

Claranova

Outperform → | Target price : **10.0 €**

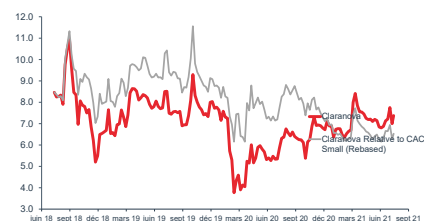
Price (11/08/2021) : 7.38 € | Upside : 36%

	Revision	2021e	2022e
EPS		-7.2%	0.6%

Claranova kills two birds with one stone with announcement of two strategic operations, at the cost of a financial arrangement that remains complex

Publication date 12/08/2021 08:46

Writing date 12/08/2021 08:36



Sources : ODDO BHF Securities, SIX

Capital

CLA FP CLA.PA	
Market Cap (€m)	339
Enterprise value (€m)	348
Extrema 12 months (€)	5.03 - 8.81
Free Float (%)	81.4

Performance (%)	1m	3m	12m
Absolute	7.4	-0.3	25.3
Perf. rel. Country Index	3.6	-8.2	-2.0
Perf. rel. CAC Small	3.6	-4.1	-14.6

P&L	06/21e	06/22e	06/23e
Sales (€m)	472	557	638
EBITDA (€m)	33.6	39.7	50.4
Current EBIT (€m)	26.0	31.9	42.5
Attr. net profit (€m)	13.0	21.7	29.6
Adjusted EPS (€)	0.28	0.44	0.57
Dividend (€)	0.00	0.00	0.00

P/E (x)	23.5	16.7	13.0
P/B (x)	4.1	3.1	2.6
Dividend Yield (%)	0.0	0.0	0.0
FCF yield (%)	8.8	10.9	12.4
EV/Sales (x)	0.56	0.62	0.42
EV/EBITDA (x)	7.9	8.8	5.3
EV/Current EBIT (x)	10.2	10.9	6.3
Gearing (%)	-37	-20	-45
Net Debt/EBITDA (x)	ns	ns	ns

Next Events

20/10/2021	FY Results
09/11/2021	Q1 Sales

Claranova acquires institutional investors for € 65m

Claranova announced yesterday morning the entry into the shareholding structure of US (Heights Capital Management) and Australian (Ophir Asset Management) institutional investors, for a total amount of € 65m. This investment comprises 1/ a € 15m reserved capital increase at a price of € 7 per share (no discount to the last share price), subscribed for € 10m by Heights and € 5m by Ophir, i.e. an issue of ~2.1m new shares (5.4% dilution) and 2/ the issue of a convertible bond (OCEANE) for € 50m (conversion premium of approximately 86%) fully subscribed by Heights. Thus, after the capital increase, Ophir and Heights will hold 3.41% and 1.71% of Claranova's share capital and 3.29% and 1.65% of the voting rights for Claranova. The group thus brings in two major shareholders and marks an important step in its desire to stabilise its capital, although the free float will remain high post-transaction (80%).

Buyout of Avanquest's minority interests (59%) for \$ 115m

This transaction (and the associated resources) is accompanied by an agreement with Avanquest's minority shareholders to acquire their stake (59%) for \$ 115m, i.e. € 98m. Note that, after the granting of preference shares to the sellers at the time of the buyout of the Canadian activities in 2018 (Upclick, SodaPdf, Adaware), which gave them the right to a share of Avanquest's capital, Claranova theoretically held just 41% of the software division. This transaction leads to an equity valuation of \$ 180m excl. Lastcard (10% above the last accounting valuation of \$ 162m in 2019), and will be financed by 1/ an equity portion of € 28.7m (issue of 4.1m new shares at € 7, i.e. 9.79% of Claranova's share capital), 2/ a cash payment for € 55m, and 3/ the issue of debt securities for an amount of c. € 27m. All told, 100% of the capital of the Canadian companies will have cost Claranova € 126m (€ 28.5m + € 98m), i.e. 17x EBITDA Adj N-1 and 13x 2020/21e: economic terms fully justified by the strategic and financial contribution of these companies.

Simplified capital structure, complex financial structure

After the last project to buy out Avanquest's minority shareholders was aborted in 2019 (due to an insufficient quorum), these strategic operations allow Claranova to meet two major challenges: 1/ to bring in reference shareholders in order to gradually stabilise the capital, while 2/ simplifying the capital structure with the acquisition of 100% of Avanquest. In contrast, the new shares will lead to a more complex financial structure, with the use of dilutive instruments in addition to the June 2018 ORNANE bond.

