

# Cliq Digital

Cliq here for entertainment

Initiation of forecasts

Cliq Digital is building a substantial business away from the premium end of the entertainment streaming market. Its proposition of a broad spread of content for a relatively low monthly fee is attractive, but the key underlying strength of the group is its customer recruitment marketing. Moving to its own media buying has increased marketing efficiency, and enabled scaling up in North American markets, now set to be replicated in Europe. FY20 figures showed a step change in profitability and our forecasts, initiated here, indicate continuing strong growth over at least the next two years. The share price has performed very strongly yet the rating remains at a discount to entertainment and customer acquisition peers.

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	EV/EBIT (x)	P/E (x)	Yield (%)
12/19	63.1	3.9	0.36	0.28	45.4	101.0	0.8
12/20	107.0	14.4	1.16	0.46	14.2	31.3	1.3
12/21e	142.0	20.7	1.61	0.64	10.1	22.6	1.8
12/22e	172.7	28.3	2.20	0.88	7.5	16.5	2.4

Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles and exceptional items.

## Enriched content offering

For FY21, management has guided to revenues over €140m, with EBITDA in the region of €22m. Our newly instigated forecast is a shade ahead. We expect revenues to grow by over 20% again in FY22e, reflecting the positive impact of the planned marketing spend on recruiting new subscribers. Additional content categories, such as games, and an enriched content offering in existing categories, such as Hollywood blockbusters, should help keep customer interest high. Cliq is not in the business of generating original content, generally licensing in what it needs by territory, and its recent games partnership with Utomik may be a model for further content access. The COVID-19 pandemic may have boosted demand for mobile entertainment but has also made consumers more comfortable with online and mobile transactions. This is likely to persist as live entertainment resumes.

## Marketing feeds growth

Marketing is the main element of group costs, typically running at around one-third of revenue, but is effectively an investment in building future revenues. The group uses the 'CLIQ Factor' to measure its marketing efficiency, being the average revenue per user over six months (ARPU) divided by the cost of customer acquisition (CPA). The minimum is set at 1.4x, equivalent to a 30% gross margin.

## Valuation: Upgrades mean continuing discount

Cliq Digital has started to deliver on its strategy, with several guidance upgrades, and the share price has responded very strongly, climbing 669% over the last year. The rating nevertheless remains at a discount to other global entertainment and customer acquisition peers on EV/Sales, EV/EBIT and P/E. Parity on these metrics averaged across FY21 and FY22 would indicate a share price of €69.22. A DCF at an 8.5% WACC and 2% terminal growth indicates a value of €60.79, with the midpoint of these two values being €65.01.

Media

28 April 2021

**Price** €36.35

**Market cap** €225m

Net cash (€m) at 31 December 2020 1.1

Shares in issue 6.2m

Free float 83%

Code CLIQ

Primary exchange XETRA

Secondary exchange FRA

### Share price performance



% 1m 3m 12m

Abs 15.0 99.7 718.7

Rel (local) 10.9 81.1 453.2

52-week high/low €41.00 €4.08

### Business description

Cliq Digital is a leading lifestyle company providing members worldwide with streaming entertainment services. In 2020, 45% of sales were generated in Europe, 48% in North America and 7% in other regions.

### Next events

Q121 results 6 May 2021

H121 results 3 August 2021

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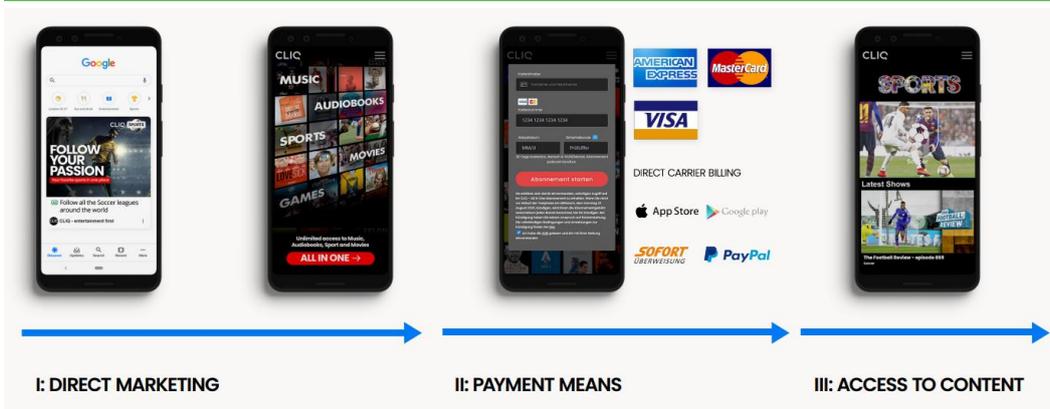
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## An attractive market proposition

