

15 June 2020

CLIQ Digital AG

Rating Buy
Share price (EUR) 5.15
Target price (EUR) 10.00

Bloomberg Sector CLIQ GY Software

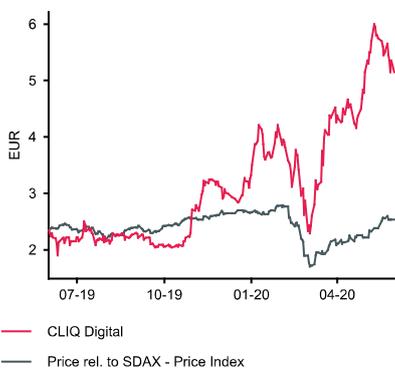
Share data

Shares out (m) 6.2
Daily volume shs (m) 0.1
Free float (%) 71.94
Market cap (EUR m) 34
EV (EUR m) 39
DPS (EUR) 0.00
Dividend yield (%) 0.0
Payout ratio (%) 0.0

Performance

ytd (%) 106.9
12 months (%) 150.0
12 months rel. (%) 147.9
Index SDAX

Share price performance



Source: Bloomberg

Next triggers

18 June: Quirin Champions Conference
20 August: Q2/20 Results

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CLIQ Digital to benefit from rising demand for streaming content

CLIQ Digital offers mobile entertainment products and operates in a very fast-moving market. The company sources and markets its products globally. Based on its inspiring growth perspectives we initiate coverage with a Buy recommendation and a EUR 10.00 TP, based on peer group and DCF.

Business model

CLIQ Digital is a digital lifestyle company, providing consumers worldwide with streaming entertainment services. The core business of the company is the direct marketing of its digital entertainment products to consumers via mobile and online marketing channels using its own payment and distribution platform. Therefore CLIQ is a valuable strategic business partner for networks, content owners and publishers.

The company is offering a wide range of digital streaming entertainment products (e. g. movies, music, games, e-books/audio-books, sports/fitness) to consumers worldwide, basically as subscription. This results in increasing revenues and cash-flows.

Strong Q1-20: EBITDA doubled

Due to rising demand for mobile entertainment, CLIQ was able to substantially increase its sales and earnings: Gross revenue increased in Q1-20 by 47% yoy to EUR 20.2m compared with EUR 13.8m in Q1-19. The EBITDA came in at EUR 2.2m. This represents a rise of 108% yoy compared to the EBITDA for Q1-19 (EUR 1.1m). In addition, its customer base value, an important indicator for estimating the expected net revenue based on existing customers, increased to EUR 29.0m at the end of Q1-20 compared to EUR 26.0m at the end of the fourth quarter of FY 2019.

FY 2020 outlook conservative – Initiation with Buy

The company confirmed its strong outlook for FY 2020, aiming at an organic gross revenue growth of 19% to EUR 75.0m (FY 2019: EUR 63.1m) and an EBITDA growing by 30% to at least EUR 7.5m (FY 2019: EUR 5.8m). Given the convincing Q1-20 figures, this outlook is rather conservative.

Due to its convincing growth perspectives we initiate coverage with a Buy recommendation. The EUR 10.00 TP is derived from a peer group approach and DCF-model.

Key figures		2018	2019	2020e	2021e	2022e
Sales	EUR m	58	63	76	82	87
EBITDA	EUR m	4	6	8	9	10
EBIT	EUR m	3	5	7	8	9
EPS	EUR	0.35	0.36	0.59	0.73	0.88
Sales growth	%	-17.5	8.5	20.8	8.0	6.2
EBIT growth	%	-42.3	59.9	40.4	15.8	13.3
EPS growth	%	-34.4	2.6	63.8	24.3	20.5
EBITDA margin	%	6.6	9.1	10.1	10.6	11.2
EBIT margin	%	5.1	7.6	8.8	9.4	10.0
Net margin	%	3.7	3.5	4.8	5.5	6.2
EV/Sales	ratio	0.70	0.68	0.52	0.42	0.33
EV/EBITDA	ratio	10.5	7.5	5.1	4.0	3.0
EV/EBIT	ratio	13.6	9.0	5.9	4.5	3.3
P/E	ratio	4.9	8.1	9.3	7.5	6.2
P/BV	ratio	0.2	0.4	0.7	0.6	0.6
Dividend yield	%	0.0	0.0	0.0	0.0	0.0

Source: Bloomberg, Company data, Quirin Privatbank estimates

Investment Case and Executive Summary

Shift to direct marketing

The shift from affiliate marketing to direct media buying, which was initiated in FY 2018, proved to be successful and paves the way for further profitable growth. Direct marketing is cheaper and - maybe more important - personalized – CLIQ is in direct touch with end consumers and therefore can offer further content directly to people.

Positive effects from Covid-19

In times of the corona pandemic when public life is heavily restricted demand for home entertainment rises, in particular for smartphones. This is a substantial growth driver for CLIQ. We believe that people enjoying such content will remain loyal customers even in the post-corona era.

Another aspect may positively affect CLIQ's expenditures: costs for sourcing on the one hand and costs for online marketing on the other hand could come under pressure.

Loan agreement with two major banks

End of FY 2019 CLIQ has concluded a loan facility with a syndicate of banks consisting of Commerzbank and Postbank. The agreement consists of a fixed line and a borrowing base facility up to EUR 13.5m and a term running until March 2022. The interest rate applicable on the fixed line varies between 2.65% and 2.9% plus Euribor and varies between 2.00% and 2.15% plus Euribor for the borrowing base facility.

This agreement allows CLIQ to grow organically and via acquisitions. Furthermore it is basically a strong signal when two German banks provide money and demonstrate its confidence in CLIQ's business model.

Access to >2.3bn customers globally

CLIQ sells and markets digital products to consumers at all continents through direct media buying and a dedicated sales partner network. Via its platform the company has access to more than 2.3bn consumers who can pay through their mobile phone carrier, their credit card and the app stores.

Focus on marketing, not development

Instead of building a large creative and product development department, CLIQ focuses on marketing and selling licensed content. The company pursues a strategy to obtain content from third-parties instead of being limited by a development team of its own. This enables CLIQ to expand quickly and have a flexible product portfolio with a minimal time to market.

Increase of CLIQ-factor over the last years

CLIQ is using key performance indicators to monitor and manage its business. For example the CLIQ-factor is the ratio between the average net revenue per user (ARPU) in the first six months and the costs per acquisition (CPA). This figure continuously rose from 1.35 (FY 2014) to 1.51 in the past business year. This KPI further improved to 1.61 in Q1-20.

Strong growth for digital entertainment

Research institute Newszoo expects games market volume to grow at 8.3% CAGR throughout 2023e. Revenue in the Video Streaming (SVoD) segment is expected to show an annual growth rate (CAGR 2020-2024) of 4.1%. Revenue in the Digital Music segment is expected to show an annual growth rate (CAGR 2020-2024) of 4.6%. Given CLIQ's sales growth over the next year, the company should outperform the market.

Dividend payment possible

We observe positive cash flows in the past and based on the future expected cash flow in our DCF model. Based on this trend the company could pay part of the results as dividend to the shareholders.

Convincing outlook for FY 2020

For FY 2020 CLIQ is expecting a strong organic growth in EBITDA, revenues and marketing spend (the main value driver which directly influences all other performance indicators). The board is confident that the CLIQ is able to realize an EBITDA of EUR 7.5m for FY 2020 with expected gross revenues of EUR 75.0m and a total marketing spend amounting to EUR 26.0m.

The CLIQ-factor is expected to increase from 1.51 in the FY 2019 to at 1.58 for FY 2020. The customer base value is expected to increase to at least EUR 28.0m as of 31 December 2020 - currently as per the end of Q1-20 this figure already amounts to EUR 29.0m.

Initiation with Buy and EUR 10.00 TP

Based on promising growth perspectives we initiate coverage on CLIQ with Buy. The EUR 10.00 TP is derived from a peer group approach and a DCF-model.

Valuation

Peer group

In order to find a fair equity value for CLIQ we use a peer group approach. The peers are active in the field of online entertainment:

- **IMImobile plc:** offers mobile applications and other communication software solutions to assist business customers in CRM, revenue generation and productivity enhancement. The firm's cloud communications software platform further offers customer interaction and connecting existing business systems with digital communications channels. The firm operates globally.
- **Tremor International Ltd.:** Tremor offers digital advertising solutions which leverage the latest video, native, and display technology to reach users for every app, service, and brand. Tremor works with more than 450 advertisers including Amazon, Disney, Twitter, OpenTable, Expedia, and Zynga, and more than 50,000 supply and publishing partners worldwide.
- **Frontier Developments plc:** Frontier is a software technology company incorporated in the UK. It is focused on videogame development across a wide variety of genres and platforms, with a track record of progressive development and innovation spanning several decades of rapid technological change.
- **Sega Sammy Holdings INC:** The Sega Group is involved in a wide range of business operations, encompassing Sammy's pachislot and pachinko machine business; entertainment contents business which focuses on Sega Group's digital game business, includes amusement machine development and facility operation, development of video contents and toys; and resort business, which is represented by the development and operation of hotels.
- **NetDragon Websoft Holdings:** NetDragon is a prominent developer, operator and publisher of online games in China, and also China's pioneer succeeding in overseas expansion.
- **Bandai Namco Entertainment, Inc.** Bandai is a Japanese multinational video game developer and publisher, headquartered in Tokyo.
- **Nordic Entertainment Group AB:** Nordic is the Nordic region's leading entertainment provider. The company entertains millions of people every day with its streaming services, TV channels and radio stations, and its production companies create content that is experienced around the world.
- **Glu Mobile Inc.:** is a global developer and publisher of mobile games. Games and other applications are based on both third-party licensed brands and other IP as well as on its own brands. Trademarks include for example Cooking Dash, Glu and Glu Mobile. The firm operates globally.

The following table shows that CLIQ in terms of multiples is significantly trading below its peers, for example its EV/EBIT multiple for FY 2020 is trading 62% below the peer group:

Peer group

Company	Ticker	P/E 20e	P/E 21e	EV/S 20e	EV/S 21e	P/B 20e	P/B 21e	EV/EBITDA 20e	EV/EBITDA 21e	EV/EBIT 20e	EV/EBIT 21e	EBIT margin 20e	EBIT margin 21e	SALES CAGR17-21e
CLIQ DIGITAL AG	CLIQ GY	9.3x	7.5x	0.52x	0.4x	0.7x	0.6x	5.1x	4.0x	5.9x	4.5x	8.8%	9.4%	3.9%
IMMOBILE PLC	IMO LN	20.4x	20.5x	1.73x	1.53x	3.5x	2.5x	12.4x	11.4x	16.8x	16.3x	9.2%	8.2%	24.2%
TREMOR INTERNATIONAL LTD	TRMR LN	4.3x	n/a	0.48x	n/a	n/a	n/a	4.9x	n/a	5.4x	n/a	16.1%	n/a	22.2%
FRONTIER DEVELOPMENTS PLC	FDEV LN	58.6x	45.5x	9.99x	8.37x	8.4x	7.4x	26.2x	20.9x	48.2x	39.2x	19.7%	16.5%	24.2%
SEGA SAMMY HOLDINGS INC	6460 JT	16.5x	22.5x	0.73x	0.78x	1.0x	1.1x	6.4x	10.7x	10.8x	22.8x	7.4%	7.9%	-1.7%
NETDRAGON WEBSOFT HOLDINGS L	777 HK	9.5x	7.4x	1.27x	1.10x	1.6x	1.3x	4.8x	3.0x	6.5x	6.2x	15.4%	13.4%	19.1%
BANDAI NAMCO HOLDINGS INC	7832 JT	22.2x	22.2x	1.56x	1.56x	2.9x	2.7x	10.7x	10.6x	13.9x	12.7x	11.2%	11.2%	5.1%
NORDIC ENTERTAINMENT GROUP-B	NENTB SS	20.8x	15.3x	1.75x	1.60x	8.2x	6.2x	15.4x	12.0x	18.6x	13.8x	9.0%	8.2%	n/a
GLU MOBILE INC	GLUU US	27.5x	20.6x	2.62x	2.44x	4.8x	4.0x	21.4x	15.0x	33.6x	18.4x	6.8%	6.3%	19.2%
AVERAGE		22.5x	22.0x	2.52x	2.48x	4.3x	3.6x	12.8x	11.9x	19.2x	18.5x	11.8%	10.2%	16.1%
CLIQ DIGITAL AG VS. AVG.		-59%	-66%	-79%	-83%	-85%	-83%	-60%	-67%	-70%	-76%	-26%	-8%	-75%
MEDIAN		20.6x	20.6x	1.64x	1.56x	3.5x	2.7x	11.6x	11.4x	15.3x	16.3x	10.2%	8.2%	19.2%
CLIQ DIGITAL AG VS. MEDIAN		-55%	-64%	-68%	-73%	-81%	-77%	-56%	-65%	-62%	-73%	-14%	15%	-79%
Std. dev.		15.3x	10.8x	2.89x	2.45x	2.8x	2.2x	7.4x	5.0x	13.7x	9.7x	4.4%	3.4%	9.4%
25th Percentile		14.7x	17.9x	1.14x	1.32x	2.2x	1.9x	6.1x	10.6x	9.7x	13.3x	8.6%	8.0%	12.1%
75th Percentile		23.5x	22.4x	1.97x	2.02x	6.5x	5.1x	16.9x	13.5x	22.3x	20.6x	15.6%	12.3%	23.2%
Min		4.3x	7.4x	0.48x	0.78x	1.0x	1.1x	4.8x	3.0x	5.4x	6.2x	6.8%	6.3%	-1.7%
Max		58.6x	45.5x	9.99x	8.37x	8.4x	7.4x	26.2x	20.9x	48.2x	39.2x	19.7%	16.5%	24.2%

Based on our estimates for EBITDA, EBIT and EPS (FY 2020 to FY 2021) we derive a fair value of EUR 15.07 per CLIQ share:

in EURm	EBITDA		EBIT		EPS	
	2020e	2021e	2020e	2021e	2020e	2021e
CLIQ Digital QP Estimates	7.7	8.7	6.7	7.8	0.59	0.73
Median Peer Group Multiple	11.6	11.4	15.3	16.3	20.6	20.6
Enterprise Value	88.7	100.1	102.8	126.4	n/a	n/a
Net financial debt (Average 2020e & 2021e)	6.3					
Fair value of equity	82.4	93.8	96.5	120.1	74.6	92.8
Median	93.3					
Number of shares (m)	6.2					
Premium	0%					
Fair value per share	15.07					

Source: Quirin Privatbank estimates, Bloomberg

DCF valuation

Our DCF model indicates a fair value of EUR 13.23 for a CLIQ share and reflects the long-term perspectives of the company. Our assumptions are as follows:

Phase 1 (2020-22e):

We estimated the free cash flows (FCF) of phase 1 according to our detailed financial forecasts for this period stated in the financials section.

Phase 2 (2023-29e):

For Phase 2, we assumed an initial sales growth of 5% that fades out to 0.2% in 2028e. We assumed a constant EBIT margin of 10.0%.

Phase 3:

For the calculation of the terminal value, we applied a long-term FCF growth rate of 2.0% to reflect CLIQ's growth perspectives.

Based on these assumptions, we calculated a fair value of the CLIQ's operating business of EUR 91m. We deducted CLIQ's net debt (financial debt minus cash). The resulting fair value of equity is EUR 82m or EUR 13.23 per share.

CLIQ Digital: Discounted Cash Flow Model

EURm	PHASE 1			PHASE 2						PHASE 3	
	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	∞
Sales	76.2	82.4	87.5	91.8	94.6	96.3	97.3	98.0	98.3	98.6	
YoY growth	20.8%	8.0%	6.2%	5.0%	3.0%	1.8%	1.1%	0.6%	0.4%	0.2%	
EBIT	6.7	7.8	8.8	9.2	9.5	9.6	9.7	9.8	9.8	9.9	
EBIT margin	8.8%	9.4%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	
Income tax on EBIT (cash tax rate)	-1.9	-2.3	-2.7	-2.8	-2.8	-2.9	-2.9	-2.9	-3.0	-3.0	
Depreciation and amortisation	1.0	1.0	1.0	0.5	0.5	0.5	0.5	0.5	0.5	0.5	
Change in long-term provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other non-cash items	0.5	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Change in net working capital	-2.4	-1.1	-1.0	-1.1	-0.7	-0.4	-0.3	-0.2	-0.1	-0.1	
Net capital expenditure	-0.5	-0.5	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.5	
Free cash flow	3.3	5.0	5.7	5.2	5.8	6.2	6.4	6.6	6.7	6.8	
Present values	3.2	4.4	4.6	3.9	4.0	4.0	3.8	3.6	3.3	3.2	53.1
Present value Phase 1	12.2										
Present value Phase 2	25.8										
Present value Phase 3	53.1										
Total present value	91.0										
+ Excess cash/Non-operating asset	0.7										
- Financial debt	-9.9										
- Pension provisions	0.0										
Fair value of equity	81.8										
Number of shares (m)	6.2										
Fair value per share (EUR)	13.23										

Risk free rate	2.00%	Target equity ratio	40.0%
Equity risk premium	7.00%	Beta (fundamental)	1.9
Debt risk premium	2.75%	WACC	8.06%
Tax shield	30.0%	Terminal growth	2.0%

Sensitivity analysis						
		Terminal growth (Phase 3)				
		1.0%	1.5%	2.0%	2.5%	3.0%
WACC	7.1%	14.31	15.20	16.26	17.56	19.18
	7.6%	13.03	13.75	14.61	15.63	16.88
	8.1%	11.94	12.53	13.23	14.04	15.02
	8.6%	10.99	11.48	12.05	12.72	13.50
	9.1%	10.16	10.57	11.05	11.59	12.23

Source: Quirin Privatbank

Average of peer group and DCF

We decided to value CLIQ by peer group multiples and DCF model. The average would result in a fair value of EUR 14.30 per share. However, we decided for a 30% discount to reflect its high Goodwill position (~80% of total assets). As a result the fair value per share amounts to EUR 10.01:

Fair value calculation

Fair value per QLIQ share

based on peer group:	15.07
based on DCF:	13.53
Average	14.30
Discount 30%	-4.29
Fair value per share	10.01

Source: Quirin Privatbank

Strategy and corporate description

Direct marketing of digital entertainment products

The company with roots in the Netherlands is a leading direct marketing and sales organization for digital products with its own global payment and distribution platform. The core business of the company is the direct marketing and billing of its products to end-customers via online- and mobile-marketing channels. CLIQ is a strategic business partner for networks, content owners, publishers, and brands. For over 10 years, CLIQ has been marketing and selling its products and services in multiple countries on every continent. The company is monetizing digital products by direct response marketing.

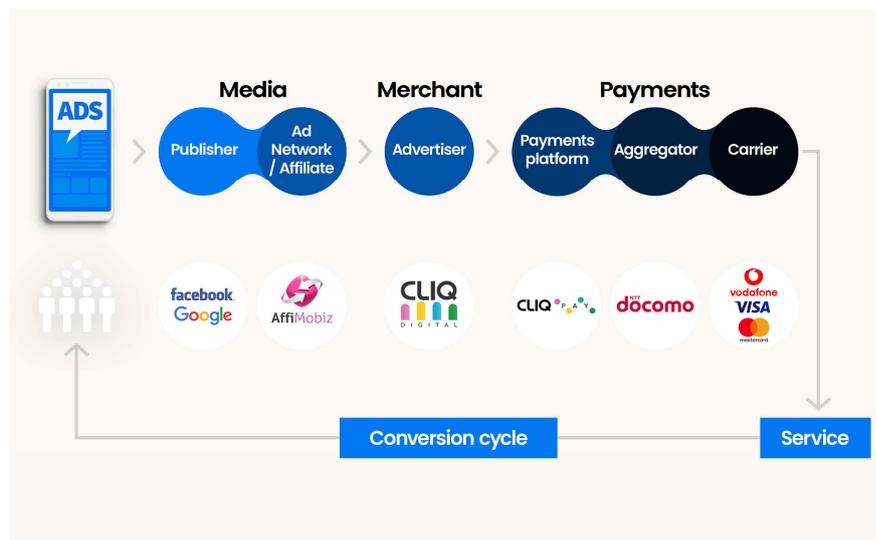
Its operating subsidiaries provide users access to multiple content categories with one subscription and in one place. The current product range comprises of music, audiobooks, sports, movies and games.

Smart subscription model

The company uses media buying to target new customers for its digital entertainment services through online and mobile marketing channels. The sales and marketing teams of CLIQ are primarily offering its products to consumers via the subscription model, in which customers can enjoy unlimited access for a daily, weekly or monthly subscription fee. CLIQ is working together with payment service providers in every country it is operating, providing it's consumers with multiple payment options like mobile carrier billing, credit card, app store billing and many other options.

Value chain/customer journey

13 VALUE CHAIN / CUSTOMER JOURNEY



CLIQ DIGITAL

Source: Quirin Privatbank, CLIQ Digital

Key Performane Indicators (KPIs)

CLIQ Digital is using key performance indicators to monitor and manage its business. Financial and non-financial performance indicators are measured continually and are part of the monthly reports to the Management Board.

The financial key performance indicators used to manage the business performance of CLIQ Digital are revenue, marketing spend, CLIQ-factor and customer base value. The CLIQ-factor is the ratio between the average net revenue per user (ARPU) in the first six months and the costs per acquisition (CPA) and represents the profitability of newly acquired customers. The customer base value is the total net revenue, gross revenue less the share of third parties that is expected to be generated by the existing customers. The CLIQ-factor is the determining factor in the decision making process as to whether to invest in certain products or markets.

Most important KPI: CLIQ-factor

Development of CLIQ-factor

	2014	2015	2016	2017	2018	2019	Q1-20
CLIQ-factor	1.35	1.40	1.41	1.47	1.36	1.51	1.61

Source: Quirin Privatbank, CLIQ Digital

Development of Customer base

	2014	2015	2016	2017	2018	2019	Q1-20
Customer base (EURm)	15.0	19.2	20.9	26.0	24.0	26.0	29.0

Source: Quirin Privatbank, CLIQ Digital

Product sourcing

The major parts of the digital mobile products which CLIQ markets and sells, is not proprietary mobile content, but it is sourced from external parties. A team within the company explores and investigates the digital streaming services and is tasked to select and contract parties who can deliver relevant mobile digital products for CLIQ. In most cases the digital streaming services are licensed from third parties.

**Content development
outsourced**

CLIQ: Company history & development

Company history & development

- CLIQ has its roots in Amsterdam, the Netherlands
- Founded in FY 2003 and since FY 2012 a merged company of Blinck, TMG and Bob Mobile, renamed to CLIQ Digital AG
- Stock listed on the Frankfurt Stock exchange since FY 2005
- CLIQ started in television advertising, airing over 1,000 commercials across 135 major television stations across the world
- Focused on internet advertising as of FY 2006
- Heavily expanded in mobile advertising since FY 2009
- CLIQ has 25+ nationalities, and is active in more than 34 countries
- Reaching 2.3bn mobile users via 110 carriers

Management and shareholder structure

Management board

Luc Voncken

49 years (1970)

2012 onwards: CLIQ Digital AG (CEO)

2010-2012: CLIQ B.V.

2003-2010: Founder and CEO of Blinck International B.V. (predecessor of CLIQ)
Business Economics (UVA)

Ben Bos

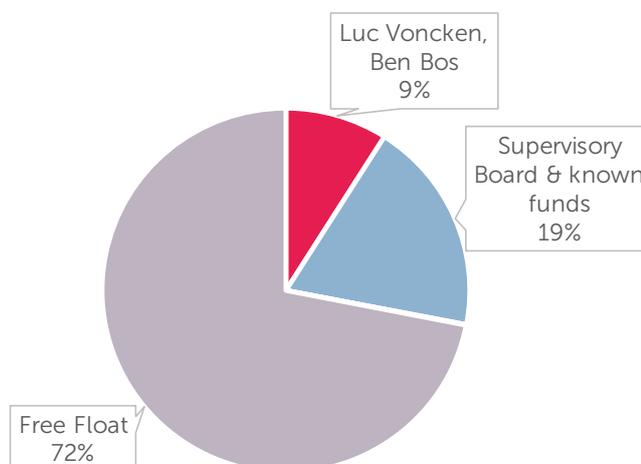
58 years (1962)

2014 onwards: Board Member

2000-2014: Independent M&A/Board advisor

1993-2000: Arcade Entertainment Holdings (Finance Director)/ID&T (CEO)

CLIQ Digital: Shareholder Structure



Source: CLIQ Digital

CLIQ's Supervisory Board and known funds own 19% of total shares, while CEO Luc Voncken and Ben Bos together control 9%. By this, insiders demonstrate high confidence into the company.

Market for Entertainment & Media

According to Statista, revenue in the European Digital Media market in FY 2020e is projected to amount to approx. EUR 30.7bn which makes up CLIQ's main target segment. The largest share stems from Video Games with a European market volume of approx. 13.2bn in FY 2020e. On a global scale most revenue is generated in the US (EUR 45.6m in FY 2020e).

Internet users and mobile devices

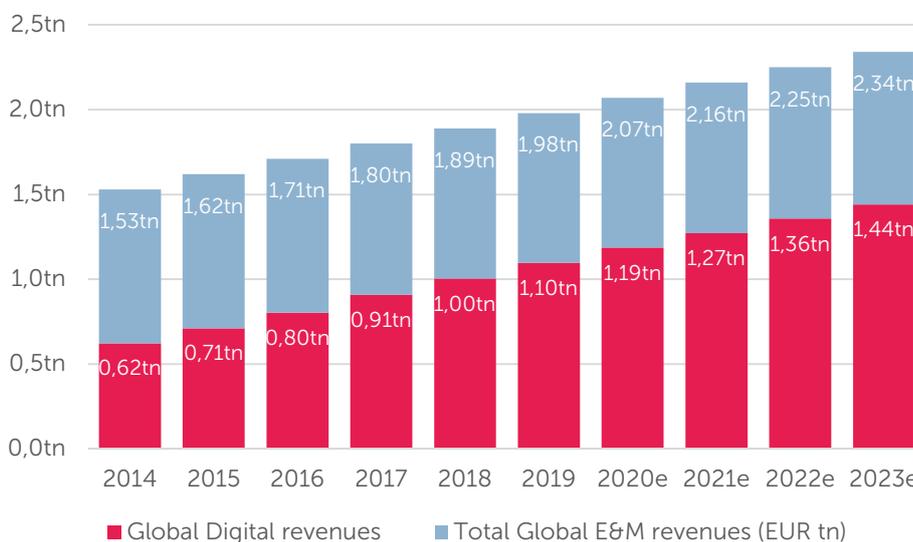
Likewise, research company Wearesocial found that the number of last year's active internet user increased by 7% to 4.5bn compared to 2018. In FY 2019, 69.6% of global mobile connection are associated with smartphones that were vastly used to stream videos and music as well as to download mobile (game) app (31bn). In 51.7% of cases internet users accessed the web via their mobile phones as a preferred device while only in 3.7% of the times a tablet has been used. This trend is projected to increase even further amid Covid-19 lockdown offering CLIQ better effective penetration through their sales channels.

About 70% of global internet connections via smartphones

Global Entertainment & Media Industry – dynamically growing market driven by digital revenues

According to PwC, the Global Market for Entertainment and Media amounts to approx. EUR 1.98tn in FY 2019 and is projected to grow at a four-year CAGR of 4.2% to EUR 2.34tn until FY 2023e. In particular of interest for CLIQ's business model is the crucial dynamic that digital revenues grow with. Thus digital revenues gradually make up the major part of the total E&M volume with estimated revenues of EUR 1.44tn in FY 2023. Industry-wide media is also becoming more personalized using AI-based preference-algorithms delivering digital content through personal devices (e.g. smartphones, tablets, smart TVs, etc.). Accordingly, this growing trend towards personalization that analyses customer behavior can foster both, better advertising regarding CLIQ's direct marketing strategy as well as better user experience.

Global Entertainment & Media Outlook 2019-2023



Projected 2019-2023 CAGR of 4.2% in Global E&M

Source: PwC Global Entertainment and Media Outlook 2018-2023

Strong growth in subscription-based video-on-demand revenues worldwide backed by Covid-19 lockdown

Following the shift in consumption towards personalized digital content, users mostly tend to use subscription based models for video consumption offering them content tailored to their needs.

The market for subscription-based video-on-demand (SVoD) is projected to reach approx. EUR 66bn with approximate 775.8m subscribers in 2025 (Rethink Technology Research). In light of the prevalent Covid-19 lockdown estimates further suggest an immediate 8.9% lift to the market for subscription video on demand in FY 2020 due to

restrictions on cinema- and other recreational sites-attendance. Importantly, the effects are projected to be long-lasting as many subscribers are expected to be reluctant to cancel the digital services straight after an easing of restrictions.

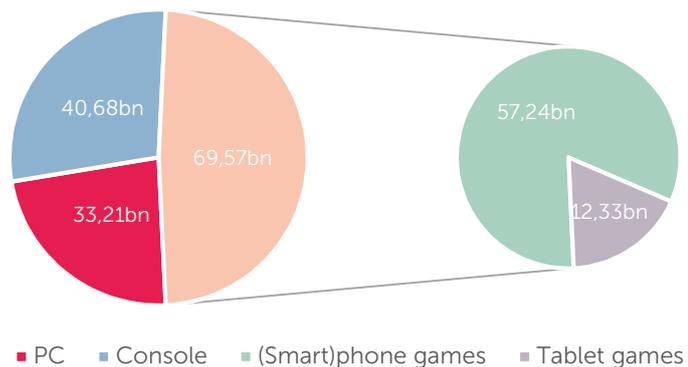
Market for Video Games – strong growth in major segments

According to Newzoo worldwide 2.7bn gamers will spend approx. EUR 142.7bn on games in FY 2020e – on average 38% of users will pay for games. Only the console and PC segment will see rather few growth as game sales shall occur less steady also due to store closures. Almost half of consumer spending on games (PC, console and mobile) will come from China and the US in FY 2020e.

Prosperous outlook for 2020 games market – Covid-19 as growth driver

Fostered by the lockdowns and current trends, almost all game segments saw an increase in engagement and revenues. In particular mobile games are up 13.3% yoy with an estimated EUR 69.6bn of sales in FY 2020e (Newzoo). Moreover, this growth tendency is likely to manifest itself in the mid-term as the mobile development process is less complex, resulting in less Covid-19 related delays. Console gaming shall grow 6.8% yoy to approx. EUR 40.7bn and PC gaming at 4.8% yoy to approx. EUR 33.2bn in revenues.

2020 Global Market for Games per device and segment (EUR bn)



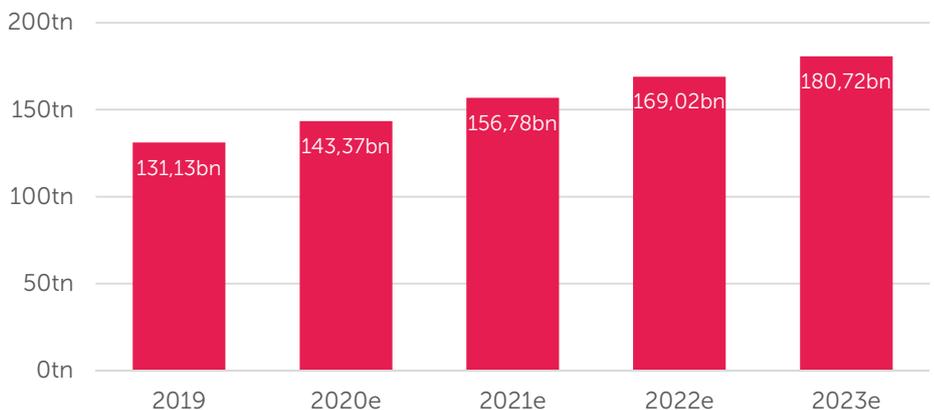
EUR 69.1bn in mobile game revenues shall account for 48% of global market in 2020

Source: Newzoo 2020

Strong mid-term growth in sustainable game segments

Over the following years Newzoo projects the Global Market for Games to amount to approx. EUR 180bn in FY 2023e corresponding to a 8.3% CAGR from 2019 on. While segment like consoles shall only grow steadily in the following years, mobile gaming is projected to be the fastest-growing segment, gaining even more market share.

Global Games Market Volume Forecast



Source: Newzoo 2020

Games Market Volume to grow at 8.3% CAGR throughout 2023e

CLIQ financials

CLIQ operates internationally

CLIQ is an international player in the field of mobile entertainment. In the last business year the European market represented the vast majority of the CLIQ's group revenues. In Europe revenues grew by EUR 1.9m to EUR 48.4m. This represents 77% of the CLIQ's gross revenue and is slightly lower than in FY 2018 in when the European market was 80% of the CLIQ's total revenue. The main reason for this relative decrease in market share is due to the growth in the North America region which was attributable to new campaigns that have been successfully launched in the United States. CLIQ is expecting a further increase in this region for the year 2020

Regional breakdown

Territory	Sales 2019 (EURm)	in %	Sales 2018 (EURm)	in %
Europe	48.4	77%	46.5	80%
North America	8.9	14%	6.5	11%
Other countries	5.8	9%	5.2	9%
Total	63.1	100%	58.2	100%

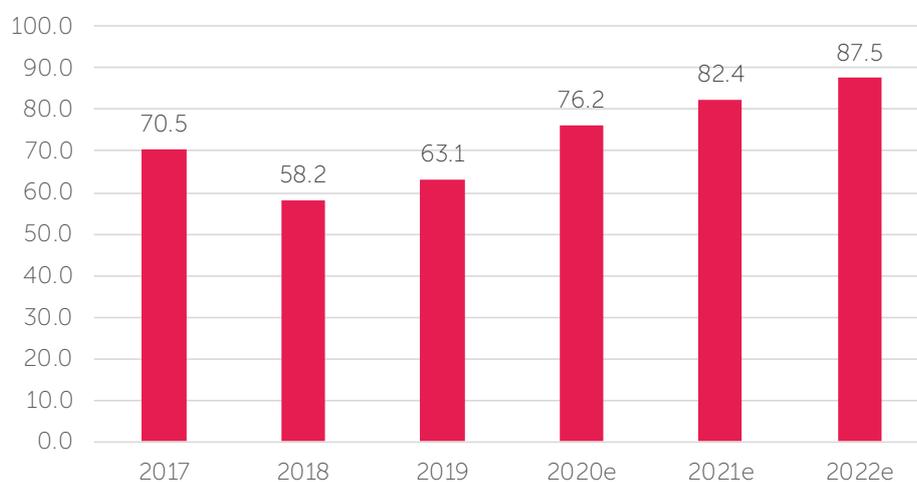
Source: Quirin Privatbank, CLIQ Digital

FY 2020 guidance cautious

Its sales outlook for the current business year (EUR 75.0m) looks rather conservative given the strong start in Q1-20. Due to a favorable market environment, new content, marketing spends and new markets (e. g. Germany), we expect further growth for CLIQ:

Rising revenues ahead

CLIQ revenue development

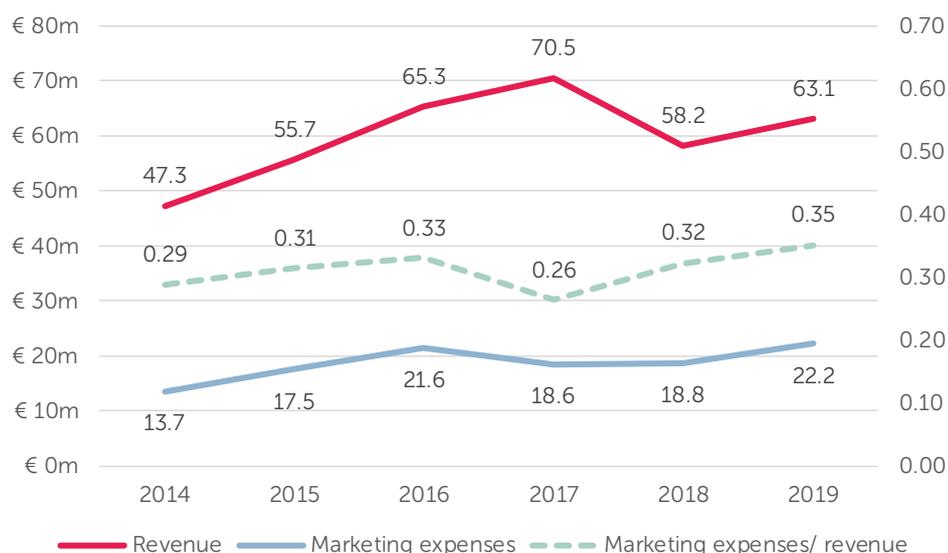


Source: Quirin Privatbank, CLIQ Digital

Marketing spend stimulates growth

Marketing spend – part of the cost of sales position - is a major source of CLIQ's growth momentum, in FY 2019 it amounted to EUR 22.2m compared to EUR 18.8m in FY 2018. The following table shows that sales growth follows increased marketing expenditures:

Revenues and marketing expenses



Source: Quirin Privatbank, CLIQ Digital

Positive relation between marketing spend and revenues

The marketing spend mirrors the costs to acquire new customers. The marketing spend for customer acquisition that can be directly allocated to new users of CLIQ's subscription services are booked as contract costs and amortized over the customer's revenue lifecycle with a maximum amortization period of 18 months.

The marketing spend for FY 2019 amounted to EUR 22.2m of which EUR 20.2m was related to subscription services and therefore capitalized as contract costs, compared to EUR 16.0m in FY 2018. The increase in capitalized marketing spend is mainly due to the increase in subscription services. This also resulted in an increase in the amortization of contract costs. The total amount of amortized contract costs amounted to EUR 19.3m (FY 2018: EUR 16.1m).

Breakdown Cost of Sales

EURm	Cost of Sales 2019	Cost of Sales 2018
Marketing spend	22.2	18.8
Capitalized Marketing spend	-20.2	-16.0
Amortized contract costs	19.3	16.1
Share third parties	18.9	19.1
Other CoS	4.2	4.0
Total	44.3	42.0

Source: Quirin Privatbank, CLIQ Digital

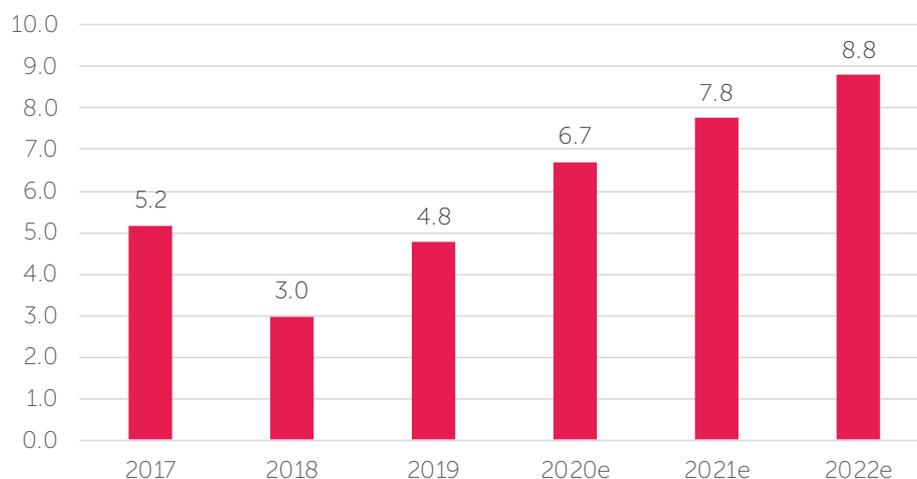
Share third parties consists of the costs that the CLIQ pays to payment service providers and relates to the share for network operators, gateways, acquiring banks and payment platforms that provide the technical connections and solutions to invoice CLIQ's consumers.

EBIT increases ahead

CLIQ improved its EBIT from EUR 3.0m in FY 2018 to EUR 4.8m in the past business year. Due to rising revenues, cost degression effects and further improvements of its CLIQ-factor we assume EBIT to increase continuously:

Improvement of EBIT

CLIQ EBIT development



Source: Quirin Privatbank, CLIQ Digital

Balance sheet quite good

CLIQ's bank loans amounted to EUR 9.9m in FY 2019. Given total liabilities of EUR 68.1m this amount is low. Furthermore, its liquidity ratios look favorable which allows the company to grow organically and via acquisitions:

Liquidity ratios

	2018	2019	2020e	2021e	2022e
Equity ratio	72.7	68.6	67.1	69.2	72.0
net debt/EBITDA	1.8	1.6	1.0	0.6	0.2

Source: Quirin Privatbank, CLIQ Digital

Goodwill

However, despite positive figures and good perspectives for the group one bitter pill remains: its high Goodwill position of EUR 48.1m. Any weakness, in particular of its CLIQ BV operations could lead to impairments.

Breakdown of Goodwill

EURm	Goodwill 2019	Goodwill 2018
CLIQ AG and CLIQ BV	43.2	43.2
UK operations	4.3	4.1
Other	0.6	0.6
Total	48.1	47.9

Source: Quirin Privatbank, CLIQ Digital

SWOT

Strengths

- The digital content industry is facing a constant growth worldwide driven especially by the increasing number of smart connected devices used by people to access the internet. CLIQ will benefit from this trend
- In order to benefit from further synergies CLIQ Digital Group expanded its interest in the subsidiary Red27Mobile Limited from 51% to 80% with effect of 1 April 2019. This will positively influence earning in FY 2020 going forward
- CLIQ's shift to direct marketing together with the in-house business intelligence department results in better monitoring its marketing campaigns and prediction of the expected revenues, resulting in a significantly higher CLIQ-factor
- Strong commitment of the management: that holds 9% of CLIQ shares

Weaknesses

- CLIQ is direct marketing driven, which is mostly via aggressive marketing. The positive side of direct marketing is high conversion, but the downside is higher level of complaints/refunds.
- The industry is characterized by high competition, with numerous small/local players offering various content
- CLIQ receives its content from third-parties, therefore the influence on the quality of the entertainment products might be limited

Opportunities

- Due to the FY 2019 loan agreement, CLIQ is able to accelerate growth via acquisitions
- So far CLIQ did not offer entertainment products in the German market. This will change in the short term and should lead to further growth of sales and earnings
- CLIQ could be a take-over candidate, too
- CLIQ may pay dividends in the future, so far profits were retained

Threats

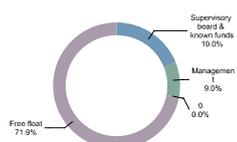
- CLIQ is exposed to intense competition. There is a risk that the company might not be able to compete successfully
- If sales of the licensed products are lower than expected, marketing costs incurred and licensing fees spent by CLIQ may not be compensated in part or in full
- Companies or governmental agencies may restrict access to CLIQ's product offering, other websites or the internet generally
- Its goodwill (EUR 48.1m) forms a major position of CLIQ's total assets (EUR 68.1m) as of 31 December, 2019. The goodwill is exposed to impairment if CLIQ's operating subsidiaries strongly underperform

Company description

CLIQ Digital is a digital lifestyle company, providing consumers worldwide with streaming entertainment services. The core business of the company is the direct marketing of its digital entertainment products to consumers via mobile and online marketing channels using its own payment and distribution platform. Therefore CLIQ is a valuable strategic business partner for networks, content owners and publishers.

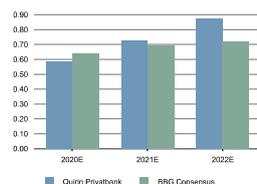
The company is offering a wide range of digital entertainment products (e. g. movies, music, games, e-books/audio-books, sports/fitness) to consumers worldwide, basically as subscription. This results in rising revenues and cash-flows

Shareholder structure



Source: Company data

EPS: Quirin Privatbank vs. consensus



Source: Quirin Privatbank Research, Bloomberg

Company guidance 2020

The company confirmed its strong outlook for FY 2020, aiming at an organic gross revenue growth of 19% to EUR 75.0m (FY 2019: EUR 63.1m) and an EBITDA growing by 30% to at least EUR 7.5m (FY 2019: EUR 5.8m). Given the convincing Q1-20 figures, this outlook is rather conservative.

Profit & loss statement

Profit & loss statement (EUR m)	2018	YOY	2019	YOY	2020e	YOY	2021e	YOY	2022e	YOY
Sales	58.2	-17.5 %	63.1	8.5 %	76.2	20.8 %	82.4	8.0 %	87.5	6.2 %
Cost of sales	42.1		44.3		53.5		57.8		61.4	
Gross profit	16.2		18.8		22.7		24.5		26.0	
Selling expenses	n.a.		n.a.		n.a.		n.a.		n.a.	
General administrative expenses	0.0		0.0		n.a.		n.a.		n.a.	
Research and development costs	0.0		0.0		n.a.		n.a.		n.a.	
Other operating income	0.0		0.0		0.0		0.0		0.0	
Other operating expenses	0.0		0.0		0.0		0.0		0.0	
EBITDA	3.9	-85.3 %	5.8	49.1 %	7.7	33.6 %	8.7	13.8 %	9.8	11.8 %
EBITDA margin (%)	6.62		9.11		10.07		10.61		11.18	
EBIT	3.0	-42.3 %	4.8	59.9 %	6.7	40.4 %	7.8	15.8 %	8.8	13.3 %
EBIT margin (%)	5.13		7.56		8.79		9.42		10.05	
Net interest	0.4		-0.9		-0.7		-0.4		0.1	
Income from Participations	n.a.		n.a.		n.a.		n.a.		n.a.	
Net financial result	0.4		-0.9		-0.7		-0.4		0.1	
Exceptional items	n.a.		n.a.		n.a.		n.a.		n.a.	
Pretax profit	3.4	-25.7 %	3.9	15.0 %	6.0	54.9 %	7.4	23.6 %	8.9	19.9 %
Pretax margin (%)	5.77		6.12		7.85		8.98		10.14	
Taxes	0.4		0.0		1.4		1.7		2.0	
Tax rate (%)	10.95		-0.71		22.88		22.47		22.06	
Earnings after taxes	3.0		3.9		4.6		5.7		6.9	
Minorities	0.8		1.7		1.0		1.2		1.5	
Group attributable income	2.2	-34.4 %	2.2	2.6 %	3.6	63.8 %	4.5	24.3 %	5.4	20.5 %
No. of shares (m)	6.2		6.2		6.2		6.2		6.2	
Earnings per share (EUR)	0.35	-34.4 %	0.36	2.6 %	0.59	63.8 %	0.73	24.3 %	0.88	20.5 %

Source: Company data, Quirin Privatbank estimates

Balance sheet

Balance sheet (EUR m)	2018	YOY	2019	YOY	2020e	YOY	2021e	YOY	2022e	YOY
Assets										
Cash and cash equivalents	1.3		0.7		2.3		2.5		4.8	
Accounts receivables	6.5		8.2		9.9		10.7		11.4	
Inventories	3.9		5.6		6.7		7.3		7.7	
Other current assets	0.8		0.6		0.6		0.6		0.6	
Tax claims	0.4		0.1		0.1		0.1		0.1	
Total current assets	12.9	16.1 %	15.2	17.7 %	19.6	29.0 %	21.1	7.7 %	24.6	16.2 %
Fixed assets	1.3		0.7		0.2		-0.3		-0.6	
Goodwill	47.9		48.1		48.1		48.1		48.1	
Other intangible assets	0.9		0.7		0.7		0.7		0.7	
Financial assets	0.0		0.0		0.0		0.0		0.0	
Deferred taxes	1.8		3.1		3.1		3.1		3.1	
Other fixed assets	1.0		0.3		0.3		0.3		0.3	
Total fixed assets	52.8	-3.9 %	52.9	0.2 %	52.4	-1.0 %	51.9	-0.8 %	51.6	-0.7 %
Total assets	65.7	-0.5 %	68.1	3.6 %	72.0	5.7 %	73.1	1.5 %	76.1	4.2 %
Equity & Liabilities										
Subscribed capital	6.2		6.2		6.2		6.2		6.2	
Reserves & other	46.6		46.6		46.6		46.6		46.6	
Revenue reserves	-5.6		-8.2		-4.6		-0.1		5.3	
Accumulated other comprehensive	-0.2		0.1		0.1		0.1		0.1	
Shareholder's equity	47.8	2.6 %	46.7	-2.3 %	50.3	7.8 %	54.8	8.9 %	60.3	9.9 %
Minorities	0.8		2.0		2.0		2.0		2.0	
Shareholder's equity incl. minorities	47.8	2.6 %	46.7	-2.3 %	50.3	7.8 %	54.8	8.9 %	60.3	9.9 %
Long-term liabilities										
Pension provisions	0.0		0.0		0.0		0.0		0.0	
Financial liabilities	0.0		9.9		7.8		3.3		0.0	
Tax liabilities	0.9		1.2		1.5		1.6		1.7	
Other liabilities	0.9		1.5		1.9		2.0		2.1	
Total long-term debt	1.8	10.4 %	12.7	595.2 %	11.2	-12.0 %	6.9	-38.1 %	3.9	-44.4 %
Short-term debt										
Other provisions	0.0		0.0		0.0		0.0		0.0	
Trade payables	2.3		2.0		2.4		2.6		2.8	
Financial debt	8.1		0.0		0.0		0.0		0.0	
Other liabilities	4.6		5.6		6.8		7.3		7.8	
Total short-term debt	16.1	-9.7 %	8.7	-46.1 %	10.5	20.8 %	11.3	8.0 %	12.0	6.2 %
Total equity & liabilities	65.7	-0.5 %	68.1	3.6 %	72.0	5.7 %	73.1	1.5 %	76.1	4.2 %

Source: Company data, Quirin Privatbank estimates

Financial key ratios

Key ratios	2018	2019	2020e	2021e	2022e
Per share data (EUR)					
EPS	0.35	0.36	0.59	0.73	0.88
Book value per share	7.7	7.5	8.1	8.9	9.7
Free cash flow per share	4.7	6.0	7.4	0.5	0.6
Dividend per share	0.00	0.00	0.00	0.00	0.00
Valuation ratios					
EV/Sales	0.70	0.68	0.52	0.42	0.33
EV/EBITDA	10.5	7.5	5.1	4.0	3.0
EV/EBIT	13.6	9.0	5.9	4.5	3.3
P/E	4.9	8.1	9.3	7.5	6.2
P/B	0.2	0.4	0.7	0.6	0.6
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Growth					
Sales growth (%)	-17.5	8.5	20.8	8.0	6.2
EBITDA growth (%)	-85.3	49.1	33.6	13.8	11.8
EBIT growth (%)	-42.3	59.9	40.4	15.8	13.3
EPS growth (%)	-34.4	2.6	63.8	24.3	20.5
Profitability ratios					
EBITDA margin (%)	6.6	9.1	10.1	10.6	11.2
EBIT margin (%)	5.1	7.6	8.8	9.4	10.0
Net margin (%)	3.7	3.5	4.8	5.5	6.2
ROCE (%)	6.1	6.8	9.0	10.0	11.2
Financial ratios					
Total equity (EUR m)	47.8	46.7	50.3	54.8	60.3
Equity ratio (%)	72.7	68.6	69.9	75.0	79.1
Net financial debt (EUR m)	6.8	9.2	5.5	0.8	-4.8
Net debt/Equity	0.7	0.7	0.7	0.8	0.8
Interest cover	6.9	5.3	8.3	15.3	58.4
Net debt/EBITDA	1.8	1.6	0.7	0.1	-0.5
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Working Capital (EUR m)	-3.2	6.5	9.1	9.8	12.5
Working capital/Sales	-0.05	0.10	0.12	0.12	0.14

Source: Company data, Quirin Privatbank estimates

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Date	Price target-EUR	Rating	Initiation
15.06.2020	10.00	Buy	15.06.2020

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