CLARANOVA

BUY

TARGET PRICE : 11,6€ \\ +70%

FY 2018/19 RESULTS MEETING

PROFITABLE GROWTH AND FCF NOW POSITIVE

Claranova had a very good year in FY 2018/19, with EBITDA of €16.0m (4.1x, €16.3m anticipated). After adjustment for a non-cash charge of -€44.6m, net profit equaled €8.4m (vs. €10.3m expected and a reported net loss of -€41.4m). The other highlight of FY 2018/19 was the positive cash generation (cash flow of +€14.8m vs. -€1.2m in FY 2017/18). Management has taken advantage of these good results and the consolidation of Personal Creations (€70m in sales) to lift its target for FY 2022/23e revenues to €700m (vs. €600m previously) while confirming its forecast for an EBITDA margin > 10%. After an initial review and before updating our valuation, we are maintaining our Buy opinion.

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Strong growth leading to record profitability in FY 2018/19

FY 2018/19 (fiscal year ending 30 June) revenues (announced in August) totaled €262m (+62%), in line with our forecast for €256m and reflecting solid organic growth (+33% on a constant consolidated perimeter and exchange rates basis) combined with the contribution of the acquired Upclick, SodaPDF and Adaware businesses in the Internet segment (Avanquest). This strong growth was accompanied by record profitability, with EBITDA multiplied by 4.1x to €16.0m (vs. €16.3m expected). EBITDA was boosted by equivalent contributions from the Internet segment (Avanquest) at €10.3m (vs. €10.5m expected) and the Mobile segment (PlanetArt) at €10.9m (vs. €9.9m). At the same time, the EBITDA loss from myDevices was a little greater than expected at -€5.2m (vs. -€4.2m). We would highlight the fact that this operating performance was not achieved at the expense of future growth, as marketing investments rose +76% over the year to €51.4m.

CLARANOVA: 2018/19 results published vs. estimates

Claranova	2017/18	2018/19e		
€m (30/06)	published	publishe	att. IS	% chge
Total Sales	161,5	262	256	+2%
chg. reported	*+24%*	*+62%*	*+59%*	
chg. at cst. Exchange rate	*+32%*	*+59%*		
chg. at constant scope	*+32%*	*+33%*		
EBITDA Avanquest	0,7	10,3	10,5	-2%
EBITDA margin	+2,0%	+12,4%	+14,0%	
EBITDA PlanetArt	6,4	10,9	9,9	+10%
EBITDA margin	+5,2%	+6,2%	+5,6%	
EBITDA myDevices	-3,1	-5,2	-4,1	-28%
EBITDA margin	-83,8%	-163%	-102%	
EBITDA	3,9	16,0	16,3	-2%
chg. reported			*+317%*	
EBITDA margin	+2,4%	+6,1%	+6,4%	

Source : Claranova, Invest Securities

Reported loss of -€41.9m vs. an adjusted profit of €8.4m + positive cash generation

The reported loss equaled €41.4m, affected by a (non-cash) charge of -€44.6m (see below). Excluding exceptional items, adjusted net profit equaled €8.4m (vs. €10.3m

.../...

in € / share	2018/19e	2019/20e	2020/21e
Adjusted EPS	0,24	0,45	0,77
chg.	*n.s.*	*+89%*	*+73%*
estimates chg.	*+0,0%*	*+0,0%*	*+0,0%*

ended 30/06	2018/19e	2019/20e	2020/21e
PE	31,4x	15,3x	8,8x
EV/Sales	0,96x	0,60x	0,36x
EV/EBITDA	15,3x	7,0x	3,2x
EV/EBITA	15,5x	7,0x	3,3x
FCF yield*	4,6%	10,6%	23,0%
Div. yield (%)	n.s.	n.s.	n.s.

* After tax op. FCF before WCR

key points	
Share price (€)	6,82
Number of Shares (m)	39,4
Market cap. (€m)	259
Free float (€m)	219
ISIN	FR0013426004
Ticker	CLA-FR
DJ Sector	Technology Services

	1m	3m	Ytd
Absolute perf.	-13,1%	-15,8%	+6,0%
Relative perf.	-14,0%	-14,9%	-6,4%

Source : Factset, Invest Securities estimates

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expected and €1.3m in FY 2017/18).
The group's ability to generate positive cash flow (€14.8m vs. -€1.5m in FY 2017/18) for the first time in a long while was another highlight of FY 2018/19. As of June 30, 2019, net debt totaled -€23.5m (vs. -€27.0m expected).

