

BUY

TARGET PRICE : 12,1€ (vs 11,6€) **W** +62%

H1 2019/20 SALES + COMPANY CONTACT

ORGANIC GROWTH STILL ABOVE +20%

H1 2019/20 sales rose +68%, reflecting organic growth (+22%, in line) and an acquisition (Personal Creations, €64m in sales vs, €45m est.). We have taken advantage of this announcement to update our estimates in order to integrate i) the changes in the scope of consolidation (Personal Creations) contributing to the upward revision in estimated 2019/20e and 2020/21e sales by +24% and +11% and ii) lessons drawn from recent announcements, with negative impacts on EBITDA at myDevices (cautious scenario) and Avanquest (transition year). The absence of any impact on PlanetArt (72% of adjusted book value) and the updating of our model has led us to lift our target price to €12.1.

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H1 sales of €234m, above our estimate thanks to Personal Creations

H1 2019/20 sales rose +68% to €234.3m, boosted by i) the consolidation of Personal Creations (personalized gifts) since August 2019 and ii) solid organic growth at the historical businesses (+22% on a comparable scope of consolidation basis). These sales were +11% above our estimate, principally due to higher sales at Personal Creations (€64m vs. €45m estimated). The contribution from the other businesses was in line with our estimates.

CLARANOVA: H1 2019/20 reported sales vs. estimates

Claranova	1S18/19	1S19/20		2019/20e	
	published	published	att. IS	% chge	att. IS
Avanquest (Internet) Sales	40,1	45,9	45,6	+1%	94,2
chg.	+104%	+14%	+14%		+14%
PlanetArt (mobile) Sales	97,8	186,2	162,6	+15%	312,7
Personal Creations Sales		63,9	44,8	+43%	
chg.	+41%	+90%	+66%		+78%
myDevices (IoT) Sales	1,7	2,2	2,1	+8%	4,5
chg.	+77%	+28%	+19%		+41%
Total Sales	139,6	234,3	210,3	+11%	411,5
chg. reported	+55%	+68%	+51%		+57%
chg. at cst. Exchange rate	+54%	+65%	+49%		
chg. at constant scope	+35%	+22%	+20%		

Source : Claranova, Invest Securities

• Avanquest: H1 2019/20 of €45.9m (+14%), in line

The Internet division (Avanquest) recorded sales of €45.9m (+14%, +12% on a constant exchange rate basis), exactly in line with our estimate. H1 was marked by the continued transition over to a software publisher business model with recurring revenues (subscriptions vs. licenses). Claranova has announced its intention to invest in the development of new products in the PDF, security and photo areas.

in € / share	2019/20e	2020/21e	2021/22e
Adjusted EPS	0,16	0,47	0,74
chg.	n.s.	+187%	+57%
estimates chg.	-63,5%	-39,3%	n.s.
ended 30/06	2019/20e	2020/21e	2021/22e
PE	45,7x	15,9x	10,1x
EV/Sales	0,83x	0,73x	0,56x
EV/EBITDA	17,2x	9,8x	6,1x
EV/EBITA	21,4x	11,1x	6,6x
FCF yield*	4,3%	7,5%	12,3%
Div. yield (%)	n.s.	n.s.	n.s.

* After tax op. FCF before WCR

key points	1m	3m	Ytd
Share price (€)			7,46
Number of Shares (m)			39,4
Market cap. (€m)			294
Free float (€m)			239
ISIN			FR0013426004
Ticker			CLA-FR
DJ Sector			Technology Services
Absolute perf.	-3,5%	-10,4%	-6,7%
Relative perf.	-3,4%	-12,4%	-6,9%

Source : Factset, Invest Securities estimates

- **PlanetArt: acquisition and organic growth combined for the first time**

The Mobile division (PlanetArt) reported sales up +90% to €186.2m, boosted by organic growth of +22% and the consolidation of Personal Creations. Sales at Personal Creations were more dynamic than initially expected at €63.9m (vs. €44.8m estimated), even if this performance cannot be extrapolated over the rest of the fiscal year given the high seasonality, with peak sales recorded at the end of the year. The group additionally indicated that it has completed the first phase of integration (relocation of teams, review of the product portfolio etc.) and now intends to work on the realization of technical and commercial synergies with its historical businesses.

