

# Claranova

## Gradual return to growth

Q2 revenue update

### Software & comp services

11 February 2022

**Price** €5.14

**Market cap** €235m

\$1.14:€1

Net cash (€m) at end FY21 25.3

Shares in issue 45.7m

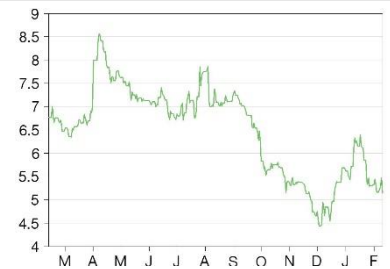
Free float 80%

Code CLA

Primary exchange Euronext Paris

Secondary exchange N/A

### Share price performance



% 1m 3m 12m

Abs (15.7) (4.5) (26.5)

Rel (local) (15.3) (4.5) (39.8)

52-week high/low €8.81 €4.44

### 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 United States and Canada.

### Next events

H122 results 30 March 2022

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Claranova reported revenue growth of 3% y-o-y in Q222 and 1% y-o-y for H122, with growth in Avanquest and myDevices offsetting a decline in the PlanetArt business. Management expects to see a gradual return to growth for PlanetArt as it adapts its customer acquisition strategy and consumers revert to pre-COVID buying patterns, as well as continued positive momentum for Avanquest. We have made minor changes to our revenue forecasts and maintain our EBITDA and EPS forecasts for FY22 and FY23.

Year end	Revenue (€m)	EBITDA* (€m)	PBT** (€m)	Diluted EPS** (€)	DPS (€)	P/E (x)
06/20	409.1	17.4	11.3	0.20	0.0	25.6
06/21	471.9	34.2	25.5	0.40	0.0	12.9
06/22e	502.1	39.0	31.3	0.49	0.0	10.4
06/23e	566.6	46.4	37.6	0.63	0.0	8.2

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

## Mixed performance in Q222

The group achieved reported revenue growth of 3% y-o-y in Q222; stripping out currency effects and acquisitions, revenue declined 3% y-o-y. Avanquest generated constant currency organic revenue growth of 20% in Q222 and myDevices grew 13% on the same basis. Offsetting this, PlanetArt reported a 1% revenue decline, or a 6% decline on a constant currency organic basis. PlanetArt experienced supply chain pressures over the Christmas period and continues to adapt its customer acquisition strategy in the wake of Apple's new privacy settings; both factors suppressed revenue growth during Q2 but should abate in future quarters as COVID pressures recede and the business shifts to new marketing channels.

## Minor estimate changes

We believe that Avanquest and myDevices are both on a path of sustained revenue growth, supported by increasing levels of recurring revenue from subscriptions. We expect that as consumer behaviour normalises post-COVID and the new customer acquisition strategy is finalised, PlanetArt should return to growth. We have made minor revenue forecast revisions to reflect Q222 performance, but we maintain our EBITDA and EPS forecasts for FY22 and FY23, pending H122 results on 30 March.

## Valuation: Resumption of PlanetArt growth the trigger

Reflecting the different business models for each division, we continue to use a sum-of-the-parts approach to valuation. Using EV/sales multiples that reflect our views on divisional growth and profitability and are conservative compared to the peer group averages, we maintain our valuation of €10.46 per share. In our view, consistent growth in revenues and margins towards the company's FY23 targets will be key to reducing the discount to peers. In the near term, resumption of growth in PlanetArt from Q322 will be the key trigger.

## Q222 revenue update

Claranova reported the following divisional revenues for Q222 and H122. On a group basis, Q222 revenue was 3% higher y-o-y; on a constant currency, organic basis, revenue declined 3% y-o-y. For H122, revenue grew 1% y-o-y and declined 6% on a constant currency, organic basis.

Exhibit 1: Revenue performance, Q222 and H122						
Revenues (€m)	Q222	Q221	y-o-y		y-o-y	
			Reported	Constant currency	Organic	Constant currency organic
PlanetArt	163	164	(1%)	(4%)	(3%)	(6%)
Avanquest	28	22	26%	20%	26%	20%
myDevices	1	1	17%	13%	17%	13%
Total	193	188	3%	(1%)	0%	(3%)

	H122	H120	y-o-y		y-o-y	
			Reported	Constant currency	Organic	Constant currency organic
PlanetArt	227	234	(3%)	(6%)	(7%)	(10%)
Avanquest	51	42	22%	17%	22%	17%
myDevices	2	2	5%	3%	5%	3%
Total	281	278	1%	(2%)	(3%)	(6%)

Source: Claranova

### PlanetArt – revising marketing strategy

While benefiting from increased demand for photo printing during lockdown, which resulted in 18% organic, constant currency revenue growth in FY21, the business started to see a slowdown in demand from Q421 as lockdowns were lifted and consumers returned to socialising, resulting in a Q421 revenue decline of 7% on an organic, constant currency basis. In Q122, this weaker demand was compounded by changes to Apple's privacy settings, which negatively impacted on PlanetArt's customer acquisition process (see [Post-lockdown hangover](#)). This resulted in a Q122 revenue decline of 17% on an organic, constant currency basis.

