are more than 800,000 registered developers on the platform. myDevices also runs a manufacturer programme called **Cayenne IoT Ready**, which provides a way for hardware manufacturers to integrate their products into the Cayenne platform.

myDevices plans to monetise the platform by selling its **IoT in a Box** solutions on a B2B basis through telecom operators, system integrators and other resellers. The standard IoT in a Box solution contains the following:

- **Gateway:** this is the solution's link to the cellular/LoRa network or ethernet, to enable the customer to monitor the network remotely.
- **Sensors:** these are positioned as required on the customer's premises and send data back to the gateway on a regular basis. These communicate with the gateway using the LoRaWAN protocol.
- **Apps:** mobile or web-based to control the network, to monitor the network and to provide alerts as required.

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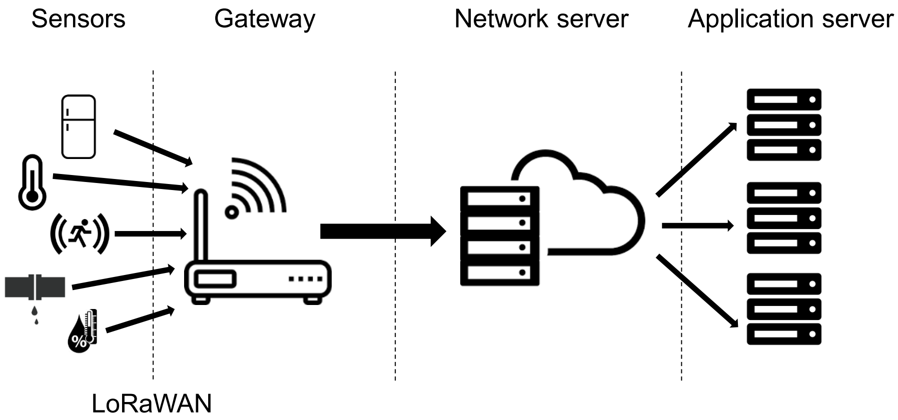
1 LoRa is a low-power, long-range wireless protocol based on a licence-free frequency spectrum; LoRaWAN is a wide area network based on LoRa.

The diagram below shows how a typical IoT network is structured.

Exhibit 7: IoT network



Source: Edison Investment Research

Designed for easy installation and use

The solution is designed to be plug-and-play. The user first downloads the myDevices app, then plugs in the gateway and scans a QR code on the gateway, which registers it on to the network. Then all sensors are scanned via QR code to add them to the network and positioned where necessary. Within the app, the user then edits operating ranges for each sensor, so that SMS and/or email alerts can be sent if any sensor operates outside of the target range. The user can schedule regular reports and can access detailed sensor history via the app. The app also provides the ability to visualise the location of every sensor.

Customers can ask for the IoT in a Box solution to be customised, using the gateway and sensors of choice. myDevices works with a number of hardware suppliers to ensure a wide range of gateways and sensors are available to suit every requirement.

myDevices has already developed white-label solutions for applications such as temperature and humidity monitoring, property monitoring, air quality monitoring, rodent control and personal safety with multiple versions available for a variety of different users, eg restaurants, supermarkets, commercial buildings, holiday rentals, perishable food manufacturing and healthcare. Customers include Sodexo, Engie, Chevron, P&G, Rio Tinto, Hilton and Kaiser Permanente. Recently, the business launched seven vertical specific websites to help market the solutions.

Exhibit 8: Vertical specific websites

Application	Website	Target audience
Cold chain management	Simplysense.com	Healthcare, food service, cold chain
Security	pushandprotect.com	Hotels, universities
	pushandcall.com	Hospitals (nurses)
	lockdownalert.com	Schools, universities
Occupancy & space utilisation	Countario.com	Large venues, retail, workspace
Predictive maintenance	PredictAlert.com	Property managers
Water conservation	WaterSaveSensor.com	Property managers

Source: Claranova

LoRa focus attracts investment

The LoRa radio frequency protocol was designed by chip-maker Semtech, which then founded the LoRa alliance in 2015. The LoRa alliance is dedicated to the standardisation of low-power, wide area networks and the global promotion of the LoRaWAN open standard. myDevices is a member of the LoRa alliance, alongside 500 other members including chip manufacturers, gateway and sensor manufacturers, software companies, system integrators and telecom companies. In 2017, Semtech invested $3m in myDevices in return for a 13% stake and invested a further $3m in 2019. In July 2020, both the company and Semtech invested further in myDevices for an undisclosed amount.

