

Claranova

Focused on profitability

Q423 revenue update

Software and comp services

9 August 2023

Price €1.88

Market cap €107m

\$1.09/€

Net debt (€m) at end H123 64.8

Shares in issue 56.7m

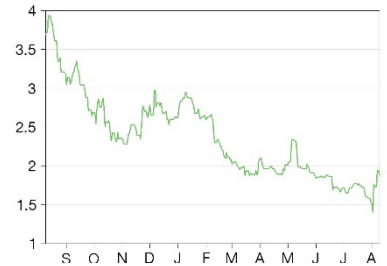
Free float 84%

Code CLA

Primary exchange Euronext Paris

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (9.6) (19.4) (50.6)

Rel (local) (7.2) (17.6) (55.0)

52-week high/low €3.93 €1.40

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). Its headquarters are in Paris, France, and it has operations in Europe, the United States and Canada.

Next events

FY23 results 11 October

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Claranova reported FY23 revenue growth of 7%, or 2% on a constant currency organic basis. While this was below its 10% growth target, the company still expects to report EBITDA growth of 25–30% for FY23 and continues to target EBITDA margins of 10% by FY25. We have revised our revenue forecasts to reflect Q423 performance but have maintained our EBITDA forecasts for FY23 and FY24 and reflected the recent capital raise.

Year end	Revenue (€m)	EBITDA* (€m)	PBT** (€m)	Diluted EPS** (€)	DPS (€)	P/E (x)
06/21	470.6	32.9	24.2	0.37	0	5.0
06/22	473.7	25.5	7.2	0.11	0	17.6
06/23e	507.3	31.8	9.8	0.16	0	11.6
06/24e	530.9	43.8	22.3	0.28	0	6.8

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

Q423 revenue reflects focus on profitability

Claranova reported a 1% decline in revenue for Q423 and 7% growth for FY23; on a constant currency (cc) organic basis, growth was 2% for both periods. PlanetArt grew 4% in FY23 (flat cc) but declined 10% (5% cc) in Q423 as it focused on driving profitability rather than customer growth. The company noted that customer acquisition costs have reverted to the level PlanetArt was achieving prior to the introduction of Apple's App Tracking Transparency policy. Avanquest grew 14% in FY23 (6% cc organic) with 15% cc organic growth in Q423. myDevices nearly doubled revenue in Q423 and was 57% higher in FY23 (46% cc).

EBITDA forecasts maintained

While the company missed its target of 10% revenue growth in FY23, it still expects to generate EBITDA (pre-IFRS 16) of 25–30% and continues to target a 10% EBITDA margin by FY25. We have revised our forecasts to reflect Q423 revenue and the recent capital raise (€17.3m net proceeds). We reduce our FY24 revenue forecast by 2% but for FY23 and FY24 we maintain our EBITDA forecasts, reflecting the focus on profitability over growth.

Valuation: Profitable growth the key driver

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 calculate a valuation of €6.1 per share (down from €7.4 when we last wrote). If the undiscounted value of convertible debt is included, this reduces the valuation to €5.1 per share. In our view, consistent growth in revenues and margins towards Claranova's FY24 targets will be fundamental to reducing the discount to peers. In the near term, sustained growth in PlanetArt (while balancing profitability) will be the key trigger.

Q423 revenue update

Claranova reported a 1% y-o-y decline in revenue for Q423 (growth of 2% cc organic) and 7% y-o-y growth for FY23 (2% cc organic). In Exhibit 1 we summarise quarterly and annual revenues on a divisional basis.

Exhibit 1: Divisional revenue, Q423 and FY23						
Revenues (€m)	Q423	Q422	y-o-y		y-o-y	
			Reported	Constant currency	Organic	Constant currency organic
PlanetArt	68	76	(10%)	(5%)	(10%)	(5%)
Avanquest	30	26	16%	21%	10%	15%
myDevices	3	2	98%	92%	98%	92%
Total	102	103	(1%)	3%	(3%)	2%
	FY23	FY22	y-o-y		y-o-y	
PlanetArt	383	366	4%	0%	4%	0%
Avanquest	116	102	14%	12%	9%	6%
myDevices	8	5	57%	46%	57%	46%
Total	507	474	7%	3%	6%	2%

Source: Claranova

PlanetArt: Profit focused

PlanetArt reported revenue growth of 4% for FY23 and flat revenue on a cc basis. For Q423, the division saw a 10% decline and on a cc basis, a 5% decline. The PlanetArt team focused on improving profitability rather than driving growth, stabilising or reducing customer acquisition costs and selling higher-margin products. FreePrints has returned to similar customer acquisition levels to those achieved prior to the introduction of Apple's App Tracking Transparency policy.

Avanquest: Strong organic growth

Avanquest reported revenue growth of 14% for FY23 and 6% growth on a cc organic basis. For Q423, revenue was 16% higher y-o-y or 15% higher on a cc organic basis. SaaS revenue now makes up 83% of divisional revenue with recurring revenue at 67% at the end of June 2023. The company noted that sales of proprietary software for Security rose 4% in FY23, PDF 15% and Photo 15%.

Revenue from non-core businesses totalled €19m in the year, down 14% y-o-y and now making up only 17% of divisional revenue. The company is in the process of divesting these activities and expects to be able to generate revenue growth and EBITDA margins of more than 20% in FY24 excluding them.

myDevices: Pick up in revenue in Q4

myDevices reported revenue growth of 98% in Q423 and 57% in FY23 (92% and 46%, respectively, on a cc basis). The company noted that partnerships (206 partners) gained momentum in the year with contributions from T-Mobile, Aramark, Sodexo and BASF. Annual recurring revenue was €4m at the end of FY23, up 34% y-o-y on a cc basis.

Changes to forecasts

We have revised our forecasts to reflect revenue reported for Q423 and revised down our revenue forecasts for FY24 accordingly. We maintain our EBITDA forecasts for FY23 and FY24 as this is the company's primary focus. We have reflected the recent capital raise (11.2m shares at 1.65p per share). Lafayette Investment Holdings subscribed for €15m-worth of shares to effect a debt/equity

swap for the €15m of promissory notes it held. The remaining €2.3m in net proceeds boosted the company's cash.

Exhibit 2: Changes to forecasts

€'m	FY23e				FY24e			
	Old	New	Change	y-o-y	Old	New	Change	y-o-y
Revenues	516.8	507.3	(1.8%)	7.1%	541.8	530.9	(2.0%)	4.7%
EBITDA	36.0	36.0	(0.0%)	27.4%	48.1	48.1	(0.0%)	33.5%
EBITDA margin	7.0%	7.1%	0.1%	1.1%	8.9%	9.1%	0.2%	2.0%
EBITDA - pre IFRS 16	31.8	31.8	0.0%	24.8%	43.8	43.8	0.0%	37.6%
EBITDA margin - pre IFRS 16	6.2%	6.3%	0.1%	0.9%	8.1%	8.2%	0.2%	2.0%
Normalised operating profit	31.0	31.0	(0.0%)	31.1%	43.1	43.1	(0.0%)	38.9%
Normalised operating margin	6.0%	6.1%	0.1%	1.1%	7.9%	8.1%	0.2%	2.0%
Reported operating profit	23.8	23.8	(0.0%)	32.6%	38.4	38.4	(0.0%)	61.1%
Reported operating margin	4.6%	4.7%	0.1%	0.9%	7.1%	7.2%	0.1%	2.5%
Normalised PBT	9.8	9.8	(0.0%)	36.7%	22.3	22.3	(0.0%)	127.9%
Reported PBT	2.6	2.6	(0.0%)	(160.6%)	17.6	17.6	(0.0%)	N/A
Normalised net income	8.2	8.0	(1.8%)	60.6%	16.8	16.7	(0.7%)	107.4%
Reported net income	(1.2)	(1.3)	12.3%	(87.2%)	13.2	13.1	(1.0%)	N/A
Normalised basic EPS (€)	0.18	0.18	(1.8%)	50.0%	0.37	0.30	(19.5%)	68.5%
Normalised diluted EPS (€)	0.16	0.16	(1.8%)	50.9%	0.34	0.28	(18.1%)	71.2%
Reported basic EPS (€)	(0.03)	(0.03)	12.3%	(88.1%)	0.29	0.23	(19.6%)	N/A
Net debt/(cash)	91.8	92.9	1.1%	30.4%	85.2	68.9	(19.1%)	(25.8%)
Net debt/EBITDA (x)	2.9	2.9			1.9	1.6		
<u>Divisional revenues</u>								
PlanetArt	390.7	382.6	(2.1%)	4.5%	402.1	391.6	(2.6%)	2.3%
Avanquest	119.5	116.5	(2.5%)	13.9%	132.7	129.3	(2.5%)	11.0%
myDevices	6.6	8.1	22.6%	56.5%	7.0	10.0	43.3%	22.9%
Total	516.8	507.3	(1.8%)	7.1%	541.8	530.9	(2.0%)	4.7%
<u>Divisional EBITDA</u>								
PlanetArt	16.9	16.9	0.0%	3.8%	21.8	21.3	(2.3%)	26.0%
Avanquest	16.8	16.3	(3.0%)	40.0%	22.5	22.5	0.0%	38.0%
myDevices	(1.9)	(1.4)	(26.6%)	(43.0%)	(0.5)	0.0	(100.0%)	(100.0%)
Total EBITDA - pre IFRS 16	31.8	31.8	0.0%	24.8%	43.8	43.8	0.0%	37.6%

Source: Edison Investment Research

Exhibit 3: Financial summary

	€'m	2017	2018	2019	2020	2021	2022	2023e	2024e
Year end 30 June		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT									
Revenue		130.2	161.5	262.3	409.1	470.6	473.7	507.3	530.9
EBITDA		(5.0)	3.9	16.0	20.6	36.5	28.3	36.0	48.1
Company adjusted EBITDA		(5.0)	3.9	16.0	17.4	32.9	25.5	31.8	43.8
Normalised operating profit		(5.8)	3.4	15.5	15.8	31.0	23.7	31.0	43.1
Amortisation of acquired intangibles		0.0	0.0	(1.5)	(2.4)	(3.1)	(3.8)	(4.5)	(4.7)
Exceptionals		0.4	(2.4)	(2.9)	(5.6)	(4.4)	(0.7)	(2.2)	0.0
Share-based payments		(4.8)	(7.1)	0.3	0.0	0.0	(1.2)	(0.5)	0.0
Reported operating profit		(10.1)	(6.1)	11.4	7.8	23.5	18.0	23.8	38.4
Net Interest		(0.9)	(0.3)	(3.5)	(4.5)	(6.8)	(16.5)	(21.2)	(20.8)
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	(45.6)	0.0	0.0	(5.7)	0.0	0.0
Profit Before Tax (norm)		(6.6)	3.1	12.0	11.3	24.2	7.2	9.8	22.3
Profit Before Tax (reported)		(11.0)	(6.4)	(37.7)	3.3	16.7	(4.2)	2.6	17.6
Reported tax		0.4	(1.8)	(3.7)	(2.1)	(3.5)	(5.7)	(4.4)	(4.0)
Profit After Tax (norm)		(7.0)	2.4	9.2	8.7	18.6	5.5	7.5	17.2
Profit After Tax (reported)		(11.4)	(8.2)	(41.4)	1.2	13.2	(10.0)	(1.9)	13.5
Minority interests		0.3	0.2	0.6	(0.7)	(3.7)	(0.5)	0.5	(0.5)
Discontinued operations		0.0	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	14.9	5.0	8.0	16.7
Net income (reported)		(11.0)	(7.9)	(40.8)	0.5	9.5	(10.5)	(1.3)	13.1
Basic ave. number of shares outstanding (m)		38	39	39	39	39	43	46	56
EPS - basic normalised (€)		(0.18)	0.07	0.25	0.20	0.38	0.12	0.18	0.30
EPS - diluted normalised (€)		(0.18)	0.06	0.25	0.20	0.37	0.11	0.16	0.28
EPS - basic reported (€)		(0.29)	(0.20)	(1.04)	0.01	0.24	(0.25)	(0.03)	0.23
Dividend (€)		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Revenue growth (%)		10.9	24.0	62.4	56.0	15.0	0.7	7.1	4.7
EBITDA Margin (%)		-3.8	2.4	6.1	5.0	7.7	6.0	7.1	9.1
Company adjusted EBITDA margin (%)		-3.8	2.4	6.1	4.3	7.0	5.4	6.3	8.2
Normalised Operating Margin (%)		-4.4	2.1	5.9	3.9	6.6	5.0	6.1	8.1
BALANCE SHEET									
Fixed Assets		2.0	1.3	75.1	93.7	96.6	123.3	147.9	143.8
Intangible Assets		0.9	0.5	69.9	70.5	77.5	96.6	120.6	115.9