The company had hoped to revise its customer acquisition strategy to use alternative ways of targeting customers and return to growth in Q222. Alternative channels for customer acquisition are currently being tested, and these helped the company to stabilise the business during its seasonally strongest quarter, reporting a 1% revenue decline for the quarter (a 6% decline on an organic, constant currency basis). We assume that as the optimal path for customer acquisition has not yet been decided, the company chose to moderate marketing spend in Q222, aiming to balance revenue growth and profitability. We expect that once trials confirm the best way forward, the company will increase marketing spend to accelerate revenue growth.

As we have written before, other companies active in the online photo printing and personalised gifting market are also experiencing weaker demand after a very strong period during COVID lockdowns. CEWE reported a 5% decline in Q421 and FY21 revenue (year ending 31 December), with a 13% decline in photobooks and 7% decline in photos printed in FY21. Moonpig continues to guide to an FY22 (year ending 30 April) revenue decline of 23–27% after reporting an 8.5% decline in revenue for H122, which implies an H222 revenue decline of 33–40%. Desenio reported a 21% organic revenue decline for Q321 (quarter ending 30 September) and did not provide full year guidance, noting that it had not yet seen a return to normal consumer behaviour.

We note that the company also had to contend with supply chain challenges during the quarter, with raw material price increases and elevated transport costs. These should be less of an issue for business in H222, as these are typically seasonally weaker quarters, and pressures relating to COVID should also reduce. Management is confident of a gradual improvement in growth in the coming quarters.

## Avanquest – reaping rewards of recent restructuring

In recent years, the division has gone through the process of shifting the bulk of its software products from one-off licence sales to subscription sales. With this transition now complete, the division is reporting strong revenue growth. On a reported basis, Avanquest grew 26% y-o-y; stripping out the currency effect, organic growth was 20% y-o-y, up from 14% in Q122, resulting in H122 organic constant currency growth of 17%. The company noted that all three focus areas (pdf, photo and security) saw at least 20% growth in Q222 and recurring revenue is now more than 60% of total revenue (61% in Q122, 58% in FY21). The company expects revenue growth to support higher EBITDA margins in H122.

## myDevices – revenue rebound as COVID issues recede

The myDevices business was affected by COVID as its partners were unable to access premises to install IoT products. Now that restrictions have lifted, myDevices is seeing an increase in subscription revenues. Q222 revenue increased 17% y-o-y (13% constant currency) compared to an 8% decline (7% constant currency) in Q122, resulting in H122 revenue growth of 5% (3% constant currency). Excluding one-off revenue reported in H121, H122 revenue grew 49% y-o-y (46% constant currency) and Q222 revenue grew 54% (47% constant currency). At the end of Q222, annual recurring revenue (ARR) stood at €1.8m, up 82% y-o-y in constant currency.

## Changes to forecasts

We have made minor changes to forecasts to reflect H122 performance. We reduce our PlanetArt revenue forecast for FY22 and slightly increase our Avanquest and myDevices forecasts for FY22 and FY23. Overall, we maintain our EBITDA forecasts.

