

Claranova **Buy**

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France | IT services & software

MCap: EUR68.9m

Target Price: EUR4.50
Current Price: EUR1.62
Up/downside: 177.8%
Market data: 06 July 2023

Bloomberg: CLA FP	Reuters: AVQ.PA
Free float	73%
Avg. daily volume (EURm)	0.2
YTD abs performance	-41.0%
52-week high/low (EUR)	3.93/1.62

In exclusive talks with Encore Software to sell its Home Design business

Key points:

- This note follows our report of 7 June (Link: [In talks to sell its non-core activities within Avanquest](#)), and Claranova's announcement yesterday (6 July) about entering into exclusive discussions with Encore Software for the sale of its non-core Home Design business.
- As already mentioned before, this operation is fully in line with Claranova's strategy to keep focusing on its core business and it is set to finalise the transformation of Avanquest's business model into that of a B2C SaaS software publisher focusing on the PDF, Security and Photo segments.
- The deal encompasses the assets of the Architect 3D software, including its source code, customer base, domain names, websites, and graphic elements.
- Note that the financials of this operation have not been disclosed yet, but we do not expect a major impact given the relatively low revenues and margins generated by this business.
- Claranova expects to close this operation by the end of July 2023.

In exclusive discussions for the sale of Avanquest's non-core Home Design business

- Avanquest has entered into exclusive discussions with Encore Software, a US software company, for the sale of its non-core Home Design business.
- For the record, Encore Software is a longstanding partner of Avanquest, which specialises in software development, sale and distribution.
- The deal encompasses the assets of the Architect 3D software, including its source code, customer base, domain names, websites, and graphic elements.
- Encore Software plans to continue operating the acquired businesses and may also integrate selected Avanquest staff.
- From a financial perspective, the divestment of Avanquest's non-core activities aligns with the strategic direction set four years ago, focusing on transforming the company into a B2C SaaS business with a focus on proprietary products and services in the PDF (Soda PDF), Security (Adaware), and Photo (InPixio) segments.
- By shedding the Home Design business, Avanquest can streamline its operations and concentrate its resources on areas that have a higher strategic priority.
- The financials of the deal, including the sale price and potential impact on Avanquest's financial statements, have not been disclosed as of now, but we do not see a major impact given the quite low revenues and margins generated by this business.
- The sale is expected to be completed by the end of July 2023.

Appendix 1: Research framework

Last model update: 24 May 2023

Investment case

- Claranova has been totally restructured since the arrival of Pierre Cesarini as CEO in 2013 and has now a more diversified and resilient profile.
- While we acknowledge that short-term visibility is limited at PlanetArt, the worst seems to be behind us. Our case is made up of three catalysts: 1) positive news on scalability from alternative marketing channels at PlanetArt, 2) continued momentum at Avanquest, with M&A, and 3) mid-term take-off of myDevices.
- While there are uncertainties in the short term, we believe the current valuation is already very discounted and limits downside risk. Plus, a potential spin-off of subsidiaries remains a strong driver for our case in the mid term.

Catalysts

- Positive news on scalability at PlanetArt.
- Entrance of new anchor investors in the capital. Top management buying shares.
- Spin-off of PlanetArt and/or Avanquest in the medium term.

Valuation Methodology

- We value Claranova with a SOP.
- PlanetArt's valuation is based on a DCF (WACC 13.7%, 2% g), Avanquest's on a DCF (WACC 13.7%, 2% g), and myDevices' on transaction multiples (2023E EV/sales).
- We derive a fair value/share of EUR4.5.

Risk to our rating

- Macroeconomic risks (decrease in consumers' purchasing power, high input costs, high beta stock).
- New Apple Privacy Policy with iOS 14.5 launch in April 2021 (failure to compensate for a large part of Apple's stricter confidentiality policy, meaning slower top-line growth or margins depending on the balance).
- Competition and client stickiness (increased competition in already highly competitive markets, meaning lower organic growth and/or leading to margin pressure).

