

Claranova Buy

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France | IT services & software

MCap: EUR64.4m

Target Price: EUR3.50
Current Price: EUR1.40
Up/downside: 150.0%
Market data: 02 August 2023

Bloomberg: CLA FP
Free float: 71%
Avg. daily volume (EURm): 0.1
YTD abs performance: -49.1%
52-week high/low (EUR): 3.93/1.40
Reuters: AVQ.PA

FY 2022/23 sales broadly in line, adj. EBITDA target confirmed

Key points:

- FY 2022/23 sales (July-June) were below the management's 10% YOY target, but this was already anticipated. Total sales stood at EUR507m, representing a 7% YOY increase and 2% LFL growth (KECH: EUR510m, consensus: EUR512m).
- Claranova's Q4 sales (April-June) reached EUR102m (-1% YOY, +2% LFL). While PlanetArt's sales lagged at EUR68m (-10% YOY, -5% LFL) due to a focus on profitability over revenue growth, Avanquest performed well at EUR30m (+16% YOY, +15% LFL) thanks to its core business and successful transformation to SaaS. myDevices saw substantial growth at EUR3m (+98% YOY, +92% LFL), driven by partnership ramp-ups, while staying marginal in the mix.
- The group confirmed its FY 2022/23 adj. EBITDA growth guidance of +25-30% YOY, most likely landing at the low end of the range. Management now targets a 10% adjusted EBITDA margin in FY 2024/25 and did not reiterate the EUR700m revenue objective due in our view to low expected M&A activity ahead, with the impact of a capital increase accounted in FY 2023/24. However, this was already expected analysts and is not likely to result in significant negative earnings revisions in our view.

FY 2022/23 sales: Below the 10% YOY management target, but already largely expected

- Claranova published Q4 sales of EUR102m (-1% YOY, +2% LFL), broadly in line with expectations (KECH: EUR105m, consensus: EUR107m).
- PlanetArt (EUR68m, -10% YOY, -5% LFL) lagged, mainly due to an arbitrage in favour of profitability over topline growth, while Avanquest (EUR30m, +16% YOY, +15% LFL) continued to perform well, fuelled by its core business (proprietary B2C software for PDF, Photo and Security) and its successful transformation to SaaS. On its side, myDevices (EUR3m, +98% YOY, +92% LFL) accelerated in Q4 driven by partnership ramp-ups, especially coming from T-Mobile, Aramark, Sodexo and BASF.
- Overall, FY 2022/23 sales stood at EUR507m (+7% YOY, +2% LFL), below management's guidance of 10% growth, but broadly in line with our forecasts (KECH: EUR510m) and the street (consensus: EUR512m). On a full-year basis, PlanetArt (EUR383m, +4% YOY, stable LFL) and Avanquest (EUR116m, +14% YOY, +6% LFL) were bang in line with our estimates, while myDevices (EUR8m, +57% YOY, +46% LFL) outperformed, albeit staying marginal in the mix.
- There are two reasons for reported growth being slightly below management's target: 1) an unfavourable EUR/USD rate in H2, especially in Q3; and 2) the group's focus on profitability over revenue growth.

Table 1: Q4 sales overview

EURm	Q4 2022/23	Q4 2021/22	% YOY	% ccy	% c. perim.	% LFL	KECH	vs. KECH	Consensus	vs. Cons.
PlanetArt	68	76	-10%	-5%	-10%	-5%	73	-7%		
Avanquest	30	26	16%	21%	10%	15%	30	1%		
myDevices	3	2	98%	92%	98%	92%	2	72%		
Group sales	102	103	-1%	3%	-3%	2%	105	-3%	107	-5%

Sources: Claranova, Bloomberg, Kepler Cheuvreux

Table 2: FY 2022/23 sales overview

EURm	FY 2022/23	FY 2021/22	% YOY	% ccy	% c. perim.	% LFL	KECH	vs. KECH	Consensus	vs. Cons.
PlanetArt	383	366	4%	0%	4%	0%	388	-1%		
Avanquest	116	102	14%	12%	9%	6%	116	0%		
myDevices	8	5	57%	46%	57%	46%	6	28%		
Group sales	507	474	7%	3%	6%	2%	510	-1%	512	-1%