Cliq provides streaming entertainment services. It recruits its customers through marketing activity, often through searches for typical terms via search engines such as Google, or from social media and publisher marketing referring to categories such as sport, music or films. Links then lead the potential customer to a group website or portal (which could be branded to the content category) where they are encouraged to subscribe, with the first month of subscription typically being free of charge. When a customer signs up, payment details are taken through a wide range of payment options, as illustrated below.

**Exhibit 1: Customer journey**



Source: Cliq Digital

The group is rolling out its all-in-one subscription offer, currently available in Germany and Austria, across territories at attractive price points – €14.99 in Europe. For this, up to five members of a household gain access to unlimited content across film, music, audiobooks, eBooks, sport and games. The content tends to be more ‘backlist’ oriented, licensed from a wide variety of sources and appealing to a mainstream, over-25 market. The library consists of over 1,000 films (including one Hollywood blockbuster per month on an all-in-one subscription), hundreds of curated music playlists, 150k audiobooks in more than 10 languages and over 1.2k core and casual games. Sports would tend to be curated highlights rather than long form, and cover sports such as Bundesliga, Champions League, NBA, MMA, NFL and Formula One among others.

## Marketing, content key to growth

With the first month usually free, the economics per customer obviously improve the longer they are retained. The group uses a metric, the CLIQ Factor, which represents ARPU divided by CPA, to determine its marketing efficiency. The growing historic data resource gives the group a clear indication of how profitable a subscriber is likely to be ‘within minutes’ of them signing up, through determining their likely subscription length compared with previous members, based on their profile and journey history. The example cited is of a subscriber with their first month free then paying €15 for five months, who cost €50 to recruit, giving a CLIQ Factor of 1.5x  $(= (5 \times 15) / 50)$ . The minimum is set at 1.4x, equivalent to a 30% gross margin. The extensive data that has been built up over the years of operation allows Cliq to determine almost immediately a new subscriber’s expected profitability within the first six months, after payment service provider costs.

Historically, Cliq carried out the bulk of its marketing and recruitment through affiliates which would earn a cut. From FY19, the emphasis switched to direct media buying. Here, the data referred to above has come into its own, by allowing the group to focus its marketing spend on audiences that should deliver greater profitability. In FY18, less than 10% of marketing spend was direct. By FY20,

it accounted for around €19m of the €34m spent. Over that period, the CLIQ Factor improved from 1.36x to 1.68x. This approach has fuelled the strong growth in North America (see below). The switch to own media buying is now being put in place in Europe, with sales teams recruited and productivity ramping up.

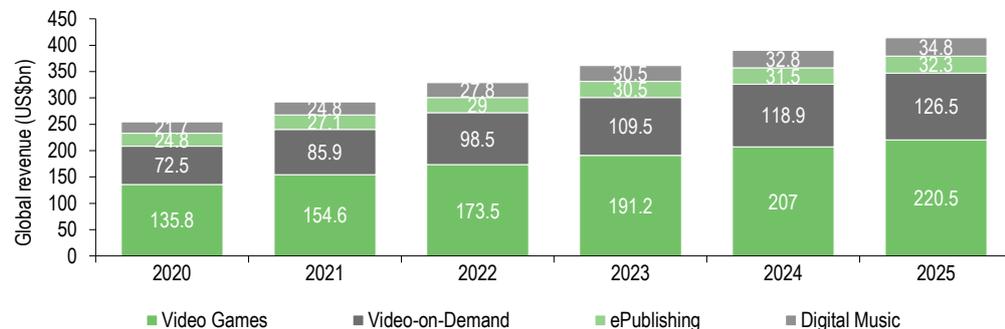
The group is constantly on the look out for complementary content. Upping the amount of local and localised content can also act as a differentiator from the premium market alternatives. We would assume that most customers would take a Cliq subscription additionally to services such as Netflix or Spotify. The addition of content categories and expansion of existing ones will be a key additional revenue driver. The type of content in which the group specialises means that it is unlikely to get drawn into the highly competitive end of the market, where prices have been spiralling. The recent partnership with Utomik on games suggests a less investment-intensive way of extending available content.

