EDISON Scale research report - Update

CLIQ Digital

Media

16 April 2020

Price	**€4.2**
Market cap	**€26m**

Share price graph

Share details

Code	CLIQ
Listing	Deutsche Börse Scale
Shares in issue	6.2m
Last reported net debt at 31 December 2019	€9.6m

Business description

CLIQ Digital is a leading direct marketing and sales organisation for digital products, with its own global payments and distribution platform. It works with in 34 countries. In 2019 77% of sales were generated in Europe, 14% in North America, 9% in other regions.

Bull

- Well placed to benefit from increased consumer appetite for digital entertainment.
- Increasing mobile bandwidth.
- Agility through using licensed content.

Bear

- As the group scales it may become harder to maintain the same rate of marketing efficiency.
- Dependence on major payment service providers.
- Competitive markets.

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Direct media buying paying off

CLIQ Digital performed strongly in H219, with gross revenues up by 24% against H218. This reflects the successful strategic change to direct media buying, which attracted more – and more profitable – customers. With further investments in content and the COVID-19 pandemic boosting people's appetite for digital entertainment as their options are more limited, management has outlined ambitious targets for FY20 growth. The shares continue to trade at a substantial discount to peers.

H219 accelerating growth

CLIQ Digital continues to improve its use of data to target its marketing and drive conversion of web and mobile traffic to active subscriptions. Being in control of its own spend, rather than reliant on affiliates, is also helping attract more profitable subscribers. CLIQ group uses the ratio of average revenue per user (ARPU, taken over their first six months) to cost per customer acquisition (CPA), termed the 'CLIQ factor', to measure this metric. This was 1.36x for FY18, climbing to 1.40x for H119 then 1.51x for the full year. Marketing spend is the key variable, driving customer recruitment, and this increased 18% year-on-year. Operating expenses grew by 2% in FY19 (excluding impairment), less than the 13% increase in net revenues after third-party costs, lifting EBITDA margins from 6.7% in FY18 to 9.1% in FY19.

Favourable factors for FY20

Market consensus is a little under that indicated by management in its outlook statement. This statement envisages gross revenue increasing by 19% to €75.0m in FY20, with EBITDA climbing from €5.8m in FY19 to €7.5m. The underlying market attributes of growing numbers of increasingly sophisticated mobile devices, with constant demand for entertainment (games, video, eSports, audiobooks etc) providing a strong backdrop. The COVID-19 situation is possibly beneficial as people have more time on their hands and fewer opportunities for other activities.

Valuation: Discount to peers

CLIQ Digital's share price fell from €4.21 in mid-February to €2.29 in mid-March as markets struggled to evaluate the coronavirus impact. It has since recovered to above previous highs. At 0.6x FY20e consensus sales and 10.2x FY20e net earnings, CLIQ still trades at a substantial discount to a broader peer set of user-acquisition groups, although the range of multiples is very wide. Continued delivery on improving revenue and margin could lead to this discount to peers narrowing.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	EV/EBIT (x)	P/E (x)	Yield (%)
12/18	58.2	3.4	0.34	0.0	13.0	12.5	N/A
12/19	63.1	3.9	0.35	0.0	8.1	12.2	N/A
12/20e	70.7	5.6	0.43	0.0	6.3	10.2	N/A
12/21e	74.2	6.3	0.55	0.0	5.7	7.7	N/A

Source: Refinitiv

Review of FY19 results

Exhibit 1 below details CLIQ's operational performance during FY19 and the trends between half years. The beneficial effect of the change of marketing strategy from an affiliate-derived model to one where media is bought directly, implemented in late 2018 and into early 2019, is apparent in the figures. These show the decline in gross revenue slowing in H1 and reversing in H2.

Generally, the third-party share of revenue varies widely between countries and can be as low as 25% or as high as 70%. However, there is a benefit from the increasing consumer acceptance to the use of linked credit cards for mobile purchases, which reduces the cost of sales attributable to third parties.