Sources: Claranova, Bloomberg, Kepler Cheuvreux

FY 2022/23 adj. EBITDA growth guidance of +25-30% confirmed

- Management confirmed its FY 2022/23 adj. EBITDA target growth of a +25-30% YOY growth. It will most likely land at the low end of the range, considering unfavourable forex. We are quite comfortable with our c. EUR30m of adj. EBITDA. Consensus is at EUR32.5m.

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- For the following years, the 10% adj. EBITDA margin mark is now targeted in FY 2024/25 (vs. FY 2023/24 previously), while the EUR700m revenue objective was not reiterated in the press release. In our view, this is mainly due to the likely low M&A activity ahead, with the capital increase hitting Claranova's financials only in FY 2023/24. That said, we and the street were already well below these targets, which limits potential negative earnings revision from next year.
 - On a positive note, some progress has been made on scalability of new marketing channels at PlanetArt, and a gradual improvement is expected from this year. On Avanquest, momentum is set to remain strong, with good visibility on the core business and a positive effect on profitability from the sale of non-core activities. Finally, myDevices should keep gradually growing in the mix.

Appendix 1: Research framework

Last model update: 18 July 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 already discounted valuation 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.
- Entry of new anchor investors in the capital.
- 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 EUR3.5.

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%).

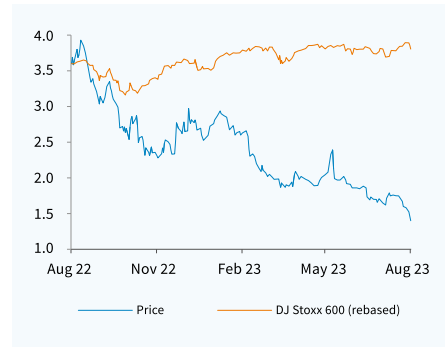
Mgmt

Pierre Cesarini, CEO | Xavier Rojo, CFO

Ownership

Free float: 70.80% | Pierre Cesarini: 4.48% | LIH: 15.89% | Minority shareholders concert: 7.17%

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.
- Improved 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 valuation.

Weaknesses

- Presence in highly competitive markets.
- Complicated track record.
- 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: 18 July 2023

