

Claranova

Managing supply and demand

Q221 revenue update

Software & comp services

12 February 2021

Price €6.77

Market cap €267m

\$1.21/€1

Net cash (€m) at end FY20 13.9

Shares in issue 39.5m

Free float 91%

Code CLA

Primary exchange Euronext Paris

Secondary exchange N/A

Claranova generated 17% constant currency organic revenue growth in H121, despite COVID-19 related supply challenges. Demand remains high in PlanetArt, which reported 23% constant currency organic growth in H121. Management expects H121 group EBITDA to nearly double y-o-y and we have upgraded our FY21 profitability forecasts to reflect this.

Year end	Revenue (€m)	EBITDA* (€m)	PBT** (€m)	Diluted EPS** (€)	DPS (€)	P/E (x)
06/19	262.3	16.0	12.0	0.25	0.0	27.5
06/20	409.1	17.4	11.3	0.20	0.0	33.8
06/21e	479.3	31.0	24.5	0.36	0.0	18.8
06/22e	549.1	36.8	30.4	0.44	0.0	15.3

Note: *Pre-IFRS 16. **PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

H121 revenue growth 19% y-o-y

Claranova reported 19% revenue growth in H121 (25% in constant currency); on an organic constant currency (cc) basis, revenue grew 17% y-o-y. PlanetArt revenue growth of 26% for H121 was made up of 42% growth in Q1, which moderated to 20% in Q2. While currency reduced the reported rate in Q2, the main reason for slower growth was reduced marketing spend in Q2, in response to pandemic-related shipping delays. Avanquest H121 revenue declined 4% y-o-y (cc) due to the shift to subscription licensing and the planned decline of non-strategic business, although profitability is still expected to improve in FY21 versus FY20. myDevices revenue was 4% higher y-o-y (cc), with customer roll-outs delayed by COVID-19 restrictions, particularly in the hospitality and catering industries.

Lower marketing spend supports higher EBITDA

The company noted that EBITDA for H121 was likely to nearly double compared to the €11.2m reported in H120 (pre-IFRS 16), helped by the lower marketing spend. We have revised our forecasts to reflect H1 revenue trends, currency and higher profitability, while noting that customer demand remains high. We reduce our revenue forecast by 1.8% in FY21e and 1.4% in FY22e; we increase our FY21e EBITDA (pre-IFRS 16) by 13% and normalised EPS by 22%.

Valuation: Sum of the parts suggests upside

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 €17.96 per share. However, once multiples are adjusted to reflect our views on the growth and profitability of each division, we calculate what we believe to be a more realistic valuation of €13.80 per share (up from €12.12 in our last note as peer multiples have increased). Factors that could provide upside to our estimates would be sustained high demand for photo printing, successful adoption of the FreePrints Gifts app in the US/Personal Creations in the UK and returning recent acquisitions to profitability.

Share price performance



% 1m 3m 12m

Abs (5.0) 11.0 (9.3)

Rel (local) (5.4) 6.0 (3.6)

52-week high/low €7.67 €2.96

Business description

Claranova consists of three businesses focused on mobile and internet technologies: PlanetArt (digital photo printing; personalised gifts), Avanquest (consumer-focused software) and myDevices (internet of things/IoT). Its headquarters are in Paris, and it has operations in Europe, the US and Canada.

Next events

H121 results 31 March 2021

Analyst

Katherine Thompson +44 (0)20 3077 5730

tech@edisongroup.com

[Edison profile page](#)

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Review of H121 revenue update

Claranova has reported H121 revenues as per Exhibit 1. Group revenue for H121 grew 19% y-o-y; due to the weakening of the dollar versus the euro, constant currency growth was significantly higher at 25% y-o-y. Stripping out the effects of currency and acquisitions, the group grew 17% year-on-year. We estimate that Q221 revenue grew 15% y-o-y (this was not explicitly reported so no constant currency/organic growth rates are available); this compares to reported revenue growth of 29% y-o-y for Q121.

