

Claranova

Q220 revenue update

Q2 boosted by Personal Creations contribution

Claranova reported 19% underlying growth for H120, further boosted by a strong contribution from the recently acquired Personal Creations. The Mobile business continues its expansion across Europe, while the Internet business is focused on increasing the level of recurring revenues. We have revised our forecasts to reflect higher revenues offset by higher levels of investment in FY20 and FY21.

Year end	Revenue (€m)	EBITDA (€m)	PBT* (€m)	Diluted EPS* (€)	DPS (€)	P/E (x)
06/18	161.5	3.9	3.1	0.06	0.0	121.6
06/19	262.3	16.0	12.0	0.25	0.0	31.1
06/20e	419.1	25.2	21.6	0.30	0.0	25.4
06/21e	497.0	35.6	32.0	0.47	0.0	16.4

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

Initial integration of Personal Creations complete

Claranova reported H120 revenue growth of 68% y-o-y; once the €63.9m contribution from Personal Creations is excluded, organic growth was 22% or 19% on a constant currency basis. The Mobile division saw underlying constant currency growth of 22% and noted that the first phase of the integration of Personal Creations was complete. The Internet business grew 12% y-o-y on a constant currency basis; growth slowed in Q2 as the division focused on shifting more licensing onto a subscription basis. The IoT division grew 24% y-o-y on a constant currency basis, and saw non-Sprint related revenues grow 50% y-o-y.

Estimates revised to reflect Q2 performance

We have increased our revenue forecasts for the Mobile business, reflecting a higher than expected contribution from Personal Creations. We have slightly reduced our Internet division forecasts, reflecting slower growth in Q2. As the company commented on higher levels of investment in both businesses, we have reduced our EBITDA forecast for FY20 by 12.3% and for FY21 by 2.2%.

Valuation: Upside potential based on sum-of-parts

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 €15.93 per share. However, once multiples are adjusted to reflect our views on the growth and profitability of each division, we calculate a more realistic valuation of €13.34 per share (down from €13.74). Factors that could provide upside to our forecasts include faster than expected growth of the Internet business (which, in turn, is likely to lead to better profitability), returning Personal Creations to profitability, launch of the PayAware solution and distributors selling myDevices in the US and China.

Software & comp services

13 February 2020

Price €7.67

Market cap €301m

\$1.09/€

Net cash (€m) at end FY19 23.6

Shares in issue 39.2m

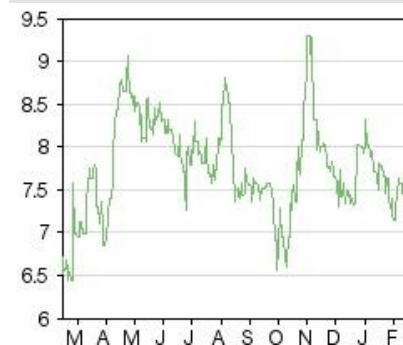
Free float 91.3%

Code CLA

Primary exchange Euronext Paris

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (0.6) (6.2) 18.5

Rel (local) (2.1) (9.3) (1.4)

52-week high/low €9.30 €6.44

Business description

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

Next events

H120 results 31 March 2020

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Revenue update

Exhibit 1: Divisional revenues									
Revenues (€m)	H120	H119	y-o-y			Q220	Q219	y-o-y	
			Reported	Organic	Constant currency organic			Reported	Reported
Mobile	186.2	97.8	90%	25%	22%	137.7	67.4	104%	
Internet	45.9	40.1	14%	14%	12%	25.1	23.2	8%	
IoT	2.2	1.7	28%	28%	24%	1.7	0.8	113%	
Total	234.3	139.6	68%	22%	19%	164.5	91.4	80%	

Source: Claranova

Mobile – strong Q2 for Personal Creations

In the Mobile division, Personal Creations (PC) generated revenues of €63.9m for H120, split as €8.5m in Q120 and €55.4m in Q220. This was the first full quarter for PC under Claranova ownership (consolidated from 1 August 2019). Based on data provided by the previous owner of PC, the business typically generates c 50% of annual revenues in the December quarter. The company noted that it had completed the first phase of integration, which included relocating the team, pooling some back office functions, and a strategic review of the product portfolio. The next phase of integration will be focused on the technical and commercial integration of PC with the existing Mobile business.

With revenues of €122.3m in H120, the original PlanetArt business saw revenue growth of 25% y-o-y (22% constant currency). Q220 revenues were 22% higher y-o-y (Q120: +32%). During Q220, the FreePrints and FreePrints Photobooks apps were launched in Poland and Austria. Based on a market survey commissioned by the company, FreePrints gained market share in the UK, the US and France during H1.

Internet – continuing the shift to subscription licensing

The Internet business saw revenue growth of 14% y-o-y in H120, or 12% on a constant currency basis. For Q220, reported revenue growth was 8% y-o-y (Q120: +23%). The global integration of the businesses acquired in mid-2018 has been completed. The business continues to shift software licensing from one-off to subscription – the company noted that this shift has required investment that directly affects short-term growth and profitability.