Market data date: 02 August 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	510.2	550.8	600.9
% Change	26.1%	10.9%	24.0%	62.4%	56.0%	15.4%	0.4%	7.7%	8.0%	9.1%
EBITDA adjusted	-11.2	-5.0	3.8	16.0	17.5	34.2	25.5	29.7	36.5	45.6
EBITDA adj. margin (%)	-9.5%	-3.8%	2.4%	6.1%	4.3%	7.2%	5.4%	5.8%	6.6%	7.6%
EBIT adjusted	-16.1	-10.6	-3.8	14.3	13.4	29.2	18.7	25.2	32.1	41.3
EBIT adj. margin (%)	-13.7%	-8.1%	-2.4%	5.5%	3.3%	6.2%	3.9%	4.9%	5.8%	6.9%
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	-16.2	-10.0	-5.0
Tax	-0.8	-0.4	-1.8	-3.7	-2.1	-3.8	-5.8	1.7	-2.1	-5.4
Net profit from continuing operations	-28.6	-11.4	-8.3	-41.4	1.2	14.2	-10.1	-3.4	5.6	16.1
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	-3.4	5.6	16.1
Net profit reported	-28.6	-11.0	-8.1	-40.8	0.5	10.5	-10.6	-3.4	5.6	15.9
Net profit adjusted	-18.6	-6.7	1.4	9.0	5.9	15.4	-10.1	1.4	10.8	21.6
Cash Flow Statement (EURm)										
Levered post tax CF before capex	-11.4	-0.4	5.0	7.1	29.4	18.8	16.1	10.0	17.5	28.8
Capex	-0.9	-0.2	-0.1	-2.5	-1.2	-3.8	-2.2	-5.1	-5.5	-6.0
Free cash flow	-12.4	-0.5	4.9	4.6	28.2	15.0	13.9	4.9	12.0	22.8
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	18.5	0.0
Change in net financial debt	14.1	-6.3	-21.5	13.9	9.7	-11.5	96.6	19.6	-30.5	-22.8
Balance Sheet (EURm)										
Intangible assets	1.5	0.9	0.5	69.9	70.5	77.5	96.6	111.3	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	-1.5	22.6	38.7
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	275.0	281.9	290.4
Net debt	-9.8	-15.9	-37.4	-23.1	-3.4	-15.6	86.3	105.9	75.5	52.7
Net financial debt	-9.8	-16.0	-37.5	-23.6	-13.9	-25.4	71.1	90.7	60.3	37.5
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	-38.2	-41.2	-45.0
Invested capital	-8.2	-14.7	-22.9	39.0	54.1	63.2	81.3	97.5	91.2	84.5
Per share data (EUR)										
EPS adjusted	-0.05	-0.02	0.00	0.23	0.15	0.39	-0.24	0.03	0.21	0.38
EPS adj and fully diluted	-0.05	-0.02	0.00	0.23	0.15	0.39	-0.22	0.03	0.19	0.35
% Change	+chg	+chg	+chg	6610.2%	-34.4%	162.0%	-chg	+chg	612.7%	81.5%
EPS reported	-0.08	-0.03	-0.02	-1.04	0.01	0.27	-0.25	-0.08	0.11	0.28
Cash flow per share	-0.03	0.00	0.01	0.18	0.75	0.48	0.38	0.22	0.34	0.51
Book value per share	0.01	0.00	0.03	1.34	1.29	1.70	-0.03	-0.11	0.38	0.62
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	45.99	45.99	57.21	57.21
Ratios										
ROE (%)	-118.6%	-408.1%	20.4%	27.6%	11.4%	26.2%	-30.8%	na	149.8%	79.4%
ROIC (%)	na	na	na	195.1%	10.5%	39.3%	61.6%	18.8%	24.8%	35.3%
ND(F+IFRS16) / EBITDA (x)	0.9	3.2	-9.9	-1.5	-0.2	-0.5	3.3	3.5	2.0	1.1
Gearing (%)	-466.7%	-1,230.8%	-262.2%	-37.1%	-22.3%	-30.5%	na	na	266.6%	96.9%
Valuation										
P/E adjusted	na	na	na	34.4	45.3	17.0	na	46.8	6.6	3.7
P/E adjusted and fully diluted	na	na	na	35.0	46.1	17.2	na	51.2	7.2	4.0
P/BV	na	na	na	5.9	5.3	3.9	na	na	3.7	2.3
P/CF	na	na	na	43.6	9.1	14.0	13.6	6.4	4.1	2.8
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%	71.4%
FCF yield (%)	-3.4%	-0.1%	0.2%	1.5%	10.5%	5.7%	5.9%	7.5%	14.9%	28.5%
EV/Sales	3.0	6.9	16.7	1.1	0.7	0.6	0.7	0.3	0.3	0.2
EV/EBITDA adj.	na	na	na	18.6	15.8	7.7	12.7	5.7	4.3	2.9
EV/EBIT adj.	na	na	na	20.8	20.6	9.0	17.3	6.8	4.8	3.2

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Rating Breakdown	A	B
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Hold	30%	28%
Reduce	6%	0%
Not Rated/Under Review/Accept Offer	3%	5%
Total	100%	100%

Source: Kepler Cheuvreux

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Claranova (EUR)	14/10/2022 05:37	Equity Research	Buy	4.50	2.50
	17/07/2023 06:29	Equity Research	Buy	3.50	1.76

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