Organic growth at the historical operations in H1 2019/20 (+25%) was in line overall with our estimate (sales of €122.3m vs €118m estimated), even if down compared to the organic growth in FY 2018/19 (+44%). We would note that in FY 2018/19, the group pursued its geographical expansion with the launch of the Freeprints application in Poland and Austria in H2 after the Netherlands and Belgium in H1. Even if the contribution of these new zones remained marginal in H1 2019/20 and could weigh on profitability over the short term, these new markets represent a source of growth over the medium term.

- **myDevices: a good Q2 2019/20 thanks to Sprint**

The IoT division (myDevices) reported H1 2019/20 sales of €2.2m (vs. €2.1m estimated and €0.5m in Q1), up +28% (+24% on a constant exchange rate basis) and including €1m from the partnership with Sprint in the United States recognized in Q2. At this point and in the absence of details concerning sales, it is impossible to separate out the contribution of revenues coming from subscription customers from those coming from potential upfront payments and/or the historical operations.

Updating of our estimates to reflect the changes in the scope of consolidation

We have taken advantage of this announcement to adjust our estimates to take into account i) the changes in the group's scope of consolidation (Personal Creation and buyout of the minority shareholders of Avanquest) and ii) the lessons to be drawn from recent announcements.

- **Acquisition of Personal Creations and buyout of the minority shareholders of Avanquest**

H1 2019/20 was marked by i) the acquisition of Personal Creations (consolidated in August), which has reinforced the Mobile division, and ii) the announced offer to buy out the minority shareholders of the Internet division for €87.9m (1/3 cash, 2/3 stock).

- Personal Creations: €90m of sales expected this year

As a reminder, Claranova purchased Personal Creations from the US group FTD Companies, operating under Chapter 11 bankruptcy, for \$18.1m (+ additional costs). Through this acquisition, Claranova gained control of a leader in the distribution of personalized products at a reduced price. For the current year, this new business should contribute some €90m in sales, with EBITDA expected to be close to breakeven.

- Minority shareholders of Avanquest: a scenario awaiting shareholder approval

At the end of October, Claranova announced an agreement with the minority shareholders of Avanquest for the purchase of their shares for €87.9m in the form of cash (€26.7m) and Claranova stock (€61.2m). However, due to the lack of a quorum, this resolution was unable to be approved at the shareholders meeting (second notice) on December 23. Claranova has indicated for the moment that it is considering a different offer structure than that originally planned or the calling of a new shareholders meeting in 2020. While waiting for further clarification from the company, we have chosen to integrate the originally planned scenario. We would nevertheless note that given that Claranova already enjoys economic control of this company (100% consolidation), the P&L impact should be minimal (minority interests).

• **Lessons to be drawn from recent announcements**

- Avanquest: more growth but lower profitability in FY 2019/20e

We have lifted our 2019/20e and 2020/21e sales estimates for Avanquest by +10% and +18% in order to take into account a more favorable comparison basis after a very good year in 2018/19 (sales of €83m, +132% and +16% on a comparable basis). In contrast, we have lowered our EBITDA estimates, principally for the current year (EBITDA -40%), in order to integrate the period of transition in the model, with notably more investments in new product development.

- myDevices: adoption of a cautious development scenario

In our view, myDevices has the potential to become a benchmark in the IoT sector. Management is implementing what we believe to be a pertinent strategy (ecosystem, IoT in a Box offer, Platform As A Service (PAAS) offer etc.) in order to develop its offer. However, given the lack of visibility regarding revenues generated by subscriptions, we prefer to assume a cautious development scenario. We anticipate moderate sales growth and EBITDA losses of -€5.6m to -€4.3m over our forecast horizon.