The group is also open to M&A opportunities for expansion in content, category, licensing or to gain footholds or step-ups in particular geographies.

## Industry landscape

Global sales across all media types are forecast to grow at a 10% CAGR over the next four years, driven primarily by improved global digital infrastructures. Underlying growth has also benefited from lockdown-driven consumer demand during 2020, which is expected to have a lasting positive net impact with 2025 sales forecasts upgraded from \$390bn pre-COVID-19 to US\$414bn post.

**Exhibit 2: Global media sales (US\$bn)**



Source: Statista, Edison Investment Research

Global internet penetration forms the basis of growth assumptions and in 2021 is anticipated to be 7.3% higher than in 2020 at 59.5%, driven by the development of telecommunication networks and infrastructure. On-the-go media consumption has been fuelled by an increasing number of smartphone users and supported by rising internet connection speeds. 5G has been the latest development in this area and is expected to surpass 4G in terms of speed by a factor of 10, which allows for the creation of innovative media content such as VR/AR, 360 video and latency-free multi-user gaming.

Europe and the US, Cliq’s main geographies, lead in key market indicators. Global internet penetration in 2020 was highest in the UK at 91.4%, with the US at 85.8% and Europe at 78.3% versus a global average of 60.5%. The UK also had the highest smartphone penetration in 2020 at 87.6%, with the US at 85.6% and Europe at 73.9% versus a global average of 54.6%. Consumer spending per capita was also highest in these regions, with the US leading at \$42,912, the UK at US\$26,807 and Europe at US\$14,327 versus a global average of US\$6,534.

## Valuation

Clq's share price performance has been extremely strong as the market has grasped the scale of the opportunity and management's success to date in monetising it. At the beginning of 2020, the shares were priced at €2.90 and by close of the year they had reached €16.60. The pace of appreciation has accelerated in FY21 to date, increasing by another 121%. A year ago, management guidance was for FY20 revenue of €75.0m and EBITDA of €7.5m. The delivered numbers were revenue of €107.0m (43% ahead of original guidance) and EBITDA of €15.9m, more than double the originally targeted level.

## Peer comparison

We have looked at CLIQ's current valuation in comparison with other entertainment and customer acquisition groups across various metrics, as shown below. It should be noted that these groups are of greatly differing scale and have widely differing business models, with correspondingly disparate growth characteristics. We have used the median to represent the average to try to counter some of the variance. Cliq's revenue growth is at the higher end of the range, yet its valuation is at a discount on EV/Sales, EV/EBIT and P/E for both FY21e and FY22e. Were the shares to be priced at parity to these peers (averaged across both years and these three metrics), the implied share price would be €69.22.