Strong growth market; multiple platform providers

The IoT market is in a strong growth phase – IDC estimates that total spending on IoT hardware, software, services and connectivity was $646bn in 2018 and is likely to grow at a double-digit rate to exceed $1tn by 2022. A large proportion of the IoT market is dominated by enterprises spending on applications in the manufacturing, automotive, logistics, utilities and smart cities sectors. The consumer IoT market includes applications such as wearables (eg Fitbit, Apple Watch) and domestic automation (eg Nest temperature controls, Ring home security). myDevices is positioned somewhere between the two markets, with a focus on simplifying the use of IoT for SMEs.

Research from BCG forecasts incremental spending by companies on IoT of €250bn by 2020, over and above normal technology spending. Of this, it expects €15bn to be spent on IoT platforms. BCG's view is that a complete IoT platform should offer three capabilities:

- application management – in order to customise solutions;
- data aggregation and storage – to support actionable insights; and
- connectivity management – to automatically connect systems, networks and devices.

Unlike in some other markets, no one platform provider is dominant. In 2017, BCG counted more than 400 different IoT platform providers, of which c 50 offered all three capabilities. Providers of IoT platforms include large hardware and/or software vendors such as Bosch, Cisco, GE, IBM, Microsoft, PTC, SAP, Siemens and Software AG, as well as smaller IoT platform-focused companies such as Ayla Networks, EVRYTHNG, relayr, Telit Communications and thethings.iO. By focusing on the SME niche, where ease of use is the key selling point, myDevices should avoid competing against the larger platform providers that focus on supporting enterprises with complex IoT networks.

Business model

As this is effectively a start-up business, myDevices is taking a flexible approach to monetising its technology. It is working with mobile network operators (MNOs), distributors, resellers, system integrators and other partners.

- **MNOs:** myDevices works with Sprint/T-Mobile in the US and Dr Peng in China (who also has a 16% stake in myDevices). MNOs offer IoT applications to their SME and consumer subscribers, which are typically sold as add-on services on monthly contracts. This is an attractive market for MNOs, at it represents an additional use for their cellular networks and should improve customer retention.
- **Distributors/resellers:** In FY19, myDevices signed up Ingram Micro (a global technology distributor with 200,000 resellers) and Alibaba Cloud **(**myDevices will market and sell IoT in a Box through Alibaba Cloud's existing reseller distribution network);
- **Technology partnerships:** ARM and myDevices have agreed to combine IoT in a Box with ARM's Pelion IoT platform; the ARM and Microsoft partnership will allow users to onboard LoRaWAN devices to instantly send data to Microsoft Azure, enabling advanced analytics and business intelligence.

By the end of FY20, myDevices was being used by 500 customers at more than 5,000 sites.

myDevices: Financials

Exhibit 11 shows the quarterly revenue progression over the past three years. As customers pay to use myDevices on a per device subscription basis, revenues are building up slowly, but as customers become familiar with the platform, the expectation is that they will want to use the service for more devices in more locations.

Headcount includes support engineers as well as staff to manage the relationships with MNOs and distributors. The company does not anticipate growing headcount materially unless there is a significant uplift in demand. The division uses Amazon Web Services for storage of all data uploaded to the platform. We model a small increase in the cost base over the forecast period, with rising revenues as the Sprint relationship progresses, distributor partners win more customers and existing customers expand their usage.