In October 2019, the company announced that it intended to buy out the minority interests in the Internet division. At the AGM in December, a quorum of shareholders was not achieved, so the resolution approving the deal could not be passed. The company continues to negotiate with the minority shareholders.

IoT – new ‘No Dead Zone’ product launched

The IoT division saw revenue growth of 28% y-o-y in H120, or 24% on a constant currency basis. For Q220, the division reported growth of 113%. The company noted that during H120, Sprint contributed €1.0m of revenue (H119: €0.9m). This implies that revenues from other customers totalled €1.2m in H120, up from €0.8m in H119.

The IoT business recently launched a new solution for use in US hotels – the ‘No Dead Zone’ panic button. The device works across multiple networks (cellular, Bluetooth, Wi-Fi, LoRaWAN) ensuring that wherever the employee is in the building, the signal from the device can be received. The target market for the device is hotels signed up to the five-star promise, a US initiative that aims to enhance employee safety. Certain US states (New Jersey, Illinois) and cities (New York, Seattle,

Chicago, Miami, Santa Monica) require hotels to provide employees with panic buttons. As the device has only just been launched, it will start to contribute revenues in H220.

Changes to forecasts

We have revised our forecasts to reflect a stronger than expected contribution from Personal Creations and a slightly weaker contribution from the Internet business. We have also reduced EBITDA to reflect comments on investment during H120, primarily in the Internet division.

Exhibit 2: Changes to estimates

€m	FY20e		Change	y-o-y	FY21e		Change	y-o-y
	Old	New			Old	New		
Revenues	411.1	419.1	1.9%	59.8%	488.8	497.0	1.7%	18.6%
EBITDA	28.8	25.2	(12.3%)	57.8%	36.4	35.6	(2.2%)	41.0%
EBITDA margin	7.0%	6.0%	(14.0%)	(0.1%)	7.4%	7.2%	(3.8%)	1.1%
Normalised operating profit	28.3	24.7	(12.5%)	59.7%	35.9	35.1	(2.2%)	41.8%
Normalised operating profit margin	6.9%	5.9%	(1.0%)	(0.0%)	7.3%	7.1%	(0.3%)	1.2%
Reported operating profit	24.8	21.2	(14.3%)	86.4%	32.4	31.6	(2.5%)	48.7%
Reported operating margin	6.0%	5.1%	(1.0%)	0.7%	6.6%	6.4%	(0.3%)	1.3%
Normalised PBT	25.2	21.6	(14.1%)	80.2%	32.8	32.0	(2.4%)	47.9%
Reported PBT	21.7	18.1	(16.4%)	(148.1%)	29.3	28.5	(2.7%)	57.1%
Normalised net income	13.3	12.1	(9.2%)	22.7%	19.1	18.7	(2.1%)	55.1%
Reported net income	10.6	9.4	(11.5%)	(123.0%)	15.7	14.9	(5.0%)	59.0%
Normalised basic EPS (€)	0.34	0.31	(9.2%)	22.7%	0.49	0.48	(2.1%)	55.1%
Normalised diluted EPS (€)	0.33	0.30	(9.2%)	22.7%	0.48	0.47	(2.1%)	55.1%
Reported basic EPS (€)	0.27	0.24	(11.5%)	(123.0%)	0.40	0.38	(5.0%)	59.0%
Net debt/(cash)	(26.1)	(24.7)	(5.2%)	4.8%	(58.7)	(56.3)	(4.1%)	127.8%