• **Summary of our estimates: more growth but lower profitability**

In the end, we have lifted our sales estimates for 2019/20e and 2020/21e by +24% and +11%, principally reflecting the consolidation of Personal Creations and, to a less extent, higher sales for Avanquest.

The increased losses at myDevices largely reflect our downward revisions for EBITDA (-30% in 2019/20e and -20% in 2020/21e) along with the downward revision in our forecast 2019/20e EBITDA for Avanquest,

CLARANOVA: our revised forecasts for 2019/20e and 2020/21e

(in m€)	2019/20e			2020/21e			2021/22e
	prev.	new	% chg	prev.	new	% chg	new
PlanetArt Sales	238,4	312,7	+31%	317,8	356,3	+12%	410,3
Avanquest Sales	85,9	94,2	+10%	94,3	111,0	+18%	131,0
myDevices Sales	7,5	4,5	-39%	12,2	5,4	-56%	6,7
Total Sales	331,7	411,5	+24%	424,3	472,7	+11%	547,9
<i>chg.</i>	<i>+27%</i>	<i>+57%</i>		<i>+28%</i>	<i>+15%</i>		<i>+16%</i>
EBITDA PlanetArt	17,1	18,1	+6%	27,8	27,0	-3%	36,7
<i>EBITDA margin</i>	<i>+7,2%</i>	<i>+5,8%</i>		<i>+8,7%</i>	<i>+7,6%</i>		<i>+8,9%</i>
EBITDA Avanquest	12,4	7,4	-40%	14,2	13,3	-6%	18,3
<i>EBITDA margin</i>	<i>+14,4%</i>	<i>+7,9%</i>		<i>+15,1%</i>	<i>+12,0%</i>		<i>+14,0%</i>
EBITDA myDevices	-1,1	-5,6	ns	2,0	-5,1	-352%	-4,3
<i>EBITDA margin</i>	<i>-14%</i>	<i>-125%</i>		<i>+16%</i>	<i>-94%</i>		<i>-65%</i>
Total EBITDA	28,4	19,9	-30%	44,0	35,3	-20%	50,7
<i>EBITDA margin</i>	<i>+8,6%</i>	<i>+4,8%</i>		<i>+10,4%</i>	<i>+7,5%</i>		<i>+9,3%</i>

Source : Invest Securities

Target price lifted to €12.1 vs. €11.6 previously

After taking into the changes in our estimates and the updating of our model, we have raised our target price to €12.1 vs. €11.6 previously.

CLARANOVA: sum of the parts valuation

SOP	Sales (m€)		EBITDA (m€)		Valuation methods	EV/Sales 19/20e		%	Valuation		
	19/20e	20/21e	19/20e	20/21e		Induced	Induced		en €m	€/share	% SOP
PlanetArt DCF (hors PC)	221	257	19,7	26,4	DCF Valuation	2,0x	1,7x	94%	412	9,1	68%
PlanetArt minority shareholder	221	257	19,7	26,4	val. based on Sept. 2017 K increase	2,0x	1,8x	94%	426	9,4	70%
Personal Creations	92	99	-1,6	0,7	Prix acquisition	0,2x	0,2x	94%	18	0,4	3%
PlanetArt	313	356	18,1	27,0	Average valuation	1,5x	1,3x	94%	437	9,7	72%
myDevices	4,5	5,4	-5,6	-5,1	val. based on Jan. 2019 K increase	8,3x	7,0x	49%	18	0,4	3%
Avanquest	94	111	7,4	13,3	DCF Valuation	1,7x	1,5x	100%	164	3,6	27%
Total EV	411	473	19,9	35,3		1,5x	1,3x		619	13,7	102%
Net cash					End of FY 2018/19				23,5	0,5	4%
Defered paiement Internet Aquisition 2019					Transaction value				-14,5	-0,3	-2%
Defered paiement Internet Aquisition 2020					Transaction value				-26,4	-0,6	-4%
Stock-Options + BSA myDevices & Claranova					Strike				4,8	0,1	1%
Provisions					End of FY 2018/19				-0,6	0,0	0%
EV adjustments									-13	-0,3	-2%
Valuation					Number of shares (m)	45			606	13,4	100%
					Target price after discount	-10%				12,1	

Source : Invest Securities

• **Details of our valuations of operating assets**

- Avanquest is valued at €164m using a DCF approach. We would note that the valuation announced by the group in connection with the proposed buyout of the minority shareholders was \$162m.
- PlanetArt (excluding Personal Creations) is estimated at €419m (72% of adjusted book value) using a multi-criteria approach (average of DCF and entry multiples for minority shareholders). Personal Creations, currently valued at its acquisition price, offers substantial upside potential as a function of its future economic performance.
- myDevices is valued on the basis of the most recent capital increase effectuated in January 2019.

• **Adjusted net debt of -€13m integrates:**

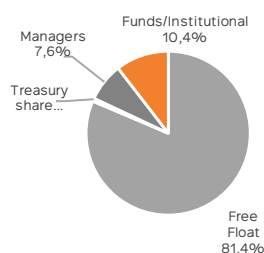
- Net cash of €23.5m as of June 30, 2019
- A -€14.5m deferred payment in 2019/20 linked to the takeover of the Upclick, SodaPDF and Adaware businesses
- A -€26.4m deferred payment in 2020/21 linked to the current planned buyout of the Avanquest minority shareholders
- €4.8m in proceeds from the exercise of stock options and warrants involving myDevices and Claranova
- -€0.6m in other balance sheet adjustments (minority shareholders, debt-like provisions etc.)

INVESTMENT CASE

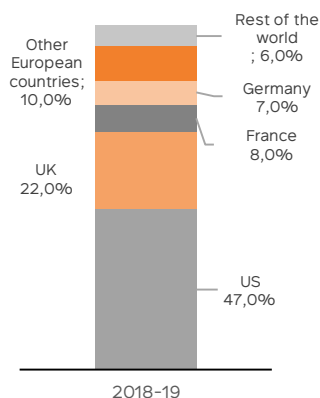
Under the impetus of Claranova's new management, a strategy has been developed since 2013 involving a focus on three businesses: 1) PlanetArt in digital photo printing (web and mobile), 2) myDevices in the Internet of Things and 3) Avanquest in software distribution. At the same time, management has 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



Share Information	2015/16	2016/17	2017/18	2018/19	2019/20e	2020/21e	2021/22e
Published EPS (€)	-0,76	-0,29	-0,21	-1,04	0,12	0,44	0,70
Adjusted EPS (€)	-1,59	-0,16	0,07	0,19	0,16	0,47	0,74
<i>Diff. I.S. vs Consensus</i>	<i>+127,1%</i>	<i>-22,0%</i>	<i>ns</i>	<i>ns</i>	<i>nd</i>	<i>nd</i>	<i>nd</i>
Dividend	0,00	0,00	0,00	0,00	0,00	0,00	0,00

Valuation ratios	2015/16	2016/17	2017/18	2018/19	2019/20e	2020/21e	2021/22e
P/E	n.s.	n.s.	102,3x	42,2x	45,7x	15,9x	10,1x
EV/Sales	0,01x	0,57x	1,42x	1,11x	0,83x	0,73x	0,56x
VE/EBITDA	n.s.	n.s.	60,2x	18,2x	17,2x	9,8x	6,1x
VE/EBITA	n.s.	n.s.	69,4x	20,8x	21,4x	11,1x	6,6x
Op. FCF bef. WCR yield	n.s.	n.s.	1,2%	3,3%	4,3%	7,5%	12,3%
Op. FCF yield	n.s.	2,3%	4,6%	1,9%	4,1%	8,0%	13,0%
Div. yield (%)	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)	2015/16	2016/17	2017/18	2018/19	2019/20e	2020/21e	2021/22e
Share price in €	1,01	2,43	6,93	7,87	7,46	7,46	7,46
Market cap.	10,8	90,9	265,1	291,1	305,2	334,2	334,2
Net Debt	-9,8	-16,0	-37,5	-23,5	-0,4	0,2	-37,8
Minorities	0,0	0,1	1,8	11,0	13,9	13,9	13,9
Provisions/ near-debt	0,7	0,2	0,2	15,1	27,0	0,6	0,6
+/- Adjustments	-1,1	-0,7	-0,6	-3,0	-3,0	-3,0	-3,0
Enterprise Value (EV)	0,7	74,5	228,9	290,7	342,6	345,9	307,9