Exhibit 9: myDevices quarterly revenues, Q118–Q420, €m

	Q118	Q218	Q318	Q418	Q119	Q219	Q319	Q419	Q120	Q220	Q320	Q420
Revenues	0.6	0.4	1.2	1.5	0.9	0.8	0.9	0.6	0.5	1.7	1.3	1.4
y-o-y growth	-14.3%	-33.3%	71.4%	87.5%	50.0%	100.0%	-25.0%	-60.0%	-44.4%	112.5%	38.9%	125.0%

Source: Claranova

Exhibit 10: myDevices annual forecasts

€m	FY17	FY18	FY19	FY20	FY21e	FY22e
Revenues	2.8	3.7	3.2	4.8	5.6	6.3
y-o-y growth	-24%	32%	-14%	51%	17%	13%
EBITDA	(4.7)	(3.1)	(5.2)	(3.8)	(3.4)	(3.2)
EBITDA margin	-167.9%	-84.9%	-163.1%	-79.1%	-60.7%	-50.8%

Source: Claranova, Edison Investment Research

Sensitivities

In addition to the usual competitive pressures and the requirement to keep abreast of technology, our forecasts and the share price are sensitive to the following factors:

- **FreePrints geographical expansion**: FreePrints has launched in several countries over the last few years and is likely to expand into other new countries. The pace of customer adoption in these new geographies is unknown.
- **Supplier dependence**: in Europe and the US, PlanetArt relies on two printing suppliers. Any issues with these relationships could affect the profitability of the business. As the business expands into personalised gifts in Europe, it is likely to outsource manufacturing which will increase supplier dependence.
- **Acquisition risk:** the recent acquisitions of Personal Creations and CafePress introduce integration risk.
- **Changes to search engine policies**: several products within Avanquest rely on search engines to generate revenues. Changes to these search engines' policies could reduce the ability to earn revenues.
- **Currency:** Claranova's revenue is exposed to currency translation movements, as a large proportion is generated in US dollars, and to a lesser extent sterling. Across the three divisions, there is a high level of natural hedging, with the majority of costs incurred in the country in which revenues are generated. In FY20, the strengthening of the dollar versus the euro increased revenues by €10m but EBITDA by only €0.2m.

Financials

Review of FY20 results

The group reported revenue growth of 56% for the year, of which 20% was organic. We discuss divisional performance in each of the relevant sections of this report. Group EBITDA (pre-IFRS16) was 9% ahead of our forecast: PlanetArt was slightly lower than forecast and Avanquest and myDevices reported better EBITDA than expected. EBITDA under IFRS 16 increased 29% y-o-y, benefiting from the exclusion of €3.1m in lease payments, and was 7% higher than our forecast. The group (pre-IFRS 16) EBITDA margin declined y-o-y due to the consolidation of loss-making Personal Creations in PlanetArt and the shift to subscription licensing in Avanquest. The company noted that it spent €86m/21% of revenues on marketing (+68% y-o-y) and €21m/5% of revenues on R&D (+42% y-o-y).

Normalised operating profit, net income and EPS were marginally ahead of our forecasts. Net cash at the year end was €14m; the group generated €29m cash from operations (helped by negative working capital requirements) and paid €33m for acquisitions during the year.

In terms of COVID-19 government support, the group took advantage of a €4m French government-backed loan (PGE) with a 0.5% interest rate. It also took out $5.7m/€5m of PPP loans in the US. These have a two-year term and a 1% interest rate. They will be forgiven if Claranova meets certain criteria. Currently, these criteria have been met for €0.5m of the loan which has been treated as a grant. The remainder is accounted for as a loan, rather than a reduction in staff costs, until the conditions relating to forgiveness are clarified.

