EDISON Scale research report - Update

CLIQ Digital

Media

16 March 2022

Price **€22.1**

Market cap **€144m**

Share price graph

Share details

Code	CLIQ
Listing	Deutsche Börse Scale
Shares in issue	6.5m
Last reported net cash as at 31 December 2021	€2.3m

Business description

CLIQ Digital is a global streaming provider specialising in the direct marketing of affordable entertainment products and offering its members unlimited access to music, audiobooks, sports, movies and games. It works in over 30 countries. In FY21, 42% of sales were generated in Europe, 50% in North America and 8% in other regions.

Bull

- Strong momentum and net cash position places the company well to achieve its short- and mid-term targets.
- All-in-one platform offers music, movies, sports, games and audiobooks, providing a recognisable competitive advantage.
- Subscription-based model provides robust revenue visibility.

Bear

- As the group scales it may become harder to maintain the same rate of marketing efficiency.
- Significant competition from large market players.
- Uncertainty around content costs when entering new geographies.

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Delivering growth and profitability

CLIQ Digital showed strong profitable growth in its FY21 results, driven by increased marketing spend with a focus on direct media buying. Enriched content on its platform across all channels was also vital for developing its customer base, both in number and lifetime value. The company also announced a proposed 136% y-o-y rise to its dividend to €1.10 (c 5% yield), as a result of its strong trading and 40% payout policy. Management provided detailed FY22 guidance as well as medium-term FY25 guidance, with both showing its expectations for sustained positive momentum.

FY21 results confirm strong year

CLIQ's FY21 results have not changed since its FY21 trading update in February, which we have analysed previously. Sales growth was driven by the development of the multi-content strategy, underpinned by several content deals across sport, family entertainment and games, and a 59% y-o-y increase in marketing spend to €54.4m. Management's investment in enriching the content of its platform contributed to its member base growing 43.5% to 1.3 million, as more customers choose CLIQ's higher value multi-content offering rather than single content. Its shift to direct media buying, instead of media buying through affiliates, has been key to enhancing the impact that marketing spend has on revenue growth. Basic EPS grew by 136% in FY21 to €2.74, resulting in a proposed dividend of €1.1 for the year, in line with the group's dividend policy of a 40% pay-out ratio.

Market consensus and new management guidance

Current market consensus for FY22 is in line with management's guidance, showing forecasted revenue growth of 40% to €211m (management: >€210m) and EBITDA growth of 27% to €34m (mgt: >€33m). Market forecasts for FY23 indicate continuing momentum from FY22, albeit at slightly lower levels, with revenue growth of 30% y-o-y to €275m and EBITDA growth of 35% to €47m, equating to a margin of 17%. However, we feel these growth trajectories are not in line with management's FY25 guidance for revenue over €500m, which is more than double the market forecast for FY23. The market's FY23 EBITDA margin assumption is 1pp higher than in FY22, but in line with what CLIQ has delivered historically.

Valuation: Significant upside potential

Across FY22 and FY23, CLIQ trades at an average discount of 63% on EV/sales and 80% on EV/EBITDA. Later we calculate an implied share price using CLIQ's peer multiples, giving a value of €61.3, highlighting significant upside potential.

Consensus estimates

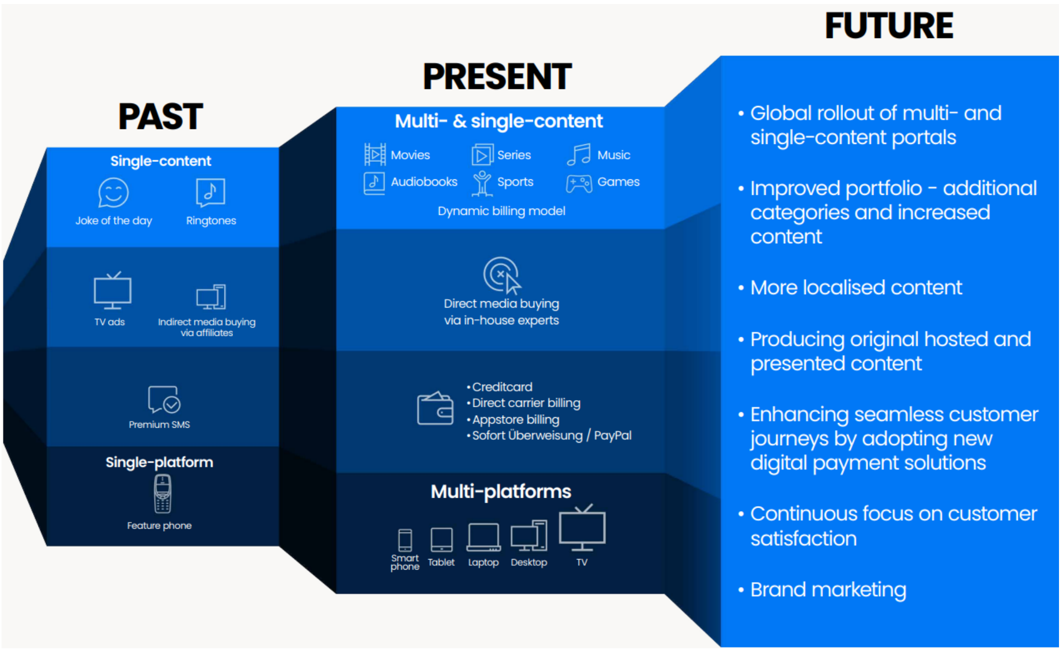
Year end	Revenue (€m)	PBT (€m)	EPS (€)	EV/EBIT (x)	P/E (x)	Yield (%)
12/20	107.0	14.4	1.2	10.4	19.1	1.3
12/21	150.0	25.3	2.7	6.0	8.2	5.0
12/22e	210.9	32.0	3.5	4.9	6.3	6.0
12/23e	274.6	42.0	4.7	3.8	4.7	7.9