Income statement (€m)	2015/16	2016/17	2017/18	2018/19	2019/20e	2020/21e	2021/22e
Sales	117,4	130,2	161,5	262,3	411,5	472,7	547,9
<i>chg.</i>	<i>+26,1%</i>	<i>+10,9%</i>	<i>+24,0%</i>	<i>+62,4%</i>	<i>+56,9%</i>	<i>+14,9%</i>	<i>+15,9%</i>
EBITDA	-10,7	-4,9	3,8	16,0	19,9	35,2	50,7
EBITA	-16,1	-5,8	3,3	14,0	16,0	31,3	46,5
<i>chg.</i>	<i>n.s.</i>	<i>n.s.</i>	<i>n.s.</i>	<i>+324%</i>	<i>+14%</i>	<i>+96%</i>	<i>+49%</i>
EBIT	-26,1	-10,1	-6,1	11,4	13,8	31,2	46,4
Financial result	-1,7	-0,9	-0,3	-49,3	-2,6	-2,7	-2,5
Corp. tax	-0,8	-0,4	-1,8	-3,7	-3,1	-7,5	-11,0
Minorities+affiliates	0,0	0,3	0,2	0,6	-2,9	0,0	0,0
Net attributable profit	-28,6	-11,0	-7,9	-40,9	5,1	20,9	32,9
Adjusted net att. profit	-17,0	-5,8	2,6	6,9	6,7	21,0	33,0
<i>chg.</i>	<i>n.s.</i>	<i>n.s.</i>	<i>n.s.</i>	<i>+168%</i>	<i>-2%</i>	<i>+212%</i>	<i>+57%</i>

Cash flow statement (€m)	2015/16	2016/17	2017/18	2018/19	2019/20e	2020/21e	2021/22e
EBITDA	-10,7	-4,9	3,8	16,0	19,9	35,2	50,7
Theoretical Tax / EBITA	0,0	0,0	-1,0	-3,9	-4,5	-8,3	-11,6
Capex	-0,9	-0,2	-0,2	-2,5	-0,8	-1,0	-1,1
Operating FCF bef. WCR	-11,6	-5,1	2,6	9,6	14,7	26,0	37,9
Change in WCR	2,5	6,8	7,9	-4,1	-0,5	1,8	2,1
Operating FCF	-9,1	1,7	10,5	5,5	14,1	27,8	40,0
Acquisitions/disposals	-0,4	3,6	14,2	-13,3	-94,9	-26,4	0,0
Capital increase/decrease	-3,1	1,9	2,0	-1,4	61,2	0,0	0,0
Dividends paid	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Other adjustments	-1,5	-1,0	-5,2	-4,8	-3,5	-2,1	-2,0
Published FreeCash Flow	-14,1	6,2	21,6	-14,0	-23,1	-0,7	38,0

Balance Sheet (€m)	2015/16	2016/17	2017/18	2018/19	2019/20e	2020/21e	2021/22e
Assets	3,0	2,0	1,3	75,2	178,8	175,8	172,8
Intangible assets/GW	0,0	0,0	0,0	63,0	164,3	164,3	164,3
WCR	-10,0	-16,5	-24,4	-20,0	-19,5	-21,2	-23,3
Group equity capital	2,1	1,2	12,5	52,6	118,9	139,8	172,8
Minority shareholders	0,0	0,1	1,8	11,0	13,9	13,9	13,9
Provisions	0,7	0,2	0,2	0,6	0,6	0,6	0,6
Others	0,0	0,0	0,0	14,5	26,4	0,0	0,0
Net financial debt	-9,8	-16,0	-37,5	-23,5	-0,4	0,2	-37,8