**Exhibit 2: Changes to forecasts**

€m	FY22e				FY23e				
	Old	New	Change	y-o-y	Old	New	Change	y-o-y	
Revenues	506.1	502.1	(0.8%)	6.4%	561.1	566.6	1.0%	12.8%	
EBITDA	42.62	42.62	(0.0%)	12.7%	50.0	50.0	(0.0%)	17.3%	
EBITDA margin	8.4%	8.5%	0.1%	0.5%	8.9%	8.8%	(0.1%)	0.3%	
EBITDA - pre IFRS 16	39.0	39.0	0.0%	14.1%	46.4	46.4	0.0%	18.9%	
EBITDA margin - pre IFRS 16	7.7%	7.8%	0.1%	0.5%	8.3%	8.2%	(0.1%)	0.4%	
Normalised operating profit	37.1	37.1	(0.0%)	14.9%	44.6	44.6	(0.0%)	20.1%	
Normalised operating profit margin	7.3%	7.4%	0.1%	0.5%	7.9%	7.9%	(0.1%)	0.5%	
Reported operating profit	34.0	34.0	(0.0%)	37.1%	41.5	41.5	(0.0%)	22.0%	
Reported operating margin	6.7%	6.8%	0.1%	1.5%	7.4%	7.3%	(0.1%)	0.5%	
Normalised PBT	31.3	31.3	(0.0%)	22.9%	37.6	37.6	(0.0%)	20.0%	
Reported PBT	28.2	28.2	(0.0%)	56.8%	34.5	34.5	(0.0%)	22.2%	
Normalised net income	22.5	22.5	0.0%	41.8%	29.0	29.0	0.0%	29.1%	
Reported net income	20.1	20.1	0.0%	92.8%	26.6	26.6	0.0%	32.5%	
Normalised basic EPS (€)	0.50	0.50	0.0%	24.1%	0.63	0.63	0.0%	26.9%	
Normalised diluted EPS (€)	0.49	0.49	0.0%	24.3%	0.63	0.63	0.0%	26.9%	
Reported basic EPS (€)	0.45	0.45	0.0%	68.7%	0.58	0.58	0.0%	30.3%	
Net debt/(cash)	12.0	12.4	3.2%	(148.8%)	(13.9)	(14.5)	3.8%	(217.2%)	
<b>Divisional revenues</b>									
PlanetArt	401.4	393.7	(1.9%)	3.5%	441.9	441.9	0.0%	12.2%	
Avanquest	100.8	103.3	2.5%	17.7%	115.2	118.2	2.5%	14.4%	
myDevices	3.9	5.2	31.6%	34.0%	4.0	6.5	62.5%	26.0%	
Total	506.1	502.1	(0.8%)	6.4%	561.1	566.6	1.0%	12.8%	
<b>Divisional EBITDA</b>									
PlanetArt	27.2	27.0	(0.7%)	3.8%	31.1	31.1	0.0%	15.2%	
Avanquest	15.1	15.4	1.7%	40.9%	18.5	18.5	0.0%	20.4%	
myDevices	(3.3)	(3.3)	1.8%	23.7%	(3.2)	(3.2)	0.0%	(4.2%)	
Total EBITDA - pre IFRS 16	39.0	39.0	0.0%	14.1%	46.4	46.4	0.0%	18.9%	