Tangible Assets		0.3	0.2	1.4	15.7	12.2	18.2	18.8	19.4
Investments & other		0.7	0.6	3.8	7.5	6.9	8.5	8.5	8.5
Current Assets		28.1	79.1	100.9	116.3	128.4	146.7	151.2	146.3
Stocks		3.7	3.7	4.8	14.4	16.1	22.0	23.6	24.7
Debtors		4.3	4.9	11.6	9.9	9.2	8.3	8.9	9.3
Cash & cash equivalents		17.1	65.7	75.4	82.8	90.4	100.3	102.6	96.2
Other		2.9	4.8	9.1	9.2	12.7	16.1	16.1	16.1
Current Liabilities		(28.1)	(37.2)	(60.5)	(74.6)	(76.7)	(106.0)	(110.8)	(112.8)
Creditors		(26.6)	(35.4)	(54.8)	(64.3)	(63.8)	(78.1)	(82.9)	(84.9)
Tax and social security		(0.3)	(1.7)	(3.0)	(1.2)	(2.0)	(1.9)	(1.9)	(1.9)
Short term borrowings		(1.1)	(0.1)	(2.7)	(6.1)	(7.7)	(22.6)	(22.6)	(22.6)
Other		0.0	0.0	0.0	(3.0)	(3.2)	(3.4)	(3.4)	(3.4)
Long Term Liabilities		(0.7)	(29.0)	(52.0)	(73.1)	(66.1)	(162.3)	(186.3)	(155.9)
Long term borrowings		0.0	(28.1)	(49.1)	(62.8)	(57.4)	(148.9)	(172.9)	(142.5)
Other long term liabilities		(0.7)	(0.9)	(2.9)	(10.3)	(8.7)	(13.4)	(13.4)	(13.4)
Net Assets		1.3	14.2	63.6	62.3	82.2	1.7	2.0	21.4
Minority interests		(0.1)	(1.8)	(11.0)	(11.7)	(16.2)	(3.3)	1.0	6.6
Shareholders' equity		1.2	12.5	52.6	50.6	66.0	(1.6)	3.1	27.9
CASH FLOW									
Op Cash Flow before WC and tax		(5.0)	3.9	16.0	20.6	36.5	28.3	36.0	48.1
Working capital		6.8	7.9	(4.1)	22.5	(3.1)	3.2	2.6	0.5
Exceptional & other		(2.2)	(5.7)	(5.2)	(6.3)	(8.9)	(4.2)	(2.2)	0.0
Tax		(0.0)	(1.2)	(3.8)	(6.8)	(5.1)	(9.4)	(4.4)	(4.0)
Net operating cash flow		(0.4)	5.0	3.0	30.0	19.4	17.9	32.0	44.5
Capex		(0.2)	(0.1)	(2.5)	(1.2)	(3.8)	(2.2)	(2.0)	(2.0)
Acquisitions/disposals		3.6	14.2	(13.3)	(31.9)	(3.8)	(73.3)	(26.8)	(11.5)
Net interest		(0.0)	(0.3)	0.0	(0.5)	(0.7)	(1.7)	(7.2)	(6.8)
Equity financing		1.9	2.0	(1.4)	0.0	2.4	13.3	0.0	17.3
Dividends		0.0	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)	1.9	(3.6)	(3.6)
Net Cash Flow		5.0	20.1	(14.2)	(3.2)	11.0	(44.1)	(7.7)	38.0
Opening net debt/(cash)		(9.8)	(16.0)	(37.5)	(23.6)	(13.9)	(25.3)	71.2	92.9
FX		(0.6)	0.4	0.3	(0.8)	1.8	2.1	0.0	0.0
Other non-cash movements		1.8	1.1	0.0	(5.7)	(1.3)	(54.5)	(14.0)	(14.0)
Closing net debt/(cash)		(16.0)	(37.5)	(23.6)	(13.9)	(25.3)	71.2	92.9	68.9

Source: Claranova, Edison Investment Research

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