Source: Refinitiv

Recent strategies driving growth

CLIQ has evolved past being a single content portal to a platform that can deliver several types of content across myriad platforms (Exhibit 1). The group is rolling out its all-in-one subscription offer in major countries across Europe, North America and many emerging markets, all at attractive price points, for example, €14.99 in Europe.

Exhibit 1: Broadening its capabilities



Source: CLIQ Digital

The group constantly looks for new ways to attract new members and retain existing ones. For example, it has expanded past direct carrier billing to provide customers multiple payment options. Over 2021, management saw an increasing number of customers using credit card payments, which benefits CLIQ's gross margin as it reduces the costs of sales attributable to third parties, such as fees charged by a mobile carrier.

Investing in its multi-content portal

Management invested significantly in enriching its all-in-one portal, particularly across family entertainment, sport and cloud gaming in 2021. Below we highlight several key content deals:

- In February 2022, CLIQ signed a new licensing deal with Palatin Media Film & Fernseh, providing 14 new full series for its German and Austrian portals, equating to more than 400 hours of entertainment.
- In August 2021, the company signed a five-year worldwide licensing agreement with Blacknut's multiscreen cloud gaming service. Since the deal, members will have access to over 500 high-quality cloud games.
- Also in August 2021, its newly agreed licensing deal with Lighthouse Home Entertainment provided members with over 360 high-quality films from 1 September 2021, where two new releases are offered every month.
- In July 2021, CLIQ announced it had secured the exclusive live broadcasting rights in Germany, Austria and Switzerland for the Italian Serie B football championship.

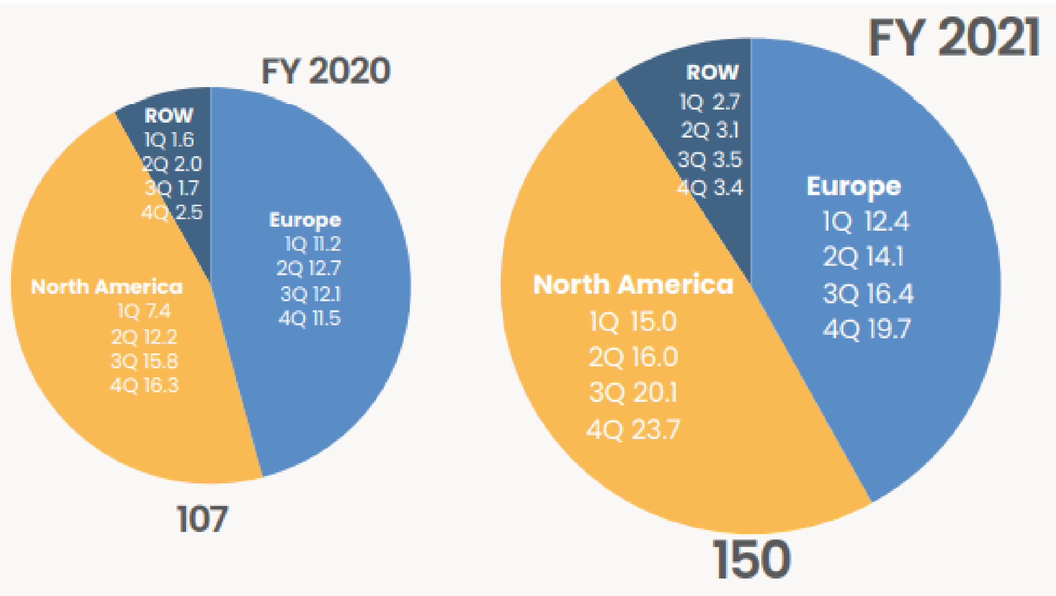
Investments in the company's content fostered strong customer growth in 2021, both from new and existing customers. By end-December, CLIQ reported it had grown its customer base 44% y-o-y to

1.3 million and its customer lifetime value by 74% y-o-y to €87m. CLIQ expects this to continue in 2022 and expects customer numbers to reach 1.7–1.8m by the end of the year (up 31–38% y-o-y) and its customer lifetime value to be greater than €110m (up >26% y-o-y).

Growing implementation of direct media buying

From FY19, management switched its marketing spend strategy, emphasising direct media buying over affiliate marketing. Through direct media buying, management can better focus its marketing spend on audiences, delivering greater agility and growth for every marketing euro spent. It also is expected to provide increased profitability by cutting out fees paid to intermediaries. Direct media buying was first rolled out in North America in FY20, driving a 479% y-o-y increase in the region's revenue contribution that year, resulting in it becoming CLIQ's largest market. Management implemented direct media buying in its European market across FY21, contributing to a 32% y-o-y growth in the region (FY20 -2%), where its performance accelerated throughout the year.

Exhibit 2: CLIQ's geographical revenue comparisons (€m), FY20–FY21



Source: CLIQ Digital

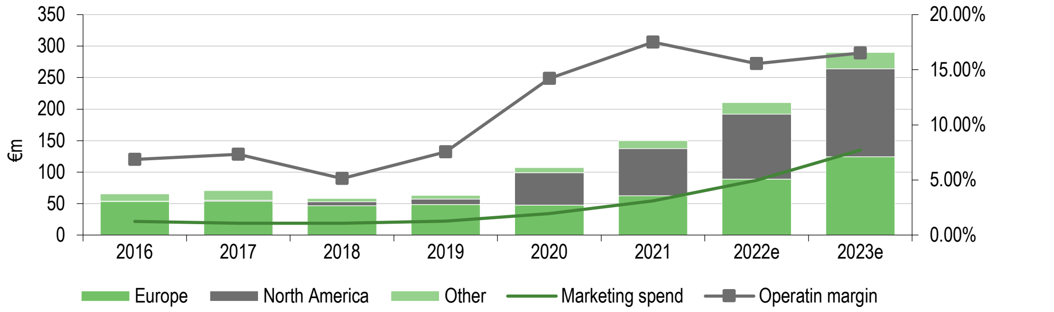
However, management will still use affiliate marketing when penetrating new emerging markets. The company recognises the importance of working with local experts, who can buy the required and most promising advertising space.

Strong growth supported by robust balance sheet

Revenue and profit growth

CLIQ's FY21 results confirm that performance over the year was strong, with full-year revenue up 40% to €150m and EBITDA up 70% to €27.2, leading to a margin increase of 3pp to 18%. This was ahead of market consensus and the guidance management gave in September 2021. Sales growth was driven by both the development of its multi-content strategy, underpinned by several content deals across sport, family entertainment, and games, and a 59% y-o-y increase in marketing spend to €54.4m. As well as being a significant growth driver, its strategy of direct media buying continued to deliver margin improvements throughout the year due to the reduction in fees paid to affiliates.

Exhibit 3: Development across core KPIs, 2016–2023e

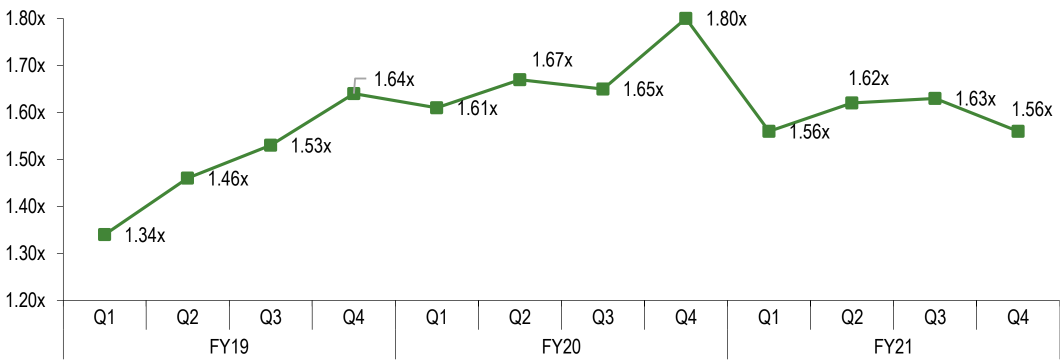


Source: CLIQ Digital, Edison Investment Research. Note: Forecasts use Edison's estimates and left hand axis represents revenue for all geographies.