Exhibit 11: FY20 results highlights

€m	FY19a	FY20e	FY20a	Diff	y-o-y
Revenues	**262.3**	**408.6**	**409.1**	**0.1%**	**56.0%**
EBITDA	16.0	19.2	20.6	7.1%	28.8%
EBITDA margin	6.1%	4.7%	5.0%	0.3%	(1.1%)
EBITDA – pre IFRS 16	**16.0**	**16.0**	**17.4**	**8.7%**	**8.9%**
EBITDA margin – pre IFRS 16	6.1%	3.9%	4.3%	0.3%	(1.8%)
Normalised operating profit	**15.5**	**15.5**	**15.8**	**1.7%**	**1.9%**
Normalised operating profit margin	5.9%	3.8%	3.9%	0.1%	(2.0%)
Reported operating profit	11.4	10.2	7.8	(23.9%)	(31.6%)
Reported operating margin	4.3%	2.5%	1.9%	(0.6%)	(2.4%)
Normalised PBT	12.0	11.1	11.3	2.1%	(5.8%)
Reported PBT	(37.7)	5.8	3.3	(42.7%)	(108.8%)
Normalised net income	**9.8**	**7.9**	**8.1**	**2.4%**	**(18.0%)**
Reported net income	**(40.8)**	**1.9**	**0.5**	**(73.7%)**	**(101.2%)**
Normalised basic EPS (€)	0.25	0.20	0.21	2.4%	(18.0%)
Normalised diluted EPS (€)	0.25	0.20	0.20	2.4%	(18.0%)
Reported basic EPS (€)	(1.04)	0.05	0.01	(73.7%)	(101.2%)
Net debt/(cash)	**(23.6)**	**(15.3)**	**(13.9)**	**(9.1%)**	**(41.1%)**
Divisional revenues					
PlanetArt	176.1	313.8	314.0	0.1%	78.3%
Avanquest	83.0	89.9	90.3	0.5%	8.8%
myDevices	3.2	4.9	4.8	(2.9%)	50.0%
Total	262.3	408.6	409.1	0.1%	56.0%
Divisional EBITDA					
PlanetArt	10.9	15.0	14.1	(5.9%)	29.1%
Avanquest	10.3	5.7	7.2	25.6%	(30.4%)
myDevices	(5.2)	(4.7)	(3.8)	(17.5%)	(26.4%)
Total EBITDA – pre IFRS 16	16.0	16.0	17.4	8.7%	8.9%

Source: Claranova, Edison Investment Research

Outlook and changes to forecasts

We have incorporated CafePress for the first time and have made minor changes to our divisional forecasts. We introduce FY22 forecasts.

Exhibit 12: Changes to forecasts

€m	FY21e				FY22e	
	Old	New	Change	y-o-y	New	y-o-y
Revenues	459.3	482.4	5.0%	17.9%	550.6	14.1%
EBITDA	32.5	30.6	(5.8%)	48.5%	40.0	30.7%
EBITDA margin	7.1%	6.3%	(0.7%)	1.3%	7.3%	0.9%
EBITDA – pre IFRS 16	**29.3**	**27.4**	**(6.5%)**	**57.1%**	**36.8**	**34.3%**
EBITDA margin – pre IFRS 16	***6.4%***	***5.7%***	***(0.7%)***	***1.4%***	***6.7%***	***1.0%***
Normalised operating profit	**28.8**	**25.7**	**(10.8%)**	**62.7%**	**35.1**	**36.6%**
Normalised operating profit margin	***6.3%***	***5.3%***	***(0.9%)***	***1.5%***	***6.4%***	***1.0%***
Reported operating profit	26.5	19.4	(26.8%)	148.7%	31.8	63.9%
Reported operating margin	5.8%	4.0%	(1.7%)	2.1%	5.8%	1.8%
Normalised PBT	24.1	21.0	(12.9%)	85.5%	30.4	44.8%
Reported PBT	21.8	14.7	(32.6%)	344.3%	27.1	84.6%
Normalised net income	14.0	11.8	(15.8%)	47.4%	17.7	50.2%
Reported net income	12.2	6.9	(43.3%)	1287.8%	15.2	118.6%
Normalised basic EPS (€)	0.36	0.30	(15.8%)	47.4%	0.45	50.2%
Normalised diluted EPS (€)	**0.35**	**0.30**	**(15.8%)**	**47.4%**	**0.44**	**50.2%**
Reported basic EPS (€)	0.31	0.18	(43.3%)	1287.8%	0.39	118.6%
Net debt/(cash)	**(40.4)**	**(22.1)**	**(45.3%)**	**59.0%**	**(48.9)**	**121.4%**
Divisional revenues						
PlanetArt	354.3	377.2	6.4%	20.1%	432.6	14.7%
Avanquest	99.4	99.7	0.3%	10.4%	111.7	12.0%
myDevices	5.6	5.6	0.0%	16.7%	6.3	12.5%
Total	459.3	482.4	5.0%	17.9%	550.6	14.1%
Divisional EBITDA						
PlanetArt	22.7	19.5	(14.1%)	38.1%	27.0	38.5%
Avanquest	11.0	11.3	2.7%	57.8%	13.0	15.0%
myDevices	(4.4)	(3.4)	(22.7%)	(11.5%)	(3.2)	(5.9%)
Total EBITDA – pre IFRS 16	29.3	27.4	(6.5%)	57.1%	36.8	34.3%