We estimate accretion of >20% on EPS over the next two financial years

The cancellation of the 59% minority interest in Avanquest prompts us to reintegrate the entire earnings of the division, a major contributor in terms of EBITDA (50% of the group). Taking into account the issue of new shares linked to the entry of institutional investors and the agreement with Avanquest's minority shareholders, we estimate, on a preliminary basis, an accretion of 14% on EPS for 2021-22 and +7% for 2022-23 (i.e. ~20% over the next two financial years).

Outperform maintained and target price unchanged at € 10

These transactions remain positive, and should be considered in their entirety (value creation despite the mechanical dilution linked to the issuance of new shares, or potential dilutive instruments), also helping solidify/simplify Claranova's shareholder structure (often perceived as a push-back on the stock). Taking into account these elements, and the update of our SOP, our target price remains unchanged at € 10.

Nicolas Thorez (Analyst)

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Impact of the investment and acquisition on share capital

(%) Shareholding	On a non-diluted basis	On a fully diluted basis
Before the capital increase, the conversion of the convertible bonds and the issuance of the new shares in connection with the acquisition	1.00%	0.99%
After the Capital Increase only	0.95%	0.94%
After conversion of the convertible bonds only	0.91%	0.90%
and the issue of the new shares in connection with the acquisition only	0.91%	0.90%
After the capital increase, the conversion of the convertible bonds and the issue of the shares	0.80%	0.79%

Source: company

Changes in shareholder structure following the investment and acquisition

Shareholders	# shares on a non-diluted basis	% of the capital	% voting rights on a non-diluted basis	% of capital on a fully diluted basis	% of voting rights on a fully diluted basis
Executives, management and directors	2 636 773	5.7%	7.6%	6.1%	7.8%
Incoming institutional funds	2 142 857	4.6%	4.5%	11.9%	11.6%
Avanquest minority shareholders	4 100 000	8.9%	8.6%	8.2%	7.9%
Free float	36 849 756	80.1%	79.3%	73.3%	72.7%
Treasury shares	242 125	0.5%	0.0%	0.5%	0.0%
Total	45 971 511	100.0%	100.0%	100.0%	100.0%

Source: Company



• **Valuation method**

Our target prices are established on a 12-month timeframe and we use three valuation methods to determine them. First, the discounting of available cash flows using the discounting parameters set by the Group and indicated on ODDO BHF' website. Second, the sum-of-the-parts method based on the most pertinent financial aggregate depending on the sector of activity. Third, we also use the peer comparison method which facilitates an evaluation of the company relative to similar businesses, either because they operate in identical sectors (and are therefore in competition with one another) or because they benefit from comparable financial dynamics. A mixture of these valuation methods may be used in specific instances to more accurately reflect the specific characteristics of each company covered, thereby fine-tuning its evaluation.

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The opinions expressed in the financial analysis are opinions as per a particular date, i.e. the date indicated in the financial analysis. The recommendation (cf. explanation of the recommendation systematic) can change owing to unforeseeable events which may, for instance, have repercussions on both the company and on the whole industry.

• **Our stock market recommendations**

Our stock market recommendations reflect the RELATIVE performance expected for each stock on a 12-month timeframe.

Outperform: performance expected to exceed that of the benchmark index, sectoral (large caps) or other (small and mid caps).

Neutral: performance expected to be comparable to that of the benchmark index, sectoral (large caps) or other (small and mid caps).

Underperform: performance expected to fall short of that of the benchmark index, sectoral (large caps) or other (small and mid caps).

• **The prices of the financial instruments used and mentioned in this document are the closing prices.**

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Recommendation and target price changes history over the last 12 months for the company analysed in this report

Date	Reco	Price Target (EUR)	Price (EUR)	Analyst
01/04/21	Outperform	10.00	8.00	Nicolas Thorez
01/10/20	Outperform	9.00	6.51	Nicolas Thorez

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Recommendation split		Outperform	Neutral	Underperform
Our whole coverage	(545)	56%	33%	11%
Liquidity providers coverage	(91)	59%	36%	4%
Research service coverage	(42)	62%	33%	5%
Investment banking services	(33)	79%	18%	3%

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