**Exhibit 3: Peer valuation metrics**

Company	Market Cap (m)	Share price per ytd (%)	Sales growth (%)		EV/Sales (x)		EV/EBIT (x)		P/E (x)		Hist div yield (%)
			FY1	FY2	FY1	FY2	FY1	FY2	FY1	FY2	
Cinedigm	\$246	130	-22	31	9.1	7.0	N/A	N/A	N/A	N/A	N/A
Stingray	C\$400	13	-10	16	2.9	2.5	9.9	8.6	8.6	8.2	3.3
Spotify	\$56,687	-5	20	19	4.9	4.1	N/A	N/A	N/A	N/A	N/A
Netflix	\$226,268	-6	19	15	7.9	6.9	38.3	30.1	48.4	39.4	N/A
Alchimie	€87	48	N/A	42	3.1	2.2	N/A	N/A	N/A	N/A	N/A
Pantaflix	€21	29	-18	53	0.8	0.5	N/A	12.0	N/A	17.1	0.0
Nordic Entertainment	SEK31,774	-11	5	19	2.7	2.3	36.3	37.2	45.5	43.1	0.0
Glu Mobile	\$2,202	39	8	12	3.0	2.7	19.5	15.2	24.8	20.4	N/A
Storytel	SEK13,949	-17	37	24	4.2	3.4	N/A	N/A	N/A	N/A	0.0
<b>Peer average</b>			<b>5</b>	<b>19</b>	<b>3.1</b>	<b>2.7</b>	<b>27.9</b>	<b>15.2</b>	<b>35.2</b>	<b>20.4</b>	<b>0.0</b>
Clq Digital	€227	121	33	22	1.6	1.3	10.6	7.8	22.7	16.7	1.3
<b>Premium/(discount)</b>					<b>(49%)</b>	<b>(52%)</b>	<b>(62%)</b>	<b>(49%)</b>	<b>(35%)</b>	<b>(18%)</b>	

Source: Refinitiv, Edison Investment Research. Note: Prices as at 27 April 2021.

## DCF sense check

**Exhibit 4: DCF under various WACC and terminal growth assumptions (€/share)**

WACC	Terminal growth rate				
	0.00%	1.00%	2.00%	3.00%	4.00%
10.50%	41.52	43.48	45.90	48.97	52.98
10.00%	43.80	46.07	48.91	52.56	57.43
9.50%	46.34	48.98	52.33	56.71	62.69
9.00%	49.16	52.26	56.25	61.57	69.01
8.50%	52.34	56.00	<b>60.79</b>	67.32	76.75
8.00%	55.92	60.28	66.09	74.23	86.44
7.50%	60.00	65.24	72.38	82.70	98.91
7.00%	64.69	71.05	79.95	93.31	115.57
6.50%	70.12	77.94	89.23	106.98	138.92
6.00%	76.48	86.23	100.86	125.24	173.99

Source: Edison Investment Research

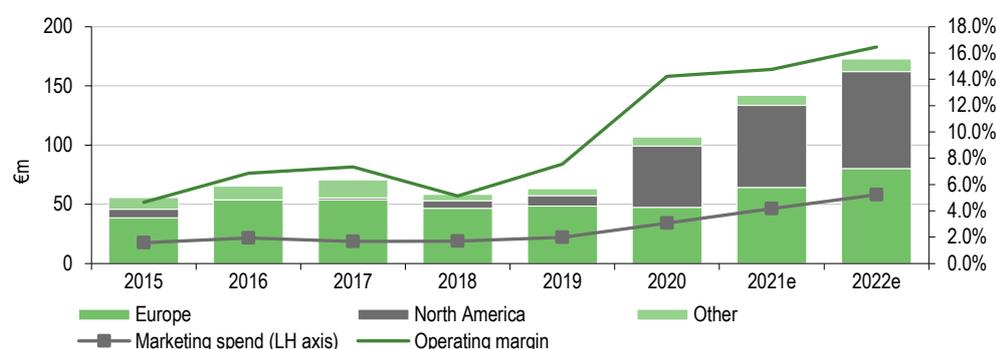
We have also looked at a DCF under various WACC and terminal growth assumptions, as shown above. Beyond our explicit forecast years, we have assumed a moderation of revenue growth rate

and some drift in EBITDA margin as content costs rise. On a WACC assumption of 8.5% and a terminal growth rate of 2%, the derived value would be €60.79, a little below that implied by the peer valuation approach, but still well ahead of the current level. The midpoint of these two derived values is €65.01.

## Financials

Revenues are driven by marketing spend. Exhibit 5 below clearly shows the shift in management strategy on the approach to sales implemented in FY18 and its subsequent positive impact on revenue and margin. Marketing spend is monitored on a daily basis, so that the group can adjust profitability.

**Exhibit 5: Revenue and operating margin development**



Source: Company accounts, Edison Investment Research

A detailed analysis of the FY20 results was given in our March [Scale update](#), which shows the breakdown half-year by half-year. In that report, we also outlined the development of historic management KPIs, along with FY21 guidance, shown again below. For the CLIQ Factor, a small reduction is anticipated from €1.68 to €1.60, as the new European media buying team gets up to speed. Customer base value, shown in this exhibit, represents the number of members (customers) multiplied by the remaining lifetime value per member – effectively the current book of business.

**Exhibit 6: Development of KPIs**

	FY18	H119	H219	FY19	H120	H220	FY20	FY21e guidance
Revenue (€m)	58.2	28.2	34.9	63.1	47.2	59.8	107.0	>140.0
Growth y-o-y %	-17	-8	+26	+8	+67	+71	+70	+31
CLIQ factor (ARPU/CPA)	1.36	1.40		1.51	1.64		1.68	1.60
Growth y-o-y %	-7	+1		+11	+1		+11	-5
Customer base value (€m)	24	24.5		26	31		35	
Growth y-o-y %	-8	-2		+8	+27		+35	
Marketing spend (€m)	18.8	9.8	12.4	22.2	13.1	21.1	34.2	46.0
Growth y-o-y %	1	-1	+51	+18	+34	+70	+54	+35

Source: Company accounts, Edison Investment Research

Marketing spend for FY21e is guided to around one-third of revenues. The element that can be directly allocated to new subscribers to subscription services (€30.5m of the total €34.2m FY21e spend) is accounted for and capitalised in the balance sheet as contract costs. These costs are released to the income statement over the member's revenue lifecycle with a maximum amortisation period of 18 months. Other costs of sales are mainly connectivity costs to payment service providers and content costs for licensed products. Personnel expenses were 12.8% of revenues and the largest element of operating cost.

Our forecasts are predicated on continuing top-line growth driven, as explained, by the marketing spend, increasing 33% in FY21e and 22% in the following year. We anticipate better growth from Europe as the new direct media buying efforts produce results, with continued growth in the North American market, albeit not at the spectacular pace experienced in FY20. Our FY21 projection of €142.0m is a shade ahead of management guidance, as is our EBITDA projection of €22.6m (guidance: c €22.0m). Our modelling suggests that this translates into EPS of €1.61, up 39% on the prior year.

### **Improved profitability translating to cash**

Operating cash flow improved markedly in FY20, increasing from €2.5m to €14.8m, with free cash flow of €10.5m. This is a clear benefit of the scaling up, with limited capital spend required in the business model. Capex was €0.7m in FY20, up from €0.4m in the prior year. There will be some increase in overhead needed in FY21 as the direct media buying team in Europe is put in place, built into our modelling.

At the balance sheet date, the group had net cash of €0.9m (net debt of €1.1m including leases under IFRS 16), from net bank debt of €9.6m (€10.2m including leases) in FY19. The FY20 amount comprised cash of €4.9m and bank debt of €4.0m, including €0.2m of capitalised finance expenses. The balance sheet also carries contingent consideration of €0.7m. Our model shows a growing net cash resource, building to €8.4m by end FY21 and to around €17m by the end of the following year. We expect the group's financing facility of €13.5m, which runs through to March 2022, to be extended before expiry.

This gives scope for acquisitions but, as indicated above, there is no ambition to enter into the competitive market for high-profile original content. The content licensing model, away from 'front list' properties, will continue to form the bulk of the activity. M&A is more likely to take the form of a small digital marketing company, content supplier or streaming business that can bring in additional expertise, geographic specialisation or deliver new audiences.

**Exhibit 7: Financial summary**

	€m	2018	2019	2020	2021e	2022e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS
<b>INCOME STATEMENT</b>						
Gross revenue		58.2	63.1	107.0	142.0	172.7
Net revenue		39.1	44.3	81.5	119.1	152.1
Cost of Sales		(42.1)	(44.3)	(72.0)	(87.7)	(94.3)
Gross Profit		16.2	18.8	34.9	54.3	78.4
EBITDA		3.9	5.8	15.9	22.6	30.3
Normalised operating profit		3.0	4.8	15.2	21.3	28.9
Reported operating profit		3.0	4.8	15.2	21.3	28.9
Net Interest		0.4	(0.9)	(0.8)	(0.6)	(0.6)
Profit Before Tax (norm)		3.4	3.9	14.4	20.7	28.3
Profit Before Tax (reported)		3.4	3.9	14.4	20.7	28.3
Reported tax		(0.4)	0.0	(4.0)	(6.5)	(8.8)
Profit After Tax (norm)		3.0	3.9	10.4	14.2	19.5
Profit After Tax (reported)		3.0	3.9	10.4	14.2	19.5
Minority interests		0.8	1.7	3.3	4.3	5.8
Net income (normalised)		2.2	2.2	7.2	10.0	13.6
Net income (reported)		2.2	2.2	7.2	10.0	13.6
Basic average number of shares outstanding (m)		6.2	6.2	6.2	6.2	6.2
EPS - basic (€)		0.35	0.36	1.16	1.61	2.20
EPS - diluted (€)		0.34	0.35	1.14	1.59	2.17
Dividend (€)		0.00	0.28	0.46	0.64	0.88
Revenue growth (%)		(17.5)	8.5	69.4	32.8	21.6
Gross Margin (%)		27.8	29.8	32.7	38.3	45.4
EBITDA Margin (%)		6.6	9.1	14.9	15.9	17.5
Normalised Operating Margin		5.1	7.6	14.2	15.0	16.7
<b>BALANCE SHEET</b>						
Fixed Assets		52.8	52.9	55.2	55.4	55.6
Intangible Assets		0.9	0.7	0.8	1.1	1.6
Tangible Assets		1.3	0.7	2.2	2.0	1.7
Goodwill & other		50.6	51.5	52.3	52.3	52.3
Current Assets		12.9	15.2	21.7	34.9	49.8
Receivables		6.5	8.2	9.1	12.1	14.7
Cash & cash equivalents		1.3	0.7	4.9	12.1	18.8
Other		5.1	6.3	7.7	10.7	16.4
Current Liabilities		(8.0)	(8.7)	(12.9)	(13.7)	(14.4)
Creditors		(2.3)	(2.0)	(2.0)	(2.8)	(3.5)
Tax		(1.2)	(1.1)	(3.2)	(3.2)	(3.2)
Borrowings		(8.1)	0.0	0.0	0.0	0.0
Provisions		(0.0)	0.0	(0.4)	(0.4)	(0.4)
Other		(4.6)	(5.6)	(7.3)	(7.3)	(7.3)
Long Term Liabilities		(1.8)	(12.7)	(8.5)	(8.1)	(5.9)
Long term borrowings		0.0	(9.9)	(3.8)	(3.7)	(1.7)
Other long-term liabilities		(1.8)	(2.8)	(4.7)	(4.4)	(4.2)
Net Assets		55.9	46.7	55.6	68.4	85.2
Minority interests		0.8	2.0	4.8	9.1	14.9
Shareholders' equity		56.7	48.7	60.5	77.5	100.1
<b>CASH FLOW</b>						
Op Cash Flow before WC and tax		4.2	4.8	15.1	22.0	29.7
Working capital		3.2	(1.9)	1.6	(2.1)	(1.9)
Exceptional & other		(0.7)	0.9	0.9	(1.1)	(3.8)
Tax		(2.9)	(1.3)	(2.8)	(7.1)	(9.4)
Net operating cash flow		3.8	2.5	14.8	11.7	14.5
Capex		(0.6)	(0.4)	(0.7)	(1.4)	(1.6)
Acquisitions/disposals		(0.5)	(3.4)	0.0	0.0	0.0
Net interest		0.0	0.0	0.0	0.0	0.0
Equity financing		0.0	0.0	0.0	0.0	0.0
Dividends		0.0	0.0	(2.1)	(2.8)	(4.0)
Other		(4.0)	(1.6)	(1.5)	(0.3)	(0.3)
Net Cash Flow		(1.2)	(2.9)	10.5	7.2	8.7
Opening net debt/(cash)		5.5	6.8	9.2	(1.1)	(8.4)
FX		(0.0)	0.0	(0.0)	0.0	0.0
Other non-cash movements		0.0	0.4	(0.1)	0.1	0.0
Closing net debt/(cash)		6.8	9.2	(1.1)	(8.4)	(17.1)

Source: Company accounts, Edison Investment Research

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