Source: Edison Investment Research

Valuation

In Exhibit 13, we show Claranova's valuation and operating metrics versus four peer groups: personalised e-commerce companies, online software publishers, IoT companies and French software companies. As Claranova is a combination of the first three groups and there are material minority investors in each business, we use a sum-of-the-parts approach to fully capture the value of the group.

Based solely on average peer group EV/sales multiples for FY21e (1.1x for PlanetArt, 5.8x for Avanquest (excluding Foxit) and 1.0x for myDevices), we arrive at a sum-of-the-parts valuation for Claranova of €15.33 per share. However, we believe that these multiples are not reflective of the growth and profitability prospects for each division. In Exhibit 14, our sum-of-the-parts valuation is based on adjusted FY21e EV/sales multiples by division, as discussed in more detail below. The EV/sales multiple for FY22e and the EV/EBITDA multiples for FY21e and FY22e are implied based on the EV/sales multiple used for FY21e.

Exhibit 13: Peer group financial and valuation metrics

	Quoted	Market	Rev growth (%)		EBITDA margin (%)		EBIT margin (%)		EV/Revs (x)		EV/EBITDA (x)		P/E (x)	
	ccy	cap (m)	CY	NY	CY	NY	CY	NY	CY	NY	CY	NY	CY	NY
Claranova	**EUR**	**251**	**17.9**	**14.1**	**6.3**	**7.3**	**4.0**	**5.8**	**0.5**	**0.4**	**7.7**	**5.9**	**21.7**	**14.4**
Personalised e-commerce														
PlanetArt	EUR		20.1	14.7	5.2	6.2								
CEWE Stiftung	EUR	678	-2.1	5.4	15.8	16.2	7.9	8.7	1.0	1.0	6.5	6.1	17.9	15.3
Cimpress	USD	2229	6.1	5.8	17.2	17.5	9.2	10.0	1.4	1.3	8.2	7.6	20.2	16.1
1-800 Flowers	USD	1757	16.0	9.0	9.1	9.7	6.4	7.0	0.9	0.9	10.2	8.8	23.0	18.9
Average			**6.7**	**6.7**	**14.1**	**14.5**	**7.8**	**8.6**	**1.1**	**1.1**	**8.3**	**7.5**	**20.4**	**16.8**
Software publisher/reseller														
Avanquest	EUR		10.4	12.0	11.3	11.6								
Avast	GBp	5371	2.1	6.4	56.2	56.1	51.0	52.3	8.8	8.3	15.6	14.7	20.3	19.4
Foxit	CNY	14975	0.0	0.0	31.1	31.3	26.5	27.1	28.4	20.3	91.4	65.0	104.2	71.5
IAC	USD	10672	-38.2	14.5	2.1	7.8	-15.6	-3.8	2.9	2.5	135.3	32.4	N/A	N/A
Kape Technologies	GBp	269	84.6	11.7	30.0	30.1	27.0	27.5	3.1	2.8	10.3	9.2	17.2	15.6
Nitro Software	AUD	543	0.0	0.0	-13.1	-19.3	-17.6	-23.1	8.6	7.4	0.0	0.0	0.0	0.0
Average			**9.7**	**6.5**	**21.3**	**21.2**	**14.2**	**16.0**	**10.4**	**8.3**	**63.2**	**30.3**	**47.2**	**35.5**
Average excluding Foxit			**12.1**	**8.2**	**18.8**	**18.7**	**11.2**	**13.2**	**5.8**	**5.2**	**53.7**	**18.8**	**18.8**	**17.5**
IoT														