Revenues (€m)	H121	H120	y-o-y				Q221	Q220	y-o-y
			Reported	Constant currency	Organic	Constant currency organic			
PlanetArt	234	186	26%	32%	16%	23%	165	138	20%
Avanquest	42	46	(9%)	(4%)	(9%)	(4%)	22	25	(11%)
myDevices	2	2	(3%)	4%	(3%)	4%	1	2	(32%)
Total	278	234	19%	25%	11%	17%	188	165	15%

Source: Claranova, Edison Investment Research

The company noted that H121 EBITDA is likely to nearly double on a year-on-year basis (H120 EBITDA pre-IFRS 16 was €11.2m). While Claranova would not typically discuss profitability in its revenue updates, the effect of reduced marketing spend during Q221 (see below) has had a significant impact on profitability. The company reiterated its targets for group revenue of €700m and EBITDA margins above 10% by FY23.

PlanetArt – marketing spend moderated

PlanetArt grew 26% y-o-y in H121 (32% in constant currency), and on a constant currency, organic basis grew 23% (H120: 22%). Reported growth for Q221 of 20% y-o-y moderated from the prior quarter's 42%. The company noted that lockdowns in its key markets have put significant pressure on delivery networks (both in terms of supply and demand), with couriers and postal services taking longer to deliver. As a result, management decided to reduce active marketing in order not to disappoint customers. This suppressed customer demand (which otherwise has been heightened during the pandemic) but at the same time, resulted in lower marketing spend. The division saw double-digit growth in Europe and the US for its web-based and mobile apps.

Personal Creations (acquired in August 2019) achieved double-digit growth on a like-for-like basis, ie comparing the period August-December 2020 to August-December 2019. In H121, FreePrints Gifts was launched in the US and Personal Creations was launched in the UK. Having started to roll out the mobile offering, the company sees wider geographical expansion of the personalised gifts business as a key growth driver for this division.

Avanquest – growing proportion of subscription revenues

Avanquest reported a revenue decline of 9% y-o-y in H121 (Q121 -6%, Q221 -11%) which, in constant currency, reduced to a decline of 4%. The business continues to shift key software lines from upfront to subscription licensing, which has suppressed revenue growth over the last year or so. In the case of SodaPDF and InPixio, this transition is complete, and these products saw double-digit revenue growth in H121. This was offset by the planned decline of the lower-margin, non-strategic business, which includes third-party, physical software and sales through partner channels. Recurring revenue made up 56% of revenue in H121 compared to 54% in Q121 and 46% in H120.

Earlier this month, Avanquest announced a partnership with Dropbox, whereby SodaPDF would be available in the Dropbox app centre. This integration enables users to edit, merge, sign and protect pdf files directly from Dropbox. Dropbox has more than 600 million users across 180 countries and we view this partnership as a route for Avanquest to acquire customers for the SodaPDF freemium solution.

myDevices – on hold during the pandemic

myDevices H121 revenue was 3% lower y-o-y (4% higher in constant currency). As highlighted in November, the various lockdowns around the world have made it difficult for customers to install IoT systems, particularly in the hospitality and catering industries where myDevices has developed panic button and temperature monitoring solutions respectively. As pandemic restrictions are relaxed during the course of CY21, the company expects to grow the business via its channel partners as well as via the execution of contracts recently signed with companies such as Engie, Sodexo and Marriott.

Changes to forecasts

We have revised our forecasts to reflect trading and lower marketing spend in Q221.