Development across KPIs

In addition to the KPIs we have already discussed, management also discloses a profitability index, which measures the profitability of its campaigns. The profitability index (previously known as CLIQ Factor) is calculated by dividing its average first 6 months of revenue per customer by the customer acquisition cost, where the company has consistently been above its minimum viable level of 1.4x over the last three years (Exhibit 4). We note that the multiple has fallen from a peak of 1.8x in Q420 due to the required increased marketing investment to acquire new customers, however it still remains significantly above its minimum level of 1.4x by the end of FY21 and in line with company guidance.

Exhibit 4: Profitability factor q-o-q progression, 2019–2021



Source: CLIQ Digital

Robust financial position and high payout policy

The group ended the year in a strong financial position, reporting net cash of €2.3m. This was supported by profit growth in the year and a 23.9% y-o-y increase in operating FCF to €17.5m. We expect this trend of robust FCF generation to continue, which will give the company the firepower for more marketing, acquisitions to enter new markets, or expand the platform's capabilities in new areas, such as virtual reality.

The group's proposed dividend represents a substantial increase of 136% to €1.1/per share, reflecting the group's 40% payout policy and EPS growth during the year. At its current share price, this represents a 5% yield. EPS immediately benefitted from its Hype Ventures minority acquisition in H121, which is explained further in our H121 update note.

Management's guidance indicates momentum

Current market consensus is in line with management's FY22 guidance, which show revenue growth of 40% in the year to €211m and EBITDA growth of 27% to €34m, indicating downward pressure on margins from increased investments in its content and marketing. We believe growth will be driven by management's forecasted marketing spend of at least €70m in FY22, which is 29% higher than in FY21.

Market forecasts for FY23 indicate continuing momentum from FY22, albeit at slightly lower levels, with revenue growth of 30% y-o-y to €275m and EBITDA growth of 35% to €47m, equating to a margin of 17%. However, we feel these growth trajectories are not in line with management's FY25 guidance for revenue over €500m, which is more than double the market forecast for FY23.

Valuation

We have looked at CLIQ's valuation in comparison with other entertainment and customer acquisition groups across various metrics, as shown below. It should be noted that these groups are of greatly differing scale and have widely differing business models, with correspondingly disparate growth characteristics.

On an EV basis, CLIQ continues to trade at a significant discount to its peers across sales and EBITDA across FY22 and FY23. This is also the case on a P/E basis across both years. However, we highlight that many of these companies are not yet profitable, meaning EBITDA and EPS multiples cannot represent the entire peer group. Notably, CLIQ is also one out of two companies in the peer group that pays a dividend and its forecast sales growth across FY22 and FY23 is significantly higher than the peer group. We believe that management has now positioned the company well to close the discount in the medium term.

Exhibit 5: Peer valuation metrics

	Market cap	Share price perf ytd	Sales growth (%)		EV/Sales (x)		EV/EBITDA (x)		P/E (x)		Hist div yield (%)
Company	**(m)**	**(%)**	**FY1**	**FY2**	**FY1**	**FY2**	**FY1**	**FY2**	**FY1**	**FY2**	**Last**
Cinedigm	$113	(44)	63	10	2.2	2.0	15.3	65.5	129.3	N/A	N/A
Stingray	C$384	6	7	14	2.6	2.3	7.2	6.1	8.8	7.4	4.1
Spotify	$23,796	(47)	18	17	1.7	1.5	84.6	N/A	860.7	96.9	N/A
Netflix	$152,612	(43)	12	13	4.9	4.3	22.2	17.6	31.2	23.9	N/A
Alchimie	€14	(43)	-34	1	N/A	N/A	N/A	N/A	N/A	5.6	N/A
Pantaflix	€23	(2)	15	11	0.6	0.6	2.0	1.8	8.9	7.7	0.0
Nordic Entertainment	SEK24,771	(32)	23	22	1.4	1.2	32.7	16.6	80.6	30.0	0.0
Glu Mobile	$2,204	0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Storytel	SEK5,439	(52)	27	18	1.1	0.9	N/A	56.1	N/A	N/A	0.0
Peer average		**(29)**	**16**	**13**	**1.7**	**1.5**	**18.7**	**17.1**	**55.9**	**15.8**	**0.0**
CLIQ Digital	€144	(11)	41	30	0.7	0.5	4.2	3.1	6.3	4.7	5.0
Premium/(discount)			**24.2**	**17.0**	**(61%)**	**(65%)**	**(77%)**	**(82%)**	**(89%)**	**(70%)**	

Source: Edison Investment Research, Refinitiv. Note: Priced at 16 March 2022.

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