Source: Edison Investment Research

**Exhibit 3: Financial summary**

	€m	2017	2018	2019	2020	2021	2022e	2023e
30-June		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>INCOME STATEMENT</b>								
Revenue		130.2	161.5	262.3	409.1	471.9	502.1	566.6
EBITDA		(5.0)	3.9	16.0	20.6	37.8	42.6	50.0
Company adjusted EBITDA		(5.0)	3.9	16.0	17.4	34.2	39.0	46.4
Normalised operating profit		(5.8)	3.4	15.5	15.8	32.3	37.1	44.6
Amortisation of acquired intangibles		0.0	0.0	(1.5)	(2.4)	(3.1)	(3.1)	(3.1)
Exceptionals		0.4	(2.4)	(2.9)	(5.6)	(4.4)	0.0	0.0
Share-based payments		(4.8)	(7.1)	0.3	0.0	0.0	0.0	0.0
Reported operating profit		(10.1)	(6.1)	11.4	7.8	24.8	34.0	41.5
Net Interest		(0.9)	(0.3)	(3.5)	(4.5)	(6.8)	(5.8)	(7.0)
Joint ventures & associates (post tax)		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals		0.0	0.0	(45.6)	0.0	0.0	0.0	0.0
Profit Before Tax (norm)		(6.6)	3.1	12.0	11.3	25.5	31.3	37.6
Profit Before Tax (reported)		(11.0)	(6.4)	(37.7)	3.3	18.0	28.2	34.5
Reported tax		(0.4)	(1.8)	(3.7)	(2.1)	(3.8)	(6.5)	(7.9)
Profit After Tax (norm)		(7.0)	2.4	9.2	8.7	19.6	24.1	29.0
Profit After Tax (reported)		(11.4)	(8.2)	(41.4)	1.2	14.2	21.7	26.6
Minority interests		0.3	0.2	0.6	(0.7)	(3.8)	(1.7)	0.0
Discontinued operations		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income (normalised)		(6.7)	2.6	9.8	8.0	15.8	22.5	29.0
Net income (reported)		(11.0)	(7.9)	(40.8)	0.5	10.4	20.1	26.6
Basic ave. number of shares outstanding (m)		38	39	39	39	39	45	45
EPS - basic normalised (€)		(0.18)	0.07	0.25	0.20	0.40	0.50	0.63
EPS - diluted normalised (€)		(0.18)	0.06	0.25	0.20	0.40	0.49	0.63
EPS - basic reported (€)		(0.29)	(0.20)	(1.04)	0.01	0.26	0.45	0.58
Dividend (€)		0.00	0.00	0.00	0.00	0.00	0.00	0.00
Revenue growth (%)		10.9	24.0	62.4	56.0	15.4	6.4	12.8
EBITDA Margin (%)		-3.8	2.4	6.1	5.0	8.0	8.5	8.8
Company adjusted EBITDA margin (%)		-3.8	2.4	6.1	4.3	7.2	7.8	8.2
Normalised Operating Margin		-4.4	2.1	5.9	3.9	6.8	7.4	7.9
<b>BALANCE SHEET</b>								
Fixed Assets		2.0	1.3	75.1	93.7	96.4	191.0	187.1
Intangible Assets		0.9	0.5	69.9	70.5	77.5	172.9	169.8
Tangible Assets		0.3	0.2	1.4	15.7	12.2	11.4	10.6
Investments & other		0.7	0.6	3.8	7.5	6.7	6.7	6.7
Current Assets		28.1	79.1	100.9	116.3	128.4	166.0	196.2
Stocks		3.7	3.7	4.8	14.4	16.1	17.1	19.3
Debtors		4.3	4.9	11.6	9.9	9.2	9.8	11.0
Cash & cash equivalents		17.1	65.7	75.4	82.8	90.4	126.3	153.2
Other		2.9	4.8	9.1	9.2	12.7	12.7	12.7
Current Liabilities		(28.1)	(37.2)	(60.5)	(74.6)	(75.4)	(82.7)	(91.3)
Creditors		(26.6)	(35.4)	(54.8)	(64.3)	(62.5)	(69.8)	(78.4)
Tax and social security		(0.3)	(1.7)	(3.0)	(1.2)	(2.0)	(2.0)	(2.0)
Short term borrowings		(1.1)	(0.1)	(2.7)	(6.1)	(7.7)	(7.7)	(7.7)
Other		0.0	0.0	0.0	(3.0)	(3.2)	(3.2)	(3.2)
Long Term Liabilities		(0.7)	(29.0)	(52.0)	(73.1)	(66.3)	(139.9)	(139.9)
Long term borrowings		0.0	(28.1)	(49.1)	(62.8)	(57.4)	(131.0)	(131.0)
Other long-term liabilities		(0.7)	(0.9)	(2.9)	(10.3)	(8.9)	(8.9)	(8.9)
Net Assets		1.3	14.2	63.6	62.3	83.1	134.4	152.2
Minority interests		(0.1)	(1.8)	(11.0)	(11.7)	(16.2)	(3.8)	5.0
Shareholders' equity		1.2	12.5	52.6	50.6	66.9	130.6	157.2
<b>CASH FLOW</b>								
Op Cash Flow before WC and tax		(5.0)	3.9	16.0	20.6	37.8	42.6	50.0
Working capital		6.8	7.9	(4.1)	22.5	(4.4)	5.7	5.1
Exceptional & other		(2.2)	(5.7)	(5.2)	(6.3)	(8.9)	0.0	0.0
Tax		(0.0)	(1.2)	(3.8)	(6.8)	(5.1)	(6.5)	(7.9)
Net operating cash flow		(0.4)	5.0	3.0	30.0	19.4	41.8	47.2
Capex		(0.2)	(0.1)	(2.5)	(1.2)	(3.8)	(1.0)	(1.0)
Acquisitions/disposals		3.6	14.2	(13.3)	(31.9)	(3.8)	(60.5)	(8.8)
Net interest		(0.0)	(0.3)	0.0	(0.5)	(0.7)	(5.8)	(7.0)
Equity financing		1.9	2.0	(1.4)	0.0	2.4	15.0	0.0
Dividends		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other		0.1	(0.6)	0.0	0.4	(2.6)	(3.6)	(3.6)
Net Cash Flow		5.0	20.1	(14.2)	(3.2)	11.1	(14.1)	26.8
Opening net debt/(cash)		(9.8)	(16.0)	(37.5)	(23.6)	(13.9)	(25.3)	12.4
FX		(0.6)	0.4	0.3	(0.8)	1.8	0.0	0.0
Other non-cash movements		1.8	1.1	0.0	(5.7)	(1.4)	(23.6)	0.0
Closing net debt/(cash)		(16.0)	(37.5)	(23.6)	(13.9)	(25.3)	12.4	(14.5)

Source: Claranova, Edison Investment Research

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