Exhibit 2: Changes to forecasts									
€m	FY21e				FY22e				
	Old	New	Change	y-o-y	Old	New	Change	y-o-y	
Revenues	488.0	479.3	(1.8%)	17.2%	557.0	549.1	(1.4%)	14.6%	
EBITDA	30.6	34.2	11.6%	65.8%	40.0	40.0	0.0%	17.1%	
EBITDA margin	6.3%	7.1%	0.9%	2.1%	7.2%	7.3%	0.1%	0.2%	
EBITDA - pre IFRS 16	27.4	31.0	13.0%	77.5%	36.8	36.8	0.0%	18.9%	
EBITDA margin - pre IFRS 16	5.6%	6.5%	0.8%	2.2%	6.6%	6.7%	0.1%	0.2%	
Normalised operating profit	25.7	29.3	13.8%	85.2%	35.1	35.1	0.0%	20.0%	
Normalised operating margin	5.3%	6.1%	0.8%	2.2%	6.3%	6.4%	0.1%	0.3%	
Reported operating profit	19.4	23.0	18.3%	194.3%	31.8	31.8	0.0%	38.5%	
Reported operating margin	4.0%	4.8%	0.8%	2.9%	5.7%	5.8%	0.1%	1.0%	
Normalised PBT	21.0	24.5	17.0%	117.0%	30.4	30.4	0.0%	23.8%	
Reported PBT	14.7	18.2	24.2%	452.0%	27.1	27.1	0.0%	48.6%	
Normalised net income	11.8	14.4	22.0%	79.9%	17.7	17.7	(0.2%)	22.8%	
Reported net income	6.9	9.5	37.4%	1806.8%	15.2	15.1	(0.2%)	58.7%	
Normalised basic EPS (€)	0.30	0.37	21.6%	79.2%	0.45	0.45	(0.9%)	22.4%	
Normalised diluted EPS (€)	0.30	0.36	22.0%	79.9%	0.44	0.44	(0.2%)	22.8%	
Reported basic EPS (€)	0.18	0.24	36.9%	1799.9%	0.39	0.38	(1.0%)	58.1%	
Net debt/(cash)	(22.6)	(24.0)	6.2%	72.8%	(49.5)	(51.5)	4.2%	114.6%	
Divisional revenues									
PlanetArt	386.4	383.8	(0.7%)	22.2%	442.9	441.4	(0.3%)	15.0%	
Avanquest	96.0	90.3	(5.9%)	(0.0%)	107.8	101.5	(5.9%)	12.4%	
myDevices	5.6	5.2	(8.0%)	7.3%	6.3	6.3	0.0%	22.3%	
Total	488.0	479.3	(1.8%)	17.1%	557.0	549.1	(1.4%)	14.6%	
Divisional EBITDA									
PlanetArt	19.5	23.5	20.5%	66.4%	27.0	27.0	0.0%	14.9%	
Avanquest	11.3	11.3	0.0%	57.8%	13.0	13.0	0.0%	15.0%	
myDevices	(3.4)	(3.9)	13.2%	0.3%	(3.2)	(3.2)	0.0%	(16.9%)	
Total EBITDA - pre IFRS 16	27.4	31.0	13.0%	77.5%	36.8	36.8	0.0%	18.9%	

Source: Edison Investment Research

Valuation

We have revised our sum-of-parts valuation to reflect our new estimates. The main change is an increase in the multiple for PlanetArt, as the average for the peer group has increased from 1.1x when we last wrote to 1.3x.

Exhibit 3: Sum-of-the-parts valuation

	FY21e	FY22e	EV based on FY21e sales multiple (€m)	Minority interest	Value to shareholders (€m)
EV/Sales multiple	1.5	1.3	700.2		538.0
PlanetArt	1.3	1.1	499.0	7.7%	460.4
Avanquest	2.0	1.8	180.6	64.1%	64.9
myDevices	4.0	3.3	20.6	38.1%	12.8
Implied EV/EBITDA multiple					
PlanetArt	21.2	18.5			
Avanquest	16.0	13.9			
myDevices	N/A	N/A			
	€m				Upside/(downside)
Net cash at end FY20	13.9		Equity value (€m)	544.9	
Cost of acquisitions	(7.0)		Per share value (€)	13.80	104%
Adjusted net cash	6.9				
No. shares (m)	39.5				

Source: Edison Investment Research note: based on FY21e EV/sales multiples

We note a new addition to the PlanetArt peer group: Moonpig listed on the London Stock Exchange earlier this month. It is not currently included in the average peer multiples as forecasts are not yet available. However, we believe it is a relevant peer as it is focused on the online card and gift market, directly competing with FreePrints Cards, and over time PlanetArt's personalised gifts as they are developed in the UK. The stock has a market cap of £1.4bn and the table below shows historical financial and valuation metrics.

Exhibit 4: Moonpig financial and valuation metrics

£m (y/e 30 April)	FY18	FY19	FY20	H120	H121	Target range
Revenue	87.9	120.1	173.1	66.3	155.9	
Growth y-o-y		37%	44%		135%	
EBITDA	19.0	22.7	44.4	15.0	41.2	
EBITDA margin	21.6%	18.9%	25.6%	22.6%	26.4%	24–25%
Operating profit	15.5	14.0	33.1	9.7	33.7	
Operating margin	17.6%	11.7%	19.1%	14.6%	21.6%	
EV/Sales	18.0	13.2	9.2		5.1*	
EV/EBITDA	83.4	69.8	35.7		19.2*	

Source: Moonpig, Edison Investment Research. Note: *Based on annualising H121.