Exhibit 1: P&L highlights

	2017	H118	H218	2018	H119	H219	2019
Revenue (€m)	70.5	30.0	28.2	58.2	28.2	34.9	63.1
Growth y-o-y %		-13	-22	-17	-8	24	8
Net revenue (€m)	42.5	19.6	19.5	39.1	20.5	23.7	44.2
Growth y-o-y %				-8	5	22	13
Gross profit (€m)	17.9	8.4	7.7	16.1	7.9	10.9	18.8
Growth y-o-y %				-10	-6	42	16
Opex (€m)	12	6.7	5.3	12.3	5.6	7.4	13.0
Growth y-o-y %				-2	-16	40	6
EBITDA (€m)	5.5	2.0	1.9	3.9	1.8	4.0	5.8
EBIT (€m)	5.2	1.5	1.5	3.0	2.4	2.4	4.8
Growth y-o-y %		-38	-46	-42	1	60	60
PBT (€m)	4.5	2.05	1.35	3.4	1.9	2.0	3.9
Attributable profit (€m)	3.3	1.41	0.79	2.2	0.47	1.73	2.21
EPS diluted (€)	0.52	0.22	0.12	0.34	0.08	0.27	0.35
Growth y-o-y %		-4	-59	-35	-64	125	3
Gross profit margin	25.4%	27.5%	27.8%	27.7%	28.0%	31.2%	29.8%
EBITDA margin	7.8%	6.5%	6.9%	6.7%	6.4%	11.5%	9.1%
EBIT margin	7.4%	4.9%	5.4%	5.2%	8.5%	6.9%	7.6%
Attributable profit margin	4.7%	4.6%	2.9%	3.8%	1.7%	5.0%	3.5%

Source: Company accounts, Edison Investment Research

Key to the improving EBITDA/EBIT margins has been the management of operating expenses. This relates to both personnel costs and other operating expenses and partly reflects the better co-ordination and integration of the commercial offerings across the group's different territories. This could relate to expertise, specific digital entertainment services (such as audio books or eSports), technology or market connections. Of note is that ownership of the UK subsidiary (Red27Mobile) was increased from 51% to 80% on 1 April 2019, which will have made this process simpler.

There is also a benefit to the group from reporting and operational synergies, as well as cost savings. Exhibit 2 shows how the group's FY19 performance compared to management's previously published guidance, outperforming on all the identified criteria.

Exhibit 2: FY19 KPI targets

	FY19 target	FY19 outcome
Revenue	Steady organic growth	8%
Gross margin	Increase	27.7% in FY18 to 29.8%
ARPU/CPA (CLIQ factor)	Stable	Good improvement
Marketing spend (€m)	Increase	18% increase
EBITDA (€m)	Increase	49% increase
Net income (€m)	Sustainable increase	3% for shareholders, doubling for minorities

Source: Company accounts

Marketing spend increasing

Exhibit 3 below highlights how the KPIs have driven the P&L performance through 2018 and 2019. Management has also published its expectations for FY20, which are included here and show a further increase in marketing spend, but at a slightly lower rate of increase than revenue.

Exhibit 3: Development of KPIs

	FY17	H118	H218	FY18	H119	H219	FY19	FY20e guidance
Revenue (€m)	70.5	30.6	27.7	58.2	28.2	34.9	63.1	75.0
Growth y-o-y %	8	-13	-22	-17	-8	26	8	19
CLIQ factor (ARPA/ CPA)	1.47	1.38		1.36	1.40		1.51	1.58
Growth y-o-y %	4	-7		-7	+1		11	5
Customer base value (€m)	26	25		24	24.5		26	
Growth y-o-y %	24	-7		-8	-2		8	
Marketing spend (€m)	18.6	10.6	8.2	18.8	9.8	12.4	22.2	26.0
Growth y-o-y %	-14	10		1	-1	51	18	17

Source: Company accounts, Edison Investment Research

Balance sheet reflects high H219 growth

In FY19, the company generated net operating cash flow of €2.5m, which looks low compared to both the EBITDA of €5.8m and the prior year figure of €3.8m. However, this reflects the busy run up to the group’s financial year-end, where marketing costs must be settled immediately but the revenue they generate is accrued over a longer period. Financing activities consumed €5.0m, with the largest element being the payment of €3.4m of the costs of increasing the Red27Mobile stake. €0.9m was spent to repay borrowings, with associated costs of these two items adding another €0.4m. Lease instalments of €0.3m constituted the balance. With capex of €0.4m (down from €0.6m in FY18), this resulted in an FY19 free cash net outflow of €2.9m.