myDevices	EUR		16.7	12.5	-60.7	-50.8								
Calamp Corp	USD	278	-9.1	7.5	8.1	11.5	2.6	5.1	1.1	1.0	13.8	9.1	99.1	19.5
Digi International	USD	484	9.4	9.6	14.1	16.5	3.6	6.5	1.8	1.7	12.9	10.0	74.4	33.2
Sierra Wireless	CAD	560	-12.6	-4.7	-2.2	2.5	-4.9	-0.9	0.6	0.6	N/A	N/A	N/A	N/A
Telit Communications	GBp	180	-5.7	14.4	11.3	11.7	5.3	6.5	0.5	0.4	4.5	3.8	13.7	9.4
Average			**-4.5**	**6.7**	**7.8**	**10.6**	**1.7**	**4.3**	**1.0**	**0.9**	**10.4**	**12.3**	**62.4**	**20.7**
French software														
Axway Software	EUR	433	-0.9	4.7	10.8	13.1	8.0	10.5	1.6	1.5	15.0	11.8	26.7	19.5
Cegedim	EUR	369	-0.4	3.3	20.3	20.9	6.6	7.3	1.2	1.2	6.1	5.7	21.9	18.0
ESI Group	EUR	224	39.7	7.3	12.0	11.4	5.1	6.9	1.8	1.7	15.0	14.8	36.5	50.2
Esker	EUR	849	8.5	14.4	19.5	20.1	11.9	12.4	7.4	6.5	38.0	32.3	81.4	66.4
Lectra	EUR	672	-20.2	14.4	11.2	16.2	6.8	11.5	2.6	2.3	23.1	14.0	53.3	30.5
Linedata Services	EUR	183	-5.1	1.8	26.6	27.0	15.8	17.1	1.6	1.6	6.0	5.8	11.1	10.0
Prodware	EUR	45	-3.1	2.7	25.1	26.5	8.4	10.1	0.9	0.8	3.4	3.2	4.7	4.1
Average			**2.6**	**6.9**	**17.9**	**19.3**	**8.9**	**10.8**	**2.4**	**2.2**	**15.2**	**12.5**	**33.7**	**28.4**

Source: Edison Investment Research, Refinitiv (as at 12 October)

Exhibit 14: Sum-of-parts valuation

	FY21e	FY22e	EV based on FY21e sales multiple (€m)	Minority interest	Value to shareholders (€m)
EV/Sales multiple (x)	1.3	1.2	636.6		468.3
PlanetArt	**1.1**	1.0	414.9	7.7%	382.8
Avanquest	**2.0**	1.8	199.4	64.1%	71.6
myDevices	**4.0**	3.6	22.4	38.1%	13.9
Implied EV/EBITDA multiple (x)					
PlanetArt	21.3	15.4			
Avanquest	17.6	15.3			
myDevices	N/A	N/A			
	€m				Upside/(downside)
Net cash at end FY20	13.9		Equity value (€m)	475.2	
Cost of acquisitions	(7.0)		**Per share value (€)**	**12.12**	92%
Adjusted net cash	6.9				
No. of shares (m)	39.2				

Source: Edison Investment Research

We have used an EV/sales multiple for **PlanetArt** in line with its peer group. While the division is forecast to grow faster than peers, this includes the contribution from CafePress, which is likely to be loss-making in the year. We therefore believe it is appropriate to use a lower multiple to reflect the impact on profitability. This results in an implied EV/EBITDA multiple at a premium to peers, reflecting PlanetArt's lower EBITDA margins. As the photo printing business has a fully outsourced production model, it has minimal depreciation and amortisation, and we would expect its EBIT margin to be very close to its EBITDA margin. On this basis, we estimate that the division's profitability is much closer to that of its peers.

We have used a multiple for **Avanquest** that is at a large discount to its peers. Looking at revenue growth in FY21, the business is likely to grow at a slightly slower rate than its peers. In addition, it is generating substantially lower profitability than its peers on an EBITDA and EBIT margin basis. We note that the Canadian group of businesses was acquired at a trailing price/sales multiple of c 1.8x.

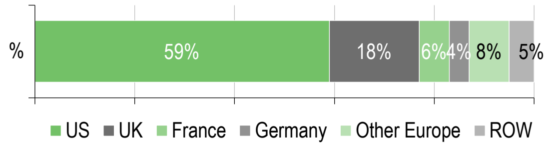
For **myDevices**, we have used an EV/sales multiple for FY21 that is at a premium to its listed peer group. We note that the number of pure-play listed peers for this market is low, and their forecast growth is substantially lower than for myDevices. We therefore think it is more appropriate to apply a multiple based on recent transactions which show that IoT platforms command price/sales multiples anywhere between 4.2–8.9x sales. On this basis, we arrive at a valuation of €12.12 per share, up from €11.52 when we wrote in August. Since then we have rolled forward the valuation by a year and our forecasts now include CafePress.

Clearly, if the company does not achieve our forecasts, there could be downside to the share price. Factors that could provide upside to the valuation include sustained high demand for photo printing, successful adoption of the FreePrints Gift app in the US and returning recent acquisitions to profitability.

Exhibit 15: Financial summary

€'m	2015	2016	2017	2018	2019	2020	2021e	2022e
Year end 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	482.4	550.6
EBITDA	(6.8)	(9.2)	(5.0)	3.9	16.0	20.6	30.6	40.0
Normalised operating profit	(11.4)	(16.0)	(5.8)	3.4	15.5	15.8	25.7	35.1
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)	(3.0)	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	19.4	31.8
Net Interest	1.1	(1.7)	(0.9)	(0.3)	(3.5)	(4.5)	(4.7)	(4.7)
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	21.0	30.4
Profit Before Tax (reported)	5.3	(27.8)	(11.0)	(6.4)	(37.7)	3.3	14.7	27.1
Reported tax	(0.6)	(0.8)	(0.4)	(1.8)	(3.7)	(2.1)	(3.4)	(6.2)
Profit After Tax (norm)	(10.9)	(18.5)	(7.0)	2.4	9.2	8.7	16.1	23.4
Profit After Tax (reported)	4.7	(28.6)	(11.4)	(8.2)	(41.4)	1.2	11.3	20.8
Minority interests	(8.1)	0.0	0.3	0.2	0.6	(0.7)	(4.3)	(5.7)
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	11.8	17.7
Net income (reported)	(6.5)	(28.6)	(11.0)	(7.9)	(40.8)	0.5	6.9	15.2
Basic ave. number of shares outstanding (m)	6	38	38	39	39	39	39	39
EPS - basic normalised (€)	(3.27)	(0.49)	(0.18)	0.07	0.25	0.20	0.30	0.45
EPS - diluted normalised (€)	(3.27)	(0.49)	(0.18)	0.06	0.25	0.20	0.30	0.44
EPS - basic reported (€)	(1.13)	(0.76)	(0.29)	(0.20)	(1.04)	0.01	0.18	0.39
Dividend (€)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Revenue growth (%)		26.1	10.9	24.0	62.4	56.0	17.9	14.1
EBITDA Margin (%)	-7.3	-7.9	-3.8	2.4	6.1	5.0	6.3	7.3
Normalised Operating Margin	-12.3	-13.7	-4.4	2.1	5.9	3.9	5.3	6.4
BALANCE SHEET								
Fixed Assets	15.7	3.0	2.0	1.3	75.1	93.7	96.7	92.7
Intangible Assets	12.0	1.5	0.9	0.5	69.9	70.5	74.1	70.7
Tangible Assets	0.6	0.5	0.3	0.2	1.4	15.7	15.1	14.5
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	128.9	159.7
Stocks	5.9	5.0	3.7	3.7	4.8	14.4	17.0	19.4
Debtors	4.8	4.7	4.3	4.9	11.6	9.9	11.7	13.3
Cash & cash equivalents	30.5	11.1	17.1	65.7	75.4	82.8	91.0	117.8
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)	(78.9)	(84.9)
Creditors	(26.9)	(24.5)	(26.6)	(35.4)	(54.8)	(64.3)	(68.6)	(74.6)
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)	(73.1)
Long term borrowings	(1.8)	(0.6)	0.0	(28.1)	(49.1)	(62.8)	(62.8)	(62.8)
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	73.6	94.4
Minority interests	0.0	0.0	(0.1)	(1.8)	(11.0)	(11.7)	(16.0)	(21.7)
Shareholders' equity	29.3	2.1	1.2	12.5	52.6	50.6	57.5	72.7
CASH FLOW								
Op Cash Flow before WC and tax	(6.8)	(9.2)	(5.0)	3.9	16.0	20.6	30.6	40.0
Working capital	0.4	2.5	6.8	7.9	(4.1)	22.5	(0.1)	2.0
Exceptional & other	(3.8)	(4.3)	(2.2)	(5.7)	(5.2)	(6.3)	(3.0)	0.0
Tax	0.3	(0.3)	(0.0)	(1.2)	(3.8)	(6.8)	(3.4)	(6.2)
Net operating cash flow	(9.8)	(11.3)	(0.4)	5.0	3.0	30.0	24.1	35.8
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)	0.0
Net interest	(0.9)	(0.1)	(0.0)	(0.3)	0.0	(0.5)	(4.7)	(4.7)
Equity financing	33.2	(5.1)	1.9	2.0	(1.4)	0.0	0.0	0.0
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	(3.2)	(3.2)
Net Cash Flow	29.0	(15.7)	5.0	20.1	(14.2)	(3.2)	8.2	26.8
Opening net debt/(cash)	18.0	(23.9)	(9.8)	(16.0)	(37.5)	(23.6)	(13.9)	(22.1)
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	0.0
Closing net debt/(cash)	(23.9)	(9.8)	(16.0)	(37.5)	(23.6)	(13.9)	(22.1)	(48.9)

Source: Claranova, Edison Investment Research

Contact details	Revenue by geography
Immeuble Vision Défense – 89-91 Boulevard National La Garenne-Colombes CEDEX France https://claranova.com/investors/	

Management team

Chairman & CEO: Pierre Cesarini	EVP: Sébastien Martin
Prior to joining Avanquest as group CEO in May 2013, Mr Cesarini began his career at Apple's California headquarters, where he spent 10 years and played a key role in the development of the PowerMac. In 1998, he founded TempoSoft, a supplier of intranet applications for HR management and planning that was purchased by Oracle in 2005. In 2007, he became CEO of Atego, an embedded software provider.	A seasoned veteran in all key areas of corporate finance, Mr Martin holds an executive MBA from HEC and has 20 years' experience in fast-growing technology companies. He has headed up more than 20 notable operations from incorporation to acquisition to restructuring.
CFO: Jean-Yves Quentel	**Chair of supervisory board: Caroline Le Bigot**
Jean-Yves Quentel joined Claranova as CFO in 2020 and will steer Claranova's financial strategy. He has over 25 years' experience, gained on both sides of the Atlantic, in creating, managing and financing growth and technology companies. He combines a long career in France and the US in venture capital investment with funds such as Atlas Venture or Europatweb and extensive operational expertise acquired as CFO of private and listed innovative companies, as well as entrepreneurial experience having founded and helmed Mensia Technologies, among other start-ups.	A graduate of Sciences Po Paris and an executive MBA at Stanford, Ms Bigot has decades of experience in high tech internationally. She is currently assisting large French, US and Israeli companies in their development. Her passion for high tech and user interface design, her knowledge of software and hardware environments, and her expertise in international businesses and complex projects have benefited the accelerated development of Claranova.

Principal shareholders	(%)
Pierre Cesarini (CEO)	6.3
Claranova treasury shares	2.2
La Financière de l'Europe	0.3
Promepar Asset Management	0.2
Lyxor International Asset Management	0.2
Sébastien Martin (CFO)	0.1

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