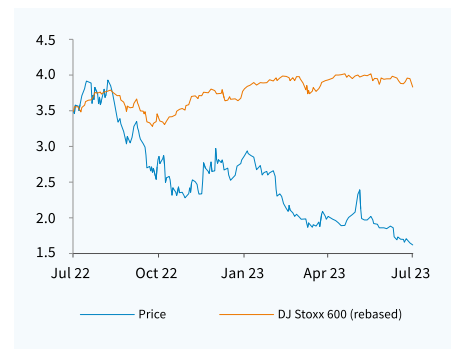
Appendix 2: Company description

Claranova is a France-based technology firm that manages majority interests in the main technology markets (Internet, Mobile, IoT). While French, the group is a global company, deriving 95% of its sales abroad. Since 2013, it has been totally restructured under CEO Cesarini and its strategy redefined towards value creation. Today, it focuses on three businesses: 1) PlanetArt (personalised e-commerce, 77% of sales), 2) Avanquest (B2C SaaS software publishing, 22%), and 3) myDevices (IoT, 1%).

Management Pierre Cesarini, CEO | Xavier Rojo, CFO

Key shareholders Free float: 72.70% | Management: 6.80% | Other institutional funds: 6.40% | Ophir AM & Heights CM: 4.70%

Appendix 3: share price perf.



Appendix 4: SWOT analysis

Strengths

- Leader in mobile-to-print apps.
- International focus (mostly the US, UK).
- Low customer acquisition costs.
- Sound financial situation.

Opportunities

- Increased penetration in the personalised e-commerce market.
- Diversification of mobile-to-print offers.
- Promising connected devices segment (myDevices).
- Spin-off of PlanetArt and/or Avanquest to support a fairer valuation.

Weaknesses

- Presence in highly competitive markets.
- Complicated track record before restructuring.
- High beta stock, high volatility.
- Few institutional investors in the capital.

Threats

- Failure to bypass new Apple Privacy Policy.
- Decrease in consumers' purchasing power due to inflation.
- Low barriers to entry in the mobile app segment.
- Competition with free PC software.