Internet (Avanquest): transformational and successful integration

The integration of the Upclick, Lulu Software and Adaware businesses acquired at the beginning of FY 2018/19 has profoundly changed the profile of this segment. In FY 2018/19, 1/3 of revenues came from proprietary software (vs. 20% in FY 2017/18) and 30% came from the monetarization of traffic (vs. 0% previously) at the same time the percentage of revenues from the sale of third party software fell to 37% (vs. 80% in FY 2017/18). The business model has also changed, with recurring revenues (subscriptions vs. licenses) representing 35% of FY 2018/19 revenues vs. 8% in FY 2017/18.
On the accounting level, the integration of these businesses enabled this segment to reach new thresholds in terms of size with revenues of €83m (vs. €35.8m in FY 2017/18) and profitability with EBITDA of €10.3m (vs. €0.7m in FY 2017/18), with €9.1m coming from these acquisitions and synergies generated.

Mobile (PlanetArt): an offer that will be enhanced with Personal Creations

With a +40% (constant exchange rates) increase in revenues to €176m in FY 2018/19, the Mobile segment continued to show outstanding growth. At the same time, the segment's EBITDA rose +44% to €10.9m.
In FY 2019/20, this segment should benefit from the acquisition of the assets (two websites: personalcreations.com and gifts.com) of Personal Creations in connection with Chapter 11 bankruptcy proceedings for $18.1m (+ additional costs). This acquisition will enable PlanetArt to position itself on the personalized gift market, which the company estimates at $26.3bn worldwide (vs. $14.0bn for the photo market). Management's objective will be to apply the "recipe" behind the success of PlanetArt to Personal Creations through the development of mobile offers and to target international expansion. Synergies with PlanetArt's customer base are also being envisaged (cross-selling). Management expects Personal Creations to contribute at least €70m in revenues in the next fiscal year, with EBITDA at least at breakeven.

Upward revision in ambitions looking out to FY 2022/23

The good FY 2018/19 results combined with the acquisition of Personal Creations has led management to lift its outlook for FY 2022/23e revenues to at least €700m (vs. €600m previously). This objective implies a 2019/23 CAGR of +28% (+20% in organic terms). Looking out to FY 2022/23e, management has confirmed its forecast for an EBITDA margin above 10%, thereby giving an implied CAGR of +44%!

Explanation and details concerning the -€44.6m non-cash charge

- Origin: acquisition of 50.1% of the three Canadian companies

On July 1, 2018, Claranova took control (through the acquisition of a 50.1% stake for €26.9m) of a group made up of three companies: Upclick, Lulu Software and Adaware. The group's management retained the remaining shares of this group with a 49.9% stake.
In the context of this transaction, the managers received preferred shares that will enable them to convert their stake into Avanquest shares if this entity is sold or listed. In this specific case, the valuation of the managers' stake in Avanquest is made up of a fixed portion and a variable portion based on the performance (earn-out) of the Upclick, Lulu Software and Adaware businesses. This variable portion is nevertheless subject to limitations and depends on the overall valuation attributed to Avanquest. It kicks in starting with a minimum valuation of $135m for Avanquest and is capped if the valuation is equal to or greater than $160m.

- **Avanquest valuation lifted to $162m following the good FY 2018/19e performance**

Avanquest's very good operating performance in FY 2018/19 has led Claranova to raise its valuation of this segment (on the basis of an independent expert's evaluation) from $87m on July 1, 2018 to $162m on June 30, 2019.
This new valuation of the Avanquest segment has consequently validated the performance criterion applicable to the preferred shares and has led to different accounting treatment in the group's financial accounts.

- **Impacts on the balance sheet and P&L statement**

Prior to this upward revision, the preferred shares held by the managers were listed as debt instruments on the other non-current liabilities line of the balance sheet for a total of €41m. To the extent that the revaluation of Avanquest also leads to a revaluation of these preferred shares, this led to the recording of a financial charge of €44m on the P&L statement without any impact on the group's cash position. On the balance sheet, this financial instrument was reclassified as equity for €85m. As a result of this, a portion of Avanquest's earnings will be allocated to minority interests starting in FY 2019/20.