Source: Edison Investment Research

Exhibit 3: Financial summary

	€m	2015	2016	2017	2018	2019	2020e	2021e
Year end 30 June		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT								
Revenue		93.1	117.4	130.2	161.5	262.3	419.1	497.0
EBITDA		(6.8)	(9.2)	(5.0)	3.9	16.0	25.2	35.6
Normalised operating profit		(11.4)	(16.0)	(5.8)	3.4	15.5	24.7	35.1
Amortisation of acquired intangibles		0.0	0.0	0.0	0.0	(1.5)	(1.5)	(1.5)
Exceptionals		15.6	(10.0)	0.4	(2.4)	(2.9)	0.0	0.0
Share-based payments		(0.0)	(0.1)	(4.8)	(7.1)	0.3	(2.0)	(2.0)
Reported operating profit		4.2	(26.1)	(10.1)	(6.1)	11.4	21.2	31.6
Net Interest		1.1	(1.7)	(0.9)	(0.3)	(3.5)	(3.1)	(3.1)
Joint ventures & associates (post tax)		0.0	(0.0)	0.0	0.0	0.0	0.0	0.0
Exceptionals		0.0	0.0	0.0	0.0	(45.6)	0.0	0.0
Profit Before Tax (norm)		(10.3)	(17.7)	(6.6)	3.1	12.0	21.6	32.0
Profit Before Tax (reported)		5.3	(27.8)	(11.0)	(6.4)	(37.7)	18.1	28.5
Reported tax		(0.6)	(0.8)	(0.4)	(1.8)	(3.7)	(4.2)	(6.5)
Profit After Tax (norm)		(10.9)	(18.5)	(7.0)	2.4	9.2	16.6	25.7
Profit After Tax (reported)		4.7	(28.6)	(11.4)	(8.2)	(41.4)	14.0	21.9
Minority interests		(8.1)	0.0	0.3	0.2	0.6	(4.6)	(7.0)
Discontinued operations		(3.2)	0.0	0.0	0.0	0.0	0.0	0.0
Net income (normalised)		(18.9)	(18.5)	(6.7)	2.6	9.8	12.1	18.7
Net income (reported)		(6.5)	(28.6)	(11.0)	(7.9)	(40.8)	9.4	14.9
Basic average number of shares outstanding (m)		6	38	38	39	39	39	39
EPS - basic normalised (€)		(3.27)	(0.49)	(0.18)	0.07	0.25	0.31	0.48
EPS - diluted normalised (€)		(3.27)	(0.49)	(0.18)	0.06	0.25	0.30	0.47
EPS - basic reported (€)		(1.13)	(0.76)	(0.29)	(0.20)	(1.04)	0.24	0.38
Dividend (€)		0.00	0.00	0.00	0.00	0.00	0.00	0.00
Revenue growth (%)		N/A	26.1	10.9	24.0	62.4	59.8	18.6
EBITDA Margin (%)		-7.3	-7.9	-3.8	2.4	6.1	6.0	7.2
Normalised Operating Margin		-12.3	-13.7	-4.4	2.1	5.9	5.9	7.1
BALANCE SHEET								
Fixed Assets		15.7	3.0	2.0	1.3	75.1	89.8	88.3
Intangible Assets		12.0	1.5	0.9	0.5	69.9	84.5	82.9
Tangible Assets		0.6	0.5	0.3	0.2	1.4	1.5	1.6
Investments & other		3.1	1.1	0.7	0.6	3.8	3.8	3.8
Current Assets		48.0	25.5	28.1	79.1	100.9	111.8	148.3
Stocks		5.9	5.0	3.7	3.7	4.8	7.7	9.1
Debtors		4.8	4.7	4.3	4.9	11.6	18.5	22.0
Cash & cash equivalents		30.5	11.1	17.1	65.7	75.4	76.5	108.1
Other		6.9	4.7	2.9	4.8	9.1	9.1	9.1
Current Liabilities		(32.0)	(25.3)	(28.1)	(37.2)	(60.5)	(70.1)	(81.2)
Creditors		(26.9)	(24.5)	(26.6)	(35.4)	(54.8)	(64.4)	(75.5)
Tax and social security		(0.3)	(0.0)	(0.3)	(1.7)	(3.0)	(3.0)	(3.0)
Short term borrowings		(4.8)	(0.7)	(1.1)	(0.1)	(2.7)	(2.7)	(2.7)
Other		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long Term Liabilities		(2.4)	(1.1)	(0.7)	(29.0)	(52.0)	(52.0)	(52.0)
Long term borrowings		(1.8)	(0.6)	0.0	(28.1)	(49.1)	(49.1)	(49.1)
Other long term liabilities		(0.7)	(0.5)	(0.7)	(0.9)	(2.9)	(2.9)	(2.9)
Net Assets		29.3	2.1	1.3	14.2	63.6	79.5	103.4
Minority interests		0.0	0.0	(0.1)	(1.8)	(11.0)	(15.6)	(22.6)
Shareholders' equity		29.3	2.1	1.2	12.5	52.6	63.9	80.8
CASH FLOW								
Op Cash Flow before WC and tax		(6.8)	(9.2)	(5.0)	3.9	16.0	25.2	35.6
Working capital		0.4	2.5	6.8	7.9	(4.1)	14.3	6.2
Exceptional & other		(3.8)	(4.3)	(2.2)	(5.7)	(5.2)	0.0	0.0
Tax		0.3	(0.3)	(0.0)	(1.2)	(3.8)	(4.2)	(6.5)
Net operating cash flow		(9.8)	(11.3)	(0.4)	5.0	3.0	35.4	35.2
Capex		(4.4)	(0.9)	(0.2)	(0.1)	(2.5)	(0.5)	(0.5)
Acquisitions/disposals		10.8	(0.4)	3.6	14.2	(13.3)	(30.7)	0.0
Net interest		(0.9)	(0.1)	(0.0)	(0.3)	0.0	(3.1)	(3.1)
Equity financing		33.2	(5.1)	1.9	2.0	(1.4)	0.0	0.0
Dividends		0.0	2.0	0.0	0.0	0.0	0.0	0.0
Other		0.1	0.1	0.1	(0.6)	0.0	0.0	0.0
Net Cash Flow		29.0	(15.7)	5.0	20.1	(14.2)	1.1	31.6
Opening net debt/(cash)		18.0	(23.9)	(9.8)	(16.0)	(37.5)	(23.6)	(24.7)
FX		0.1	(0.1)	(0.6)	0.4	0.3	0.0	0.0
Other non-cash movements		12.6	1.7	1.8	1.1	0.0	0.0	0.0
Closing net debt/(cash)		(23.9)	(9.8)	(16.0)	(37.5)	(23.6)	(24.7)	(56.3)

Source: Claranova, Edison Investment Research

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