

CentralNic Group

Unfazed by challenging environment

FY22 trading update

Software and comp services

CentralNic's FY22 update confirmed accelerating momentum towards the end of the year, with revenue and adjusted EBITDA ahead of our forecasts, which we raised on [21 December](#). Its ability to effectively match advertisers with high-intent consumers, alongside global market demand for privacy-safe customer targeting solutions, continues to drive Online Marketing. Economies of scale and acquisitions have strengthened its operating leverage, leading to improved profitability. CentralNic's attractive cash dynamics have supported a significant reduction in net debt, which we believe will continue to fall in FY23 in line with expected profit growth.

Year end	Revenue (US\$m)	Adjusted EBITDA* (US\$m)	PBT* (US\$m)	Dil. EPS (c)	EV/EBITDA (x)	P/E (x)
12/20	240.0	29.4	17.6	6.9	19.3	25.8
12/21	410.5	46.3	31.9	10.9	12.3	16.2
12/22e	728.0	85.2	69.5	18.0	6.7	9.8
12/23e	833.7	94.4	79.6	19.4	6.0	9.1

Note: *Excludes impact of share-based payments, foreign exchange charges and non-core operating costs.

FY22: Ahead of consensus and our forecasts

CentralNic expects to report revenue of \$728m, up 77% y-o-y and up 60% y-o-y organically. Revenue was also ahead of both our forecast and market consensus of \$708m. Management expects adjusted EBITDA of more than \$85m, equating to growth of at least 84% y-o-y and c 2% higher than our previous forecast. FY22 adjusted EBITDA to our net revenue estimate of \$176m, which deducts costs directly passed onto its customers, was 48.5%, 9.5pp higher year-on-year as a result of stronger operating leverage from its scaling Online Marketing business and accretive acquisitions made in the year. Net debt decreased by \$24m to \$57m in the year, supported by expanding profit margins and an adjusted operating cash conversion (normalised operating profit/operating cash flow) in excess of 100%.

Forecasts revised

We have upgraded our FY22 revenue and profit forecasts based on the trading update. While we expect the same FY22 structural tailwinds to continue to drive demand in FY23, we believe revenue growth will be slower at 15% y-o-y as management moves its focus from high volumes of M&A to further strengthening its balance sheet and increasing returns to shareholders. We have left our FY23 profit and cash forecasts materially unchanged, reflecting potential operating cost pressures, particularly wage inflation and hiring needs.

Valuation: Significant upside potential in FY23

CentralNic continues to trade at a discount to its Online Marketing peers on EV/EBITDA across FY22e and FY23e, at an average discount of 65%. Its shares performed well following management's decision to review its capital allocation within the business, with a higher focus on shareholder returns. We expect the discount to peers to reduce as management delivers on this strategy in FY23, alongside further top-line and profit growth.

30 January 2023

Price **143p**

Market cap **£413m**

\$1.24:£1

Net debt (US\$m) at 31 December 2022 57

Shares in issue 288.4m

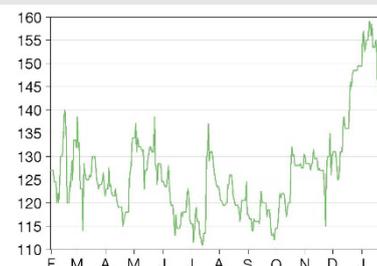
Free float 67%

Code CNIC

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (3.7) 11.3 16.4

Rel (local) (7.7) 1.2 15.6

52-week high/low 159p 111p

Business description

CentralNic Group provides the essential tools for businesses to go online, operating through two divisions: Online Presence (reseller, corporate, and SME) and Online Marketing. Services include domain name reselling, hosting, website building, security certification and website monetisation.

Next events

FY22 results 27 February 2022

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Summary of changes to estimates

For FY22, we have moved our gross revenue, adjusted EBITDA and net debt position to in line with management's expectations for the year, which are slightly higher than our previous forecasts and market consensus, both of which were revised upwards in December 2022.

For FY23, we have increased our gross revenue estimate, maintaining the same year-on-year growth rate but reflecting the higher FY22 base. Our profit expectations for the year are materially unchanged, with our net revenue to adjusted EBITDA remaining at 49.5% for FY23. We believe management's updated strategy, which includes improving efficiencies in the business, may be partially offset by potential further wage inflation and hiring needs.

Our FY23 net debt position is materially unchanged at \$2.8m. The 9% reduction in our FY22 net debt estimate has been offset by our revised FY23 contingent consideration expectations for VGL and Aporia. Our estimate excludes potential M&A in FY23, although we believe the company may still make some targeted acquisitions in the year.

Exhibit 1: Changes to estimates

US\$000	2022e				2023e			
	Old	New	Change	y-o-y	Old	New	Change	y-o-y
Gross revenue	708,193	728,000	2.8%	77%	811,022	833,705	2.8%	15%
Net revenue	172,303	175,621	1.9%	48%	190,550	190,585	0.0%	9%
Adj. EBITDA	83,567	85,176	1.9%	84%	94,416	94,416	(0.0)%	11%
Profit before tax (norm)	68,953	69,532	0.8%	118%	79,570	79,584	0.0%	14%
Profit before tax (reported)	40,963	41,541	1.4%	2571%	48,030	41,543	(13.5)%	0%
Net income (normalised)	49,646	50,063	0.8%	96%	57,291	57,300	0.0%	14%
Basic average number of shares outstanding (m)	270	270	(0.0)%		289	288		
EPS – basic normalised (c)	18.39	18.56	0.9%	65%	19.85	19.87	0.1%	7%
EPS – diluted normalised (c)	17.88	18.04	0.9%	65%	19.33	19.35	0.1%	7%
Revenue growth (%)	72.5	77.3			14.5	14.5		
Gross margin (%)	24.3	24.1			23.5	22.9		
Adj. EBITDA margin (%)	11.8	11.7			11.6	11.3		
Adj. EBITDA/net revenue (%)	48.5	48.5			49.5	49.5		
Capex	(5,416)	(5,456)	0.7%	13%	(5,622)	(5,667)	0.8%	4%
Closing net debt/(cash)	62,655	57,038	(9.0)%	(30)%	2,846	2,823	(0.8)%	(95)%

Source: Edison Investment Research

Exhibit 2: Financial summary

	\$000s	2019	2020	2021	2022e	2023e
Year end 31-December		IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT						
Revenue		109,194	240,012	410,540	728,000	833,705
Cost of Sales		(66,419)	(164,894)	(292,041)	(552,379)	(643,120)
Gross Profit		42,775	75,118	118,499	175,621	190,585
EBITDA		17,921	29,394	46,251	85,176	94,416
Normalised operating profit		16,615	27,310	42,737	81,104	89,753
Amortisation of acquired intangibles		(8,299)	(13,747)	(18,291)	(21,035)	(21,035)
Exceptionals		(8,259)	(10,529)	(7,087)	1,000	0
Share-based payments		(2,878)	(5,113)	(5,006)	(5,006)	(5,006)
Reported operating profit		(2,821)	(2,079)	12,353	56,063	63,712
Net Interest		(3,869)	(9,834)	(10,798)	(11,572)	(10,169)
Joint ventures & associates (post tax)		74	79	0	0	0
Exceptionals		0	0	0	(2,950)	(12,000)
Profit Before Tax (norm)		12,820	17,555	31,939	69,532	79,584
Profit Before Tax (reported)		(6,616)	(11,834)	1,555	41,541	41,543
Reported tax		39	975	(5,097)	(21,555)	(24,671)
Profit After Tax (norm)		10,256	14,044	25,551	50,063	57,300
Profit After Tax (reported)		(6,577)	(10,859)	(3,542)	19,986	16,872
Minority interests		64	0	0	0	0
Net income (normalised)		10,320	14,044	25,551	50,063	57,300
Net income (reported)		(6,513)	(10,859)	(3,542)	19,986	16,872
Basic average number of shares outstanding (m)		175	197	227	270	288
EPS - basic normalised (c)		5.89	7.14	11.24	18.56	19.87
EPS - diluted normalised (c)		5.72	6.86	10.91	18.04	19.35
EPS - basic reported (c)		(3.72)	(5.52)	(1.56)	7.41	5.85
Dividend (c)		0.00	0.00	0.00	0.00	0.00
Revenue growth (%)		95.0	119.8	71.0	77.3	14.5
Gross Margin (%)		39.2	31.3	28.9	24.1	22.9
EBITDA Margin (%)		16.4	12.2	11.3	11.7	11.3
EBITDA/Net Revenue (%)		41.9	39.1	39.0	48.5	49.5
Normalised Operating Margin		15.2	11.4	10.4	11.1	10.8
BALANCE SHEET						
Fixed Assets		217,544	270,578	271,830	346,945	341,911
Intangible Assets		206,055	255,716	254,169	329,284	324,250
Tangible Assets		6,427	8,677	8,601	8,601	8,601
Investments & other		5,062	6,185	9,060	9,060	9,060
Current Assets		67,433	77,606	128,391	216,147	281,238
Stocks		491	1,011	895	1,513	1,866
Debtors		40,760	47,941	71,363	119,671	130,195
Cash & cash equivalents		26,182	28,654	56,133	94,962	149,177
Other		0	0	0	0	0
Current Liabilities		78,767	96,421	137,129	185,471	213,518
Creditors		75,683	89,256	117,016	183,634	211,681
Tax and social security		0	0	0	0	0
Short term borrowings		2,213	5,819	18,276	0	0
Lease liabilities		871	1,346	1,837	1,837	1,837
Long Term Liabilities		129,206	137,867	149,110	190,536	200,667
Long term borrowings		98,967	107,820	119,251	152,000	152,000
Other long term liabilities		30,239	30,047	29,859	38,536	48,667
Net Assets		77,004	113,896	113,982	187,085	208,963
Minority interests		(69)	0	0	0	0
Shareholders' equity		76,935	113,896	113,982	187,085	208,963
CASH FLOW						
Op Cash Flow before WC and tax		2,989	3,997	23,360	66,648	67,241
Working capital		8,963	4,129	4,091	17,692	17,171
Exceptional & other		6,673	14,526	15,804	16,578	15,175
Tax		(2,309)	(1,957)	(2,230)	(12,878)	(14,540)
Net operating cash flow		16,316	20,695	41,025	88,040	85,047
Capex		(15,497)	(4,259)	(4,810)	(5,456)	(5,667)
Acquisitions/disposals		(60,900)	(37,065)	(18,344)	(92,150)	(12,000)
Interest paid		(1,970)	(9,512)	(8,695)	(11,572)	(10,169)
Equity financing		2,133	34,667	0	58,091	0
Change in borrowing		101,047	1,563	24,721	38,892	0
Other		(31,307)	(4,734)	(3,700)	(30,416)	(2,996)
Net Cash Flow		9,822	1,355	30,197	45,429	54,215
Opening net debt/(cash)		2,115	74,998	84,985	81,394	57,038
FX		(6,730)	1,117	(2,718)	(6,600)	0
Other non-cash movements		(75,975)	(12,459)	(23,888)	(14,473)	0
Closing net debt/(cash)		74,998	84,985	81,394	57,038	2,823

Source: CentralNic, Edison Investment Research

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