At the balance sheet date, the group had net debt of €9.6m (€10.2m including leases under IFRS16). This comprised cash of €0.7m and bank debt of €10.3m, including €0.4m of capitalised finance expenses. The balance sheet also carries contingent consideration of €1.2m and deferred payments of €0.8m relating to the acquisition of the additional 29% share in Red27Mobile.

Consensus forecasts and valuation

Marketing spend is key to driving traffic, with an inevitable slight lag to come through into revenue, so again, higher spend in H219 would be expected to result in growing revenues for FY20. As shown in Exhibit 3, above, management expects a further improvement in the CLIQ factor for FY20 to 1.58x from 1.51x. The big step up in FY19 reflects the lengthening record of data collection and experience built around conversion and it seems to us reasonable that further progress should be made here. The more efficient the marketing effort, the lower the CPA. The more targeted the marketing spend is towards a higher revenue generating cohort of customers, the greater the ARPU.

However, it is of no longer-term value to be increasing the sales effort if there is no transfer of value to the subscriber and CLIQ has also been working to improve the attractiveness of its consumer offering through adding content. It should be noted that CLIQ does not develop any significant content itself. Its expertise is in finding and licensing multiple content categories of the type will attract consumers. These are bundled within one subscription and in one place, without any device restrictions. The current product range comprises of music, audiobooks, sports, movies and games.

Management guidance is for revenue to increase by 19% to €75.0m and for EBITDA to climb from €5.8m to €7.5m in FY20, a 29% gain and an improvement in EBITDA margin from 9.2% to 10.0%.

Assuming gross margin stays around 30%, this implies the increase in operating expenses is restricted to 15%, which looks a reasonable assumption.

Current market estimates have not yet been updated post publication of the full report and accounts and are for slower top-line growth of 12% in FY20, but with a similar increment in margin.

Exhibit 4: Peer comparison

Name	Market cap (m)	Sales growth (%)		EV/sales (x)		EV/EBIT (x)		P/E (x)		Hist div yield (%)
		1FY	2FY	1FY	2FY	1FY	2FY	1FY	2FY	Last
IMImobile	£229	21	15	1.5	1.3	15.0	12.3	18.8	15.9	N/A
XLMedia	£38	(34)	(4)	0.2	0.3	0.8	1.7	2.5	3.7	27.8
Tremor	£182	30	-	0.4	-	2.3	-	8.4	3.8	N/A
Claranova	€162	56	18	0.4	0.3	9.4	5.2	31.2	10.9	N/A
Kape Technologies	£260	84	12	2.4	2.1	8.7	7.6	16.5	12.4	N/A
Average		**31**	**10**	**1.0**	**1.0**	**7.2**	**6.7**	**14.6**	**9.3**	**N/A**
CLIQ Digital	€27	12	5	0.6	0.5	6.3	5.7	10.2	7.9	N/A
Discount		61%	50%	37%	47%	12%	15%	30%	15%	

Source: Refinitiv. Note: Prices at 14 April 2020. Note: Claranova is a research client of Edison Investment Research.

The shares continue to trade at a substantial discount to the wider peer group across all metrics. The average of EV/sales, EV/EBIT (used to eliminate discrepancies between those who have reported under IFRS 16 and those that have not) and P/E across current year and forecast year is 26%. Given the improvement in the financial performance of CLIQ Digital, we feel the extent of this discount is probably too great, particularly as the business model is more resilient to the current economic backdrop than some of the others cited here which are more dependent on general levels of advertising spend.

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