Financial ratios	2015/16	2016/17	2017/18	2018/19	2019/20e	2020/21e	2021/22e
EBITDA margin	n.s.	n.s.	2,4%	6,1%	4,8%	7,5%	9,2%
EBITA margin	n.s.	n.s.	2,0%	5,3%	3,9%	6,6%	8,5%
Adjusted Net Profit/Sales	n.s.	n.s.	1,6%	2,6%	1,6%	4,4%	6,0%
ROCE	n.s.	n.s.	-14,3%	25,4%	10,0%	20,2%	31,1%
ROE adjusted	n.s.	n.s.	20,5%	13,1%	5,7%	15,0%	19,1%
Gearing	n.s.	n.s.	n.s.	n.s.	n.s.	0,2%	n.s.
ND/EBITDA (in x)	n.s.	n.s.	-9,9x	-1,5x	0,0x	0,0x	-0,7x

Source : company, Invest Securities Estimates

Next events

31/03/2020: H1 Results
13/05/2020: Q3 Sales
11/08/2020: 2019/20 Sales
30/09/2020: 2019/20 Results
04/11/2020: Q1 2020/21 Sales
01/12/2020: AGM

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.

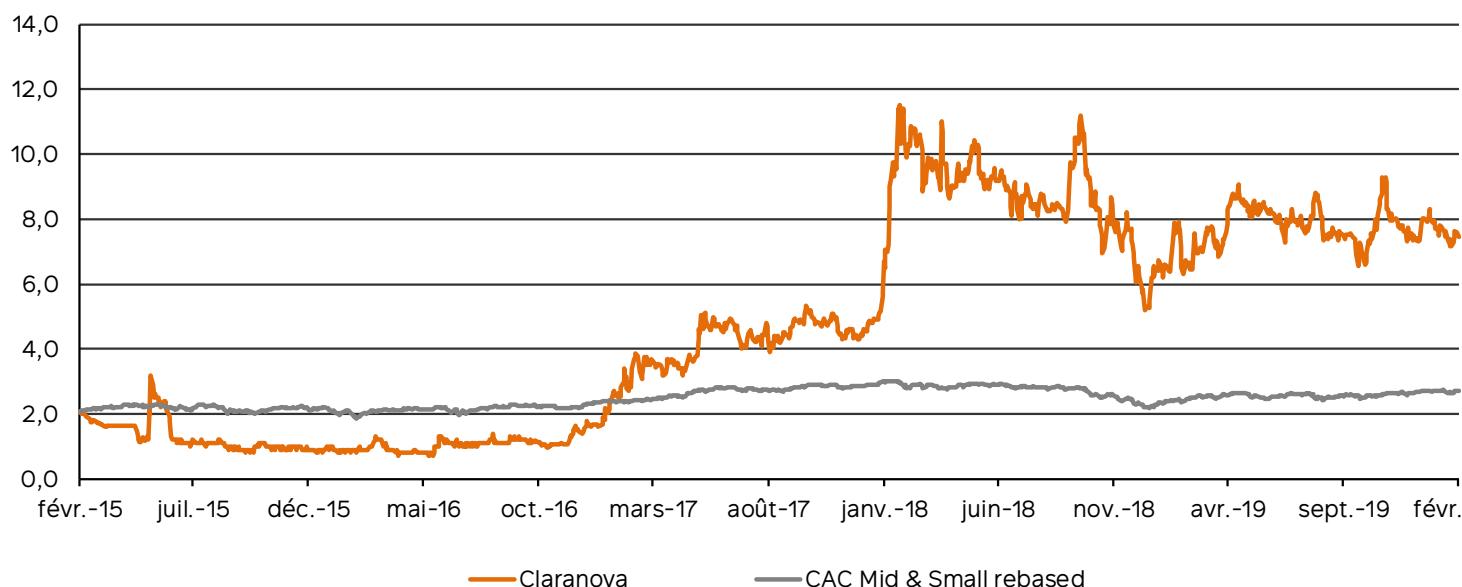
OPPORTUNITIES

- ❑ 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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