

Claranova Buy

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France | IT services & software

MCap: EUR68.3m

Target Price: EUR3.50
Current Price: EUR1.49
Up/downside: 135.5%
Market data: 11 October 2023

Bloomberg: CLA FP Reuters: AVQ.PA
Free float 71%
Avg. daily volume (EURm) 0.2
YTD abs performance -45.9%
52-week high/low (EUR) 2.97/1.40

FY 2022/23 review: First take

Key points:

- Adjusted EBITDA met guidance and consensus; net income was negatively impacted by OCEANE. Avanquest showed strong profitability, while PlanetArt continued to face challenges due to higher input costs.
- Financial debt reached EUR179m, with net debt increasing to EUR112m. After the recent capital increase, net debt stood at around EUR97m, with equity at EUR1.3m (vs. EUR-16m at end-FY 2022).
- Management guides for a 10% adj. EBITDA margin this year, while targeting revenues of EUR700m in the next few years. Note that achieving this profitability objective could be challenging, due to the necessary price increases at PlanetArt, the potential limited M&A in the short term, and the need to balance cost savings with higher growth in FY 2023/24.

FY 2022/23 results: Adj. EBITDA within guidance, in line with consensus, net income largely hampered by OCEANE

- Recall that Claranova already published its full-year sales in August. For the record, FY 2022/23 sales (July-June) were below 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).
- Profitability-wise, adj. EBITDA reached EUR32.5m in FY 2022/23 (+27% YOY, 6.4% margin), within the group's guidance range (+25-30%) and in line with the street (EUR32.6m). We were more cautious at c. EUR30m.
- Management's effort to reduce PlanetArt's and Avanquest's marketing investments and optimise cost structure pay off in H2, as announced. By division, Avanquest led the pack (EUR17m adj. EBITDA, 14.7% margin vs. EUR11.6m, 11.4% margin in FY 2021/22), now that its SaaS transition is over, while PlanetArt (EUR15m, 3.9% margin vs. EUR16.3m, 4.5% margin in FY 2021/22) continued to be impacted by higher input costs (i.e. transport, paper costs, wages in the US).
- Down the P&L, recurring EBIT reached EUR25m (+34% YOY, c. 5% margin), bang in line with KECH and consensus, while net income bottomed at EUR-11m - once again hardly hampered by the OCEANE (EUR-15m). Note that management is currently in talks to restructure this debt, which matures in one year.
- Below is a summary of Claranova's FY 2022/23 key P&L figures (vs. KECH and consensus).

Table 1: FY 2022/23 results overview (end-June)*

EURm	FY 2022/23	FY 2021/22	YOY (%)	LFL (%)	KECH	Consensus**	Δ vs. KECH	Δ vs. Cons
Revenue (already published)**	507.0	473.7	7.0%	2.0%	510.2	512.3	-0.6%	-1.0%
o/w PlanetArt	383.0	366.2	4.0%	0.0%	388.2		-1.3%	
o/w Avanquest	116.0	102.2	14.0%	6.0%	115.8		0.2%	
o/w myDevices	8.0	5.2	57.0%	46.0%	6.2		28.2%	
EBITDA adj.	32.5	25.5	29.4%		29.6	32.6	11.6%	1.2%
EBITDA adj. margin (%)	6.4%	5.4%	1.1pp		5.8%	6.4%	0.7pp	0.1pp
o/w PlanetArt	15.0	16.3	-8.0%		17.4		-13.9%	
Margin (%)	3.9%	4.5%	-0.5pp		4.5%		-0.6pp	
o/w Avanquest	17.0	11.6	46.6%		16.1		5.6%	
Margin (%)	14.7%	11.4%	3.3pp		13.9%		0.7pp	
o/w myDevices	0.1	-2.4	nm-		-4.0		nm-	
Margin (%)	1.3%	-46.2%	nm-		-64.1%		nm-	
Recurring EBIT	25.0	18.7	33.7%		25.0	24.4	0.0%	2.5%
Margin (%)	4.9%	3.9%	1.0pp		4.9%	4.8%	0.0pp	0.2pp
Net income rep. (Group share)	-11.0	-10.6	-3.8%		-3.4	-3.2	nm-	nm-

*Rounded difference may occur; **Blomberg consensus (consensus and KECH estimates for sales correspond to pre-August release numbers); Sources: Claranova, Kepler Cheuvreux

- On the balance sheet, financial debt reached EUR179m, while net debt increased to EUR112m (vs. EUR71m in FY 2021/22). After the recent capital increase of c. EUR18.5m (of which EUR15m set-off against LIH debt), accounted for in FY 2023/24, net debt lands at c. EUR97m and equity at EUR1.3m.

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FY 2023/24 guidance in perspective: Adj. EBITDA margin of 10% set for this year

- Management is targeting a 10% adjusted EBITDA margin for FY 2023/24, with a goal of EUR700m in revenues over the coming years, including inorganic growth, which could be limited in the short term. Also, the primary focus remains on repaying the OCEANE debt set to mature within a year.
- Note that achieving this profitability objective could be challenging, due to the necessary price increases at PlanetArt, the potential limited M&A in the short term, and the need to balance cost savings with higher growth in FY 2023/24.
- For the record, both we and consensus were below the group's profitability guidance before the release (KECH: 6.6%, consensus: 7.4%). Recall that this target was initially set for FY 2024/25 when the group published its FY 2022/23 sales in August.

Appendix 1: Research framework

Last model update: 03 August 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 new marketing channels at PlanetArt, 2) continued momentum at Avanquest, with potential M&A, and 3) gradual take-off of myDevices.
- While there are uncertainties in the short term, we believe the already discounted valuation limits downside risk from here. Plus, a potential spin-off of subsidiaries remains a strong driver for our case in the mid-term.

Catalysts

- Gradual improvement at PlanetArt, with progress on scalability.
- Strong organic momentum at Avanquest, potential M&A, sale of non-core businesses.
- Spin-off of PlanetArt and/or Avanquest in the mid 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

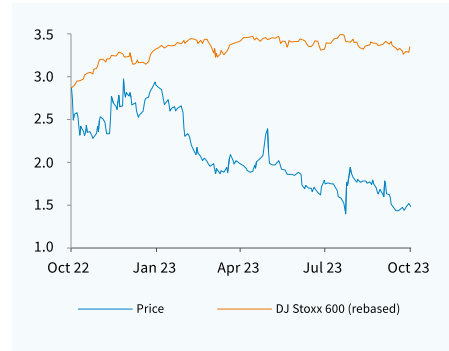
- Macroeconomic risks (decrease in consumers' purchasing power, high input costs, high beta stock).
- New Apple Privacy Policy with iOS 14.5 launch in April 2021 (failure to compensate for a large part of Apple's stricter confidentiality policy, meaning slower top-line growth or margins depending on 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, 75% of sales), 2) Avanquest (B2C SaaS software publishing, 23%), and 3) myDevices (IoT, 2%).

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.
- Weak track record, and governance issues.
- High beta stock, high volatility.
- Few institutional investors in the capital.

Threats

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

Appendix 5: Key financials

Last model update: 11 October 2023

Market data date: 11 October 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	507.0	547.8	598.3
% Change	26.1%	10.9%	24.0%	62.4%	56.0%	15.4%	0.4%	7.1%	8.0%	9.2%
EBITDA adjusted	-11.2	-5.0	3.8	16.0	17.5	34.2	25.5	29.6	36.3	45.4
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	25.0	31.9	41.2
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	-8.2	-8.2
Others	-1.6	-0.9	-0.3	-0.8	-1.3	-2.7	-16.2	-16.0	-10.0	-5.0
Tax	-0.8	-0.4	-1.8	-3.7	-2.1	-3.8	-5.8	1.6	-2.4	-5.9
Net profit from continuing operations	-28.6	-11.4	-8.3	-41.4	1.2	14.2	-10.1	-3.3	5.9	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	-3.3	5.9	16.1
Net profit reported	-28.6	-11.0	-8.1	-40.8	0.5	10.5	-10.6	-3.4	5.9	16.0
Net profit adjusted	-18.6	-6.7	1.4	9.0	5.9	15.4	-10.1	1.3	11.1	21.7
Cash Flow Statement (EURm)										
Levered post tax CF before capex	-11.4	-0.4	5.0	7.1	29.4	18.8	16.1	9.7	17.7	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	4.6	12.2	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	2.3	0.0
Change in net financial debt	14.1	-6.3	-21.5	13.9	9.7	-11.5	96.6	19.9	-14.5	-22.8
Balance Sheet (EURm)										
Intangible assets	1.5	0.9	0.5	69.9	70.5	77.5	96.6	111.3	109.0	106.9
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	-1.4	21.7	37.8
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	274.4	266.4	274.9
Net debt	-9.8	-15.9	-37.4	-23.1	-3.4	-15.6	86.3	106.2	76.6	53.8
Net financial debt	-9.8	-16.0	-37.5	-23.6	-13.9	-25.4	71.1	91.0	61.4	38.6
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	-37.9	-41.0	-44.8
Invested capital	-8.2	-14.7	-22.9	39.0	54.1	63.2	81.3	97.8	91.5	84.7
Per share data (EUR)										
EPS adjusted	-0.05	-0.02	0.00	0.23	0.15	0.39	-0.24	0.03	0.22	0.38
EPS adj and fully diluted	-0.05	-0.02	0.00	0.23	0.15	0.39	-0.22	0.03	0.20	0.36
% Change	+chg	+chg	+chg	6610.2%	-34.4%	162.0%	-chg	+chg	643.1%	77.4%
EPS reported	-0.08	-0.03	-0.02	-1.04	0.01	0.27	-0.25	-0.08	0.12	0.28
Cash flow per share	-0.03	0.00	0.01	0.18	0.75	0.48	0.38	0.21	0.35	0.51
Book value per share	0.01	0.00	0.03	1.34	1.29	1.70	-0.03	-0.11	0.36	0.61
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	163.5%	82.1%
ROIC (%)	na	na	na	195.1%	10.5%	39.3%	61.6%	18.7%	24.0%	34.1%
ND(F+IFRS16) / EBITDA (x)	0.9	3.2	-9.9	-1.5	-0.2	-0.5	3.3	3.5	2.1	1.1
Gearing (%)	-466.7%	-1,230.8%	-262.2%	-37.1%	-22.3%	-30.5%	na	na	282.5%	102.1%
Valuation										
P/E adjusted	na	na	na	34.4	45.3	17.0	na	50.5	6.9	3.9
P/E adjusted and fully diluted	na	na	na	35.0	46.1	17.2	na	55.2	7.4	4.2
P/BV	na	na	na	5.9	5.3	3.9	na	na	4.1	2.5
P/CF	na	na	na	43.6	9.1	14.0	13.6	7.0	4.3	2.9
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%	67.3%
FCF yield (%)	-3.4%	-0.1%	0.2%	1.5%	10.5%	5.7%	5.9%	6.8%	14.4%	26.9%
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	5.9	4.5	3.1
EV/EBIT adj.	na	na	na	20.8	20.6	9.0	17.3	7.0	5.1	3.4

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Claranova (EUR)	17/07/2023 06:29	Equity Research	Buy	3.50	1.76

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Local insight, European scale.



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