Clearly, the company has seen strong revenue growth in recent years. Management highlighted that COVID-19 has caused a significant acceleration in growth, as consumers have been unable to buy greetings cards and gifts in bricks and mortar stores so easily during lockdown. For example, the volume of cards ordered in the 12-month period ending 31 October 2020 grew 75% y-o-y. However, the company has said that revenue growth for FY22 (year ending 30 April) could decline from FY21 as consumers revert to physical shopping. Longer term, it looks set to benefit from the continuing shift to online purchasing of cards and gifts. Moonpig currently only operates in the UK, Republic of Ireland and the Netherlands, although has expressed a desire to expand into the US and Australia. It only fairly recently introduced its app, with 33% of orders via the app in October 2020. Moonpig has grown faster than PlanetArt during the pandemic (although this could reverse) and consistently generates a higher level of profitability, although the costs of PlanetArt's international expansion explain a large proportion of the difference in margins.

Exhibit 5: Financial summary

	€m	2015	2016	2017	2018	2019	2020	2021e	2022e
30-June		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT									
Revenue		93.1	117.4	130.2	161.5	262.3	409.1	479.3	549.1
EBITDA		(6.8)	(9.2)	(5.0)	3.9	16.0	20.6	34.2	40.0
Normalised operating profit		(11.4)	(16.0)	(5.8)	3.4	15.5	15.8	29.3	35.1
Amortisation of acquired intangibles		0.0	0.0	0.0	0.0	(1.5)	(2.4)	(3.3)	(3.3)
Exceptionals		15.6	(10.0)	0.4	(2.4)	(2.9)	(5.6)	(3.0)	0.0
Share-based payments		(0.0)	(0.1)	(4.8)	(7.1)	0.3	0.0	0.0	0.0
Reported operating profit		4.2	(26.1)	(10.1)	(6.1)	11.4	7.8	23.0	31.8
Net Interest		1.1	(1.7)	(0.9)	(0.3)	(3.5)	(4.5)	(4.7)	(4.7)
Joint ventures & associates (post tax)		0.0	(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	0.0
Profit Before Tax (norm)		(10.3)	(17.7)	(6.6)	3.1	12.0	11.3	24.5	30.4
Profit Before Tax (reported)		5.3	(27.8)	(11.0)	(6.4)	(37.7)	3.3	18.2	27.1
Reported tax		(0.6)	(0.8)	(0.4)	(1.8)	(3.7)	(2.1)	(4.2)	(6.2)
Profit After Tax (norm)		(10.9)	(18.5)	(7.0)	2.4	9.2	8.7	18.9	23.4
Profit After Tax (reported)		4.7	(28.6)	(11.4)	(8.2)	(41.4)	1.2	14.0	20.8
Minority interests		(8.1)	0.0	0.3	0.2	0.6	(0.7)	(4.5)	(5.7)
Discontinued operations		(3.2)	0.0	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	8.0	14.4	17.7
Net income (reported)		(6.5)	(28.6)	(11.0)	(7.9)	(40.8)	0.5	9.5	15.1
Basic ave. number of shares outstanding (m)		6	38	38	39	39	39	39	39
EPS - basic normalised (€)		(3.27)	(0.49)	(0.18)	0.07	0.25	0.20	0.37	0.45
EPS - diluted normalised (€)		(3.27)	(0.49)	(0.18)	0.06	0.25	0.20	0.36	0.44