- **No cash impact cash linked to this item and no dilution in terms of Claranova shares**

The accounting treatment of the managers' minority stake in Upclick, Lulu Software and Adaware has no cash impact on the group's financial accounts. Additionally, with the performance criterion having been met, further revaluations of the Avanquest segment will not result in any new financial charges that could affect the P&L statement. Finally, this financial structuring does not involve any current or future impact on the number of Claranova shares (the shares to be created in case of a liquidity event will be on the level of the Avanquest Internet segment).

- **Avanquest: independent valuation vs. Invest Securities valuation**

The valuation calculated by the independent expert (based on a DCF approach) set the value of Avanquest as of the end of FY 2018/19 at $162m. Our valuation of this segment (using the same methodological approach but calculated during FY 2018/19) equaled €121m. The pushing back of the time horizon in our DCF model by one year along with the updating of our estimates should lead us to lift our valuation for Avanquest to a level more or less in line with that obtained by the independent firm.

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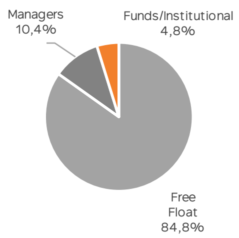
INVESTMENT CASE

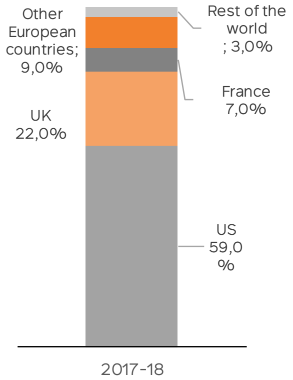
Under the impetus of Claranova's new management, a strategy has been developed since 2013 involving a focus on three businesses: 1) PlanetArt in digital photo printing (web and mobile), 2) myDevices in the Internet of Things and 3) Avanquest in software distribution. At the same time, management has proceeded with the sale of non-core activities and undertaken far-reaching restructuring. The new group is now restructured and fully operational, as seen by an improvement in profitability and strong cash generation in order to finance growth.

FINANCIALS

Shareholders



Sales breakdown



Next events
11/06/2019: Q1 2019/20 Sales

Share information	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19e	2019/20e	2020/21e
Published EPS (€)	-39,22	-0,33	-0,76	-0,29	-0,21	0,26	0,49	0,86
Adjusted EPS (€)	**-9,11**	**-1,04**	**-1,59**	**-0,16**	**0,07**	**0,24**	**0,45**	**0,77**
Diff. I.S. vs Consensus	*n.s.*	*+56,3%*	*+127,1%*	*-22,0%*	*ns*	*+45,1%*	*nd*	*nd*
Dividend	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00

Valuation ratios	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19e	2019/20e	2020/21e
P/E	n.s.	n.s.	n.s.	n.s.	103,3x	31,4x	15,3x	8,8x
EV/Sales	0,29x	0,25x	0,01x	0,57x	1,42x	0,96x	0,60x	0,36x
VE/EBITDA	n.s.	n.s.	n.s.	n.s.	60,2x	15,3x	7,0x	3,2x
VE/EBITA	n.s.	n.s.	n.s.	n.s.	69,4x	15,5x	7,0x	3,3x
Op. FCF bef. WCR yield	n.s.	n.s.	n.s.	n.s.	1,2%	4,6%	10,6%	23,0%
Op. FCF yield	n.s.	n.s.	n.s.	2,3%	4,6%	7,4%	15,1%	30,3%
Div. yield (%)	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.

NB : valuation based on annual average price for past exercise

Entreprise Value (€m)	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19e	2019/20e	2020/21e
Share price in €	*4,60*	*2,40*	*1,01*	*2,43*	*6,93*	*7,40*	*6,82*	*6,82*
Market cap.	5,0	48,3	10,8	90,9	265,1	273,7	252,6	252,6
Net Debt	18,0	-23,9	-9,8	-16,0	-37,5	-27,0	-55,2	-100,2
Minorities	1,3	0,0	0,0	0,1	1,8	1,8	1,8	1,8
Provisions/ near-debt	1,7	1,6	0,7	0,2	0,2	0,2	0,2	0,2
+/- Adjustments	-0,9	-3,0	-1,1	-0,7	-0,6	-0,6	-0,6	-0,6
Entreprise Value (EV)	**25,0**	**22,9**	**0,7**	**74,5**	**228,9**	**248,1**	**198,8**	**153,8**

Income statement (€m)	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19e	2019/20e	2020/21e
Sales	85,7	93,1	117,4	130,2	161,5	259,2	331,7	424,3
chg.	*-14,5%*	*+8,7%*	*+26,1%*	*+10,9%*	*+24,0%*	*+60,5%*	*+28,0%*	*+27,9%*
EBITDA	-2,1	-8,5	-10,7	-4,9	3,8	16,3	28,5	47,4
EBITA	**-5,9**	**-11,5**	**-16,1**	**-5,8**	**3,3**	**16,0**	**28,3**	**47,2**
chg.	***n.s.***	***n.s.***	***n.s.***	***n.s.***	***n.s.***	***+384%***	***+77%***	***+67%***
EBIT	-39,4	4,1	-26,1	-10,1	-6,1	15,9	28,2	47,1
Financial result	-1,4	1,1	-1,7	-0,9	-0,3	-1,6	-2,1	-2,0
Corp. tax	-2,9	-0,6	-0,8	-0,4	-1,8	-4,0	-6,5	-11,3
Minorities+affiliates	0,0	-8,0	0,0	0,3	0,2	0,0	0,0	0,0
Net attributable profit	-43,8	-3,4	-28,6	-11,0	-8,0	10,3	19,5	33,8
Adjusted net att. profit	**-9,9**	**-20,9**	**-17,0**	**-5,8**	**2,5**	**10,3**	**19,6**	**33,9**
chg.	***n.s.***	***n.s.***	***n.s.***	***n.s.***	***n.s.***	***+309%***	***+90%***	***+73%***

Cash flow statement (€m	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19e	2019/20e	2020/21e
EBITDA	-2,1	-8,5	-10,7	-4,9	3,8	16,3	28,5	47,4
Theoretical Tax / EBITA	0,0	0,0	0,0	0,0	-1,0	-4,5	-7,1	-11,8
Capex	-3,4	-4,4	-0,9	-0,2	-0,2	-0,3	-0,3	-0,3
Operating FCF bef. WCR	**-5,5**	**-13,0**	**-11,6**	**-5,1**	**2,6**	**11,5**	**21,2**	**35,3**
Change in WCR	3,8	2,5	2,5	6,8	7,9	7,0	8,8	11,2
Operating FCF	**-1,7**	**-10,5**	**-9,1**	**1,7**	**10,5**	**18,5**	**29,9**	**46,6**
Acquisitions/disposals	2,9	10,8	-0,4	3,6	14,1	-25,9	0,0	0,0
Capital increase/decrease	8,5	31,2	-3,1	1,9	2,0	-1,9	0,0	0,0
Dividends paid	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Other adjustments	-3,5	10,3	-1,5	-1,0	-5,1	-1,3	-1,7	-1,5
Published FreeCash Flow	**6,2**	**41,8**	**-14,1**	**6,2**	**21,6**	**-10,6**	**28,2**	**45,0**

Balance Sheet (€m)	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19e	2019/20e	2020/21e
Assets	31,2	15,7	3,0	2,0	1,3	66,0	66,1	66,1
Intangible assets/GW	22,8	4,8	0,0	0,0	0,0	64,7	64,7	64,7
WCR	-9,0	-10,3	-10,0	-16,5	-24,4	-31,4	-40,1	-51,3
Group equity capital	1,3	29,3	2,1	1,2	12,5	20,9	40,4	74,2
Minority shareholders	1,3	0,0	0,0	0,1	1,8	1,8	1,8	1,8
Provisions	1,7	1,6	0,7	0,2	0,2	0,2	0,2	0,2
Others	0,0	0,0	0,0	0,0	0,0	38,8	38,8	38,8
Net financial debt	**18,0**	**-23,9**	**-9,8**	**-16,0**	**-37,5**	**-27,0**	**-55,2**	**-100,2**

Financial ratios	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19e	2019/20e	2020/21e
EBITDA margin	n.s.	n.s.	n.s.	n.s.	2,4%	6,3%	8,6%	11,2%
EBITA margin	n.s.	n.s.	n.s.	n.s.	2,0%	6,2%	8,5%	11,1%
Adjusted Net Profit/Sales	n.s.	n.s.	n.s.	n.s.	1,6%	4,0%	5,9%	8,0%
ROCE	n.s.	n.s.	n.s.	n.s.	-14,3%	46,1%	109,0%	319,7%
ROE adjusted	n.s.	n.s.	n.s.	n.s.	20,2%	49,5%	48,5%	45,7%
Gearing	1417,1%	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.
ND/EBITDA (in x)	n.s.	n.s.	n.s.	n.s.	-9,9x	-1,7x	-1,9x	-2,1x

Source : company, Invest Securities Estimates

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SWOT ANALYSIS

STRENGTHS

- Management's good track record.
- A leading application in photo printing in the US and the UK with more than 10 million clients.
- myDevices, in a start-up phase, is well positioned to become a benchmark IoT platform.

WEAKNESSES

- The €/$ and €/£ trend has an impact on the translation of sales in the consolidated accounts in €. However, with a cost base in $, the impact on EBITDA is minor.

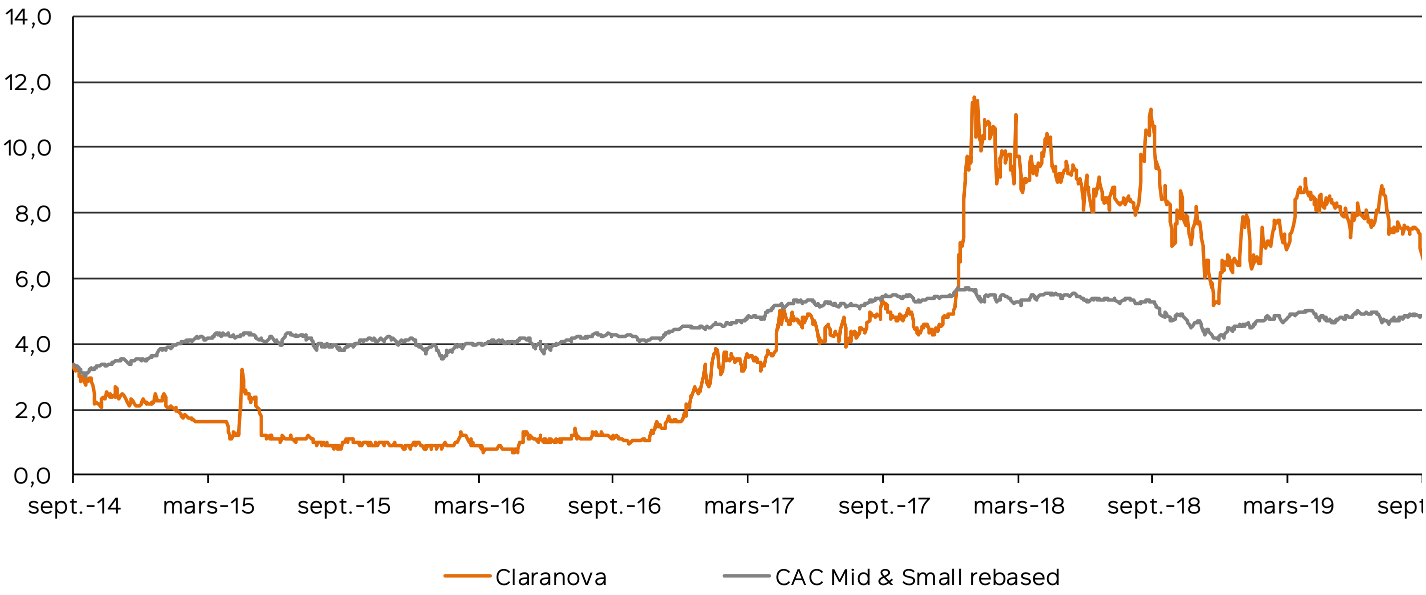
OPPORTUNITIES

- Claranova had €101m in unused tax loss carryforwards at the end of 2015/16, corresponding to €0.25/share.

THREATS

- A still early stage IoT market on which numerous players are present.

SHARE PRICE CHANGE FOR 5 YEARS



DETECTION OF CONFLICTS OF INTEREST

	Corporate Finance	Treasury stocks holding	Prior communication to company	Analyst's personal interest	Liquidity contract	Listing Sponsor	Research Contract
Claranova	No	No	No	No	No	No	Yes

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