Appendix 5: Key financials

Last model update: 24 May 2023

Market data date: 06 July 2023

FY to 30/06 (EUR)	06/16	06/17	06/18	06/19	06/20	06/21	06/22	06/23E	06/24E	06/25E
Income Statement (EURm)										
Sales	117.4	130.2	161.5	262.3	409.1	471.9	473.6	519.3	554.4	605.7
% Change	26.1%	10.9%	24.0%	62.4%	56.0%	15.4%	0.4%	9.6%	6.8%	9.3%
EBITDA adjusted	-11.2	-5.0	3.8	16.0	17.5	34.2	25.5	30.3	39.0	51.4
EBITDA adj. margin (%)	-9.5%	-3.8%	2.4%	6.1%	4.3%	7.2%	5.4%	5.8%	7.0%	8.5%
EBIT adjusted	-16.1	-10.6	-3.8	14.3	13.4	29.2	18.7	25.6	34.5	47.2
EBIT adj. margin (%)	-13.7%	-8.1%	-2.4%	5.5%	3.3%	6.2%	3.9%	4.9%	6.2%	7.8%
Net financial items & associates	-0.1	0.0	0.0	-48.3	-3.2	-4.1	-6.1	-8.9	-8.9	-8.9
Others	-1.6	-0.9	-0.3	-0.8	-1.3	-2.7	-16.2	-4.3	-4.3	-4.3
Tax	-0.8	-0.4	-1.8	-3.7	-2.1	-3.8	-5.8	-2.4	-4.3	-7.0
Net profit from continuing operations	-28.6	-11.4	-8.3	-41.4	1.2	14.2	-10.1	4.8	11.5	21.0
Net profit from discontinuing activities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit before minorities	-28.6	-11.4	-8.3	-41.4	1.2	14.2	-10.1	4.8	11.5	21.0
Net profit reported	-28.6	-11.0	-8.1	-40.8	0.5	10.5	-10.6	4.8	11.4	20.6
Net profit adjusted	-18.6	-6.7	1.4	9.0	5.9	15.4	-10.1	9.7	16.7	26.3
Cash Flow Statement (EURm)										
Levered post tax CF before capex	-11.4	-0.4	5.0	7.1	29.4	18.8	16.1	14.4	22.7	33.4
Capex	-0.9	-0.2	-0.1	-2.5	-1.2	-3.8	-2.2	-5.2	-5.5	-6.1
Free cash flow	-12.4	-0.5	4.9	4.6	28.2	15.0	13.9	9.2	17.2	27.4
Acquisitions & divestments	-0.3	3.6	14.2	-13.3	-31.9	-3.8	-73.4	-24.5	0.0	0.0
Dividend paid	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	-3.4	3.2	2.4	-5.2	-6.0	0.3	-37.1	0.0	0.0	0.0
Change in net financial debt	14.1	-6.3	-21.5	13.9	9.7	-11.5	96.6	15.3	-17.2	-27.4
Balance Sheet (EURm)										
Intangible assets	1.5	0.9	0.5	69.9	70.5	77.5	96.6	111.2	108.9	106.8
Tangible assets	0.5	0.3	0.2	1.4	15.7	12.2	18.2	24.5	23.5	22.6
Financial & other non-current assets	1.1	0.7	0.6	3.9	7.6	6.7	8.5	8.5	8.5	8.5
Total shareholders' equity	2.1	1.3	14.3	63.6	62.3	83.2	1.9	6.7	18.3	39.2
Pension provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities and provisions	26.4	28.7	66.2	112.5	147.7	141.7	268.2	271.3	276.9	285.1
Net debt	-9.8	-15.9	-37.4	-23.1	-3.4	-15.6	86.3	101.6	84.5	57.1
Net financial debt	-9.8	-16.0	-37.5	-23.6	-13.9	-25.4	71.1	86.4	69.3	41.9
IFRS 16 debt	0.0	0.0	0.0	0.0	10.2	7.6	13.2	13.2	13.2	13.2
Net working capital	-10.2	-15.9	-23.6	-32.3	-32.1	-26.5	-33.5	-34.2	-36.5	-39.9
Invested capital	-8.2	-14.7	-22.9	39.0	54.1	63.2	81.3	101.5	95.8	89.4
Per share data (EUR)										
EPS adjusted	-0.05	-0.02	0.00	0.23	0.15	0.39	-0.24	0.23	0.39	0.62
EPS adj and fully diluted	-0.05	-0.02	0.00	0.23	0.15	0.39	-0.22	0.21	0.36	0.56
% Change	+chg	+chg	+chg	6610.2%	-34.4%	162.0%	-chg	+chg	71.6%	57.9%
EPS reported	-0.08	-0.03	-0.02	-1.04	0.01	0.27	-0.25	0.11	0.27	0.48
Cash flow per share	-0.03	0.00	0.01	0.18	0.75	0.48	0.38	0.34	0.53	0.79
Book value per share	0.01	0.00	0.03	1.34	1.29	1.70	-0.03	0.08	0.35	0.83
Dividend per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Number of shares, YE (m)	375.32	375.32	393.61	39.44	39.44	39.73	42.55	42.55	42.55	42.55
Ratios										
ROE (%)	-118.6%	-408.1%	20.4%	27.6%	11.4%	26.2%	-30.8%	959.6%	182.4%	104.7%
ROIC (%)	na	na	na	195.1%	10.5%	39.3%	61.6%	18.8%	25.6%	38.2%
ND(F+IFRS16) / EBITDA (x)	0.9	3.2	-9.9	-1.5	-0.2	-0.5	3.3	3.3	2.1	1.1
Gearing (%)	-466.7%	-1,230.8%	-262.2%	-37.1%	-22.3%	-30.5%	na	na	378.9%	106.8%
Valuation										
P/E adjusted	na	na	na	34.4	45.3	17.0	na	7.1	4.1	2.6
P/E adjusted and fully diluted	na	na	na	35.0	46.1	17.2	na	7.8	4.5	2.9
P/BV	na	na	na	5.9	5.3	3.9	na	20.1	4.6	1.9
P/CF	na	na	na	43.6	9.1	14.0	13.6	4.8	3.0	2.1
Dividend yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Dividend yield preference shares (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	61.7%
FCF yield (%)	-3.4%	-0.1%	0.2%	1.5%	10.5%	5.7%	6.3%	13.3%	24.9%	39.7%
EV/Sales	3.0	6.9	16.7	1.1	0.7	0.6	0.6	0.3	0.3	0.2
EV/EBITDA adj.	na	na	na	18.6	15.8	7.7	12.0	5.6	3.9	2.5
EV/EBIT adj.	na	na	na	20.8	20.6	9.0	16.4	6.7	4.4	2.7

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Source: Kepler Cheuvreux

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Claranova (EUR)	14/10/2022 05:37	Equity Research	Buy	4.50	2.50

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Local insight, European scale.



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