EPS - basic reported (€)		(1.13)	(0.76)	(0.29)	(0.20)	(1.04)	0.01	0.24	0.38
Dividend (€)		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Revenue growth (%)	#DIV/0!		26.1	10.9	24.0	62.4	56.0	17.2	14.6
EBITDA Margin (%)		-7.3	-7.9	-3.8	2.4	6.1	5.0	7.1	7.3
Normalised Operating Margin		-12.3	-13.7	-4.4	2.1	5.9	3.9	6.1	6.4
BALANCE SHEET									
Fixed Assets		15.7	3.0	2.0	1.3	75.1	93.7	96.7	92.7
Intangible Assets		12.0	1.5	0.9	0.5	69.9	70.5	74.1	70.7
Tangible Assets		0.6	0.5	0.3	0.2	1.4	15.7	15.1	14.5
Investments & other		3.1	1.1	0.7	0.6	3.8	7.5	7.5	7.5
Current Assets		48.0	25.5	28.1	79.1	100.9	116.3	130.6	162.3
Stocks		5.9	5.0	3.7	3.7	4.8	14.4	16.9	19.3
Debtors		4.8	4.7	4.3	4.9	11.6	9.9	11.6	13.3
Cash & cash equivalents		30.5	11.1	17.1	65.7	75.4	82.8	92.9	120.4
Other		6.9	4.7	2.9	4.8	9.1	9.2	9.2	9.2
Current Liabilities		(32.0)	(25.3)	(28.1)	(37.2)	(60.5)	(74.6)	(77.9)	(84.7)
Creditors		(26.9)	(24.5)	(26.6)	(35.4)	(54.8)	(64.3)	(67.6)	(74.4)
Tax and social security		(0.3)	(0.0)	(0.3)	(1.7)	(3.0)	(1.2)	(1.2)	(1.2)
Short term borrowings		(4.8)	(0.7)	(1.1)	(0.1)	(2.7)	(6.1)	(6.1)	(6.1)
Other		0.0	0.0	0.0	0.0	0.0	(3.0)	(3.0)	(3.0)
Long Term Liabilities		(2.4)	(1.1)	(0.7)	(29.0)	(52.0)	(73.1)	(73.1)	(73.1)
Long term borrowings		(1.8)	(0.6)	0.0	(28.1)	(49.1)	(62.8)	(62.8)	(62.8)
Other long-term liabilities		(0.7)	(0.5)	(0.7)	(0.9)	(2.9)	(10.3)	(10.3)	(10.3)
Net Assets		29.3	2.1	1.3	14.2	63.6	62.3	76.3	97.2
Minority interests		0.0	0.0	(0.1)	(1.8)	(11.0)	(11.7)	(16.2)	(21.9)
Shareholders' equity		29.3	2.1	1.2	12.5	52.6	50.6	60.1	75.3
CASH FLOW									
Op Cash Flow before WC and tax		(6.8)	(9.2)	(5.0)	3.9	16.0	20.6	34.2	40.0
Working capital		0.4	2.5	6.8	7.9	(4.1)	22.5	(0.9)	2.7
Exceptional & other		(3.8)	(4.3)	(2.2)	(5.7)	(5.2)	(6.3)	(3.0)	0.0
Tax		0.3	(0.3)	(0.0)	(1.2)	(3.8)	(6.8)	(4.2)	(6.2)
Net operating cash flow		(9.8)	(11.3)	(0.4)	5.0	3.0	30.0	26.1	36.5
Capex		(4.4)	(0.9)	(0.2)	(0.1)	(2.5)	(1.2)	(1.0)	(1.0)
Acquisitions/disposals		10.8	(0.4)	3.6	14.2	(13.3)	(31.9)	(7.0)	0.0
Net interest		(0.9)	(0.1)	(0.0)	(0.3)	0.0	(0.5)	(4.7)	(4.7)
Equity financing		33.2	(5.1)	1.9	2.0	(1.4)	0.0	0.0	0.0
Dividends		0.0	2.0	0.0	0.0	0.0	0.0	0.0	0.0
Other		0.1	0.1	0.1	(0.6)	0.0	0.4	(3.2)	(3.2)
Net Cash Flow		29.0	(15.7)	5.0	20.1	(14.2)	(3.2)	10.1	27.5
Opening net debt/(cash)		18.0	(23.9)	(9.8)	(16.0)	(37.5)	(23.6)	(13.9)	(24.0)
FX		0.1	(0.1)	(0.6)	0.4	0.3	(0.8)	0.0	0.0
Other non-cash movements		12.6	1.7	1.8	1.1	0.0	(5.7)	0.0	0.0
Closing net debt/(cash)		(23.9)	(9.8)	(16.0)	(37.5)	(23.6)	(13.9)	(24.0)	(51.5)

Source: Claranova, Edison Investment Research

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Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia