

CLIQ Digital

Media

31 March 2021

Moving the dial on marketing effectiveness

CLIQ Digital made significant progress in FY20 as its good value proposition resonated well with its target audience. The shift to direct media buying adopted in the US allowed it to shift the dial on its marketing effectiveness, with revenues ahead by 70% year-on-year and EBITDA margins rising from 9.1% to 14.9%. Management guidance is for further premium (>30%) revenue growth in FY21, with EBITDA margin at 15.7%. The share price is up 102% year to date, and up from €2.60 a year ago.

Direct media buying stimulates growth

CLIQ Digital's offering combines entertainment content across film, music, sport, games and audio at competitive price points. The addition of one Hollywood blockbuster per month in the all-in-one subscription is likely to achieve further traction. While the impact of COVID-19 on consumer media consumption will have been helpful, CLIQ's proactive development of its marketing and upgrading of its content offer have exploited the opportunity. The customer base value (number of members x lifetime value) rose to €35m for FY20, up 35% on prior year. The pace of growth was particularly fast in North America, with gross revenues building from €8.9m to €51.6m, as the group focused its efforts on direct media buying, rather than affiliate marketing. This approach is now being rolled out in Europe, but this market is more complex, fragmented by country and language.

FY21 expectations of further progress

Management guidance is for FY21 revenue of over €140m with EBITDA of around €22m. Current consensus is €143.8m, 34% up on FY20, and EBITDA of €22.6m is a little ahead, indicating further margin expansion to 15.7% (FY20: 15.0%). With so small a share of the substantial digital entertainment market, CLIQ could continue at high levels of growth for some years. We would, though, expect margins to start softening over time as the group enters new markets and with higher content costs.

Valuation: Discount to peers

CLIQ Digital's share price has risen sharply over the last year, climbing from €2.60 as the COVID-19 pandemic took hold, and is now at new highs. At the current level, it is valued at 1.4x current year consensus revenues and at an EV/EBIT of 9.6x. This still represents a substantial discount to a broader peer set of user-acquisition groups, although the multiple range is very wide. Continued delivery on revenue and margin growth could lead to this discount narrowing.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	EV/EBIT (x)	P/E (x)	Yield (%)
12/19	63.1	3.9	0.35	0.00	43.4	96.6	N/A
12/20	107.0	14.4	1.16	0.46	13.7	29.1	1.4
12/21e	144.6	21.0	1.76	0.72	9.6	19.2	2.1
12/22e	179.7	28.0	2.36	0.95	7.2	14.3	2.8

Source: Refinitiv

Price €33.8
Market cap €210m

Share price graph



Share details

Code CLIQ
Listing Deutsche Börse Scale
Shares in issue 6.2m
Last reported net cash at 31 December 2020 €0.9m

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 in 34 countries. In 2020 45% of sales were generated in Europe, 48% in North America, 7% in other regions.

Bull

- Benefiting from increased consumer appetite for digital entertainment.
- Gaining market share in large US market.
- Agility through using licensed content.

Bear

- As the group scales it may become harder to maintain the same rate of marketing efficiency.
- Rapid shifts in technology. regulation.
- Competitive markets.

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Review of FY20 results

Exhibit 1 below details CLIQ's operational performance across FY19 and FY20, showing 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 easy to determine in the figures, with an acceleration through FY20.

Generally, the cost of third parties varies widely between countries and can be as low as 10% or as high as 70%. There is increasing consumer acceptance to the use of linked credit cards for mobile purchases, which reduces the cost of sales attributable to third parties – a trend that has been accelerated in lockdown.

Exhibit 1: P&L highlights							
	2018	H119	H219	2019	H120	H220	2020
Revenue (€m)	58.2	28.2	34.9	63.1	47.2	59.8	107.0
Growth y-o-y %	-17	-8	24	8	67	71	70
Net revenue (€m)	39.1	20.5	23.7	44.2	35.3	46.2	81.5
Growth y-o-y %	-8	5	22	13	72	95	84
Gross profit (€m)	16.1	7.9	10.9	18.8	14.3	20.6	34.9
Growth y-o-y %	-10	-6	42	16	81	89	86
Opex (€m)	12.3	5.6	7.4	13.0	8.0	11.0	19.0
Growth y-o-y %	-2	-16	40	6	43	49	46
EBITDA (€m)	3.9	1.8	4.0	5.8	6.3	9.6	15.9
EBIT (€m)	3.0	2.4	2.4	4.8	6.0	9.2	15.2
Growth y-o-y %	-42	1	60	60	332	92	217
PBT (€m)	3.4	1.9	2.0	3.9	5.6	8.8	14.4
Attributable profit (€m)	2.2	0.47	1.73	2.21	3.04	4.12	7.16
EPS diluted (€)	0.34	0.08	0.27	0.35	0.47	0.69	1.16
Growth y-o-y %	-35	-64	125	3	488	56	231
Gross profit margin	27.7%	28.0%	31.2%	29.8%	30.3%	34.4%	32.6%
EBITDA margin	6.7%	6.4%	11.5%	9.1%	13.3%	16.1%	14.9%
EBIT margin	5.2%	8.5%	6.9%	7.6%	12.7%	15.4%	14.2%
Attributable profit margin	3.8%	1.7%	5.0%	3.5%	6.4%	6.9%	6.7%

Source: Company accounts

Marketing spend is the engine of growth

Understanding the management of marketing spend is the key to understanding the dynamics of CLIQ's revenue growth and profitability. The objective is often to attract the casual browser on search engines, social media or on publisher sites, looking for content on, for example, sport, then lead them to a portal to sign up. The expansion of content categories is to widen the top of the funnel. The cost of customer acquisition has been reduced through the use of direct media buying in the US, which started to stack up economically as the scale of the business increased. The group uses a metric, the CLIQ Factor, which represents the average revenue per user over six months (ARPU) divided by the cost of customer acquisition (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 their sign-up. 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.

Exhibit 2 below highlights how the KPIs have driven the P&L performance through 2019 and 2020. Management has also published its expectations for FY21, which are included here and show a further increase in marketing spend, but with a slight dip in the CLIQ factor, reflecting the higher costs associated with the expansion programme.

Exhibit 2: 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
<i>Growth y-o-y %</i>	-17	-8	+26	+8	+67	+71	+70	+31
CLIQ factor (ARPU/CPA)	1.36	1.40		1.51	1.64		1.68	1.60
<i>Growth y-o-y %</i>	-7	+1		+11	+1		+11	-5
Customer base value (€m)	24	24.5		26	31		35	
<i>Growth y-o-y %</i>	-8	-2		+8	+27		+35	
Marketing spend (€m)	18.8	9.8	12.4	22.2	13.1	21.1	34.2	46.0
<i>Growth y-o-y %</i>	1	-1	+51	+18	+34	+70	+54	+35

Source: Company accounts, Edison Investment Research

Improved profitability translating to cash

Operating cashflow 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.

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. Consensus forecasts show a growing net cash resource, building to €8.2m by end FY21 and to near €20m by the end of the following year.

There is scope for acquisitions, but 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.

Consensus forecasts and valuation

As stated above, marketing spend is key to driving traffic, which may then convert to paying subscribers, with an inevitable slight lag. The increase in marketing spend in H220 should therefore produce a good step up in revenues in H121 and into H221. Management guidance is for a small decline in the CLIQ Factor for the year and we would assume that this is more likely to be due to higher costs associated with the expansion programme and dilution in return on marketing spend as the group establishes in new geographies.

To sustain the ARPU, there needs to be a continuing stream of attractive content. Adding new content categories, such as games, is therefore a key element to the strategy. Licensing deals, such as that [recently struck with Utomik](#), are likely to be the model. 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 and offered to customers within one subscription and in one place, without any device restrictions and allowing up to five members of one family to access the content. The All-in-One price in Europe is €14.99 per month, which gives portal access to the current product range of music, audiobooks, sports, movies and games.

Management guidance is for revenue to increase by 31%+ to at least €140m and for EBITDA to climb from €15.9m in FY20 to around €22.0m in FY21, a 38% gain and an improvement in EBITDA margin from 14.9% to 15.7%. Assuming gross margin stays around 33%, this implies an increase in

operating expenses of 25%, which looks reasonable compared to the expected level if revenue growth.

Consensus forecasts are a little higher than management guidance. They show FY21e revenue at €144.6m and EBITDA at €23.0m (EBITDA margin of 15.9%). For FY22e, commenting analysts are looking for a further 24% uplift in revenue to €179.7m and an improvement in EBITDA margin to 16.8%. Consensus for EPS shows it increasing from the €1.16 just reported for FY20 to €1.76 for FY21e and €2.36 for FY22e.

Exhibit 3: Peer comparison

Name	Market cap (m)	Share price perf ytd (%)	Sales growth (%)		EV/sales (x)		EV/EBIT (x)		P/E (x)		Hist div yield (%)
			FY1	FY2	FY1	FY2	FY1	FY2	FY1	FY2	
XLMedia	£107	55	-	-	-	-	-	-	-	-	10.1
Tremor	£942	80	19	11	5.0	4.5	24.0	17.5	31.4	24.3	0.0
Claranova	€265	0	20	15	0.6	0.5	12.2	7.4	25.0	15.9	0.0
Kape Technologies	£607	54	62	23	4.2	3.4	13.1	10.7	15.4	12.4	0.0
Sega Sammy	¥480,810	11	-23	14	1.5	1.3	-	-	-	19.5	2.2
Bandai Namco	¥1,795,758	-9	0	10	2.3	2.1	-	-	34.1	23.1	1.6
Nordic Entertainment	SEK31,590	-12	6	19	2.7	2.3	37.2	35.4	39.7	39.7	1.1
Glu Mobile	\$2,204	39	8	12	3.0	2.7	19.3	15.1	24.6	20.2	0.0
Average		27	13	15	2.7	2.4	21.2	17.2	28.4	22.2	1.9
CLIQ Digital	€204	102	34	22	1.4	1.2	9.6	7.2	19.2	14.3	1.4
Discount					48%	50%	55%	58%	32%	36%	

Source: Refinitiv, prices at 29 March 2021. 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 discount of EV/sales, EV/EBIT (less subject to variation in accounting treatment than EBITDA) and P/E across current year and the following forecast year is 47%. 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. Continued gains in sales and profitability are likely triggers to reduce this gap in valuation.

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