EDISON

Scale research report - Update

CLIQ Digital

Media

2 September 2020

Strong sales momentum, especially in the US

CLIQ Digital is seeing increasing financial benefit from bringing its media buying in-house. H120 gross revenues were 67% up over H119, with EPS of €0.49 (€0.08). More accurate targeting of potential customers, particularly in the key US market, has moved the value of the acquired user base ahead sharply. The planned Q320 All-in-One product launch should mean a more transparent and coherent value proposition, helping to maintain momentum in the growth of the user base. Despite very strong recent performance, the shares still trade at a substantial discount to peers.

Strong H120 financial performance

CLIQ Digital raised its financial guidance for FY20e in July, lifting the revenue target from €75m to €90m, and the EBITDA from €7.5m to 'at least €10m'. The expected spending on marketing has also been raised from €26m to €30m. This represents a revenue uplift of 43% over FY19, with a significant uplift in EBITDA margin from 9.1% to 11.4%. Given that the group achieved €47.2m of revenues in H120 and posted €6.3m of EBITDA, these FY20 projections are likely to be conservative, particularly if CLIQ continues to build its presence in the US market. Consensus numbers are higher, with revenue in the range of €95.2m–98.5m; EBITDA €11.4–12.3m. Management has stated its intention to pay dividends at 40% of net income.

Improving consumer offering

The quality of the content offering continues to improve, which should lead to lower churn and higher lifetime customer values. From Q320, the group intends to offer all its content suite as a subscription bundle on a 'per family, across devices' basis, on the CLIQ-All in One streaming platform. Content categories on this platform currently comprise films, music, sport and audiobooks, with games to be added in Q420. CLIQ-All in One will initially be available in Germany and will then be rolled out to other operating territories, depending on content availability.

Valuation: Discount to peers

CLIQ Digital's share price bottomed out at €2.29 in mid-March as markets struggled to evaluate the coronavirus impact. Since then, it has substantially outperformed the market, reflecting its improving financial metrics and beneficial positioning regarding higher ongoing demand for entertainment, with the share price is now up 428% from its March nadir. At 0.8x FY20e consensus sales and 7.5x FY20e EV/EBIT, however, it still trades at a substantial discount to user-acquisition group peers. Continued strong delivery should lead to this discount 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	0.00	26.8	35.6	N/A
12/19	63.1	3.9	0.35	0.00	16.7	34.6	N/A
12/20e	96.8	10.2	0.83	0.30	7.5	14.6	2.5
12/21e	110.4	12.6	1.02	0.40	6.2	11.9	3.3

Source: Refinitiv

Price	€12.1
Market cap	€75m

Share price graph

Share details

Code	CLIQ
Listing	Deutsche Börse Scale
Shares in issue	6.2m
Last reported net debt at 30 June 2020	€5.3m

Business description

CLIQ Digital is a leading digital lifestyle company, providing consumers worldwide with unlimited streaming entertainment services.

Bull

- Well placed to benefit 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.
- Dependence on major payment service providers.
- Competitive markets.

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Review of H120 results

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 H119, reversing in H219 and accelerating in H120. Particularly notable in this reporting period is the success in driving revenues in the large US market, following a campaign instigated in H219. While revenues in Europe were broadly flat year-on-year, 'rest of world' increased from €1.4m to €3.6m and the North American revenues grew from €2.9m to €19.6m. This is equivalent to 41% of H120 group revenue, from 10% in H119, diluting Europe to 51%.

Customers sign up for weekly, or monthly membership – effectively a subscription. They can pay via several different methods, principally by mobile carrier billing, credit card or app-store billing. The third-party share of revenue (typically linked to mobile carrier billing) varies widely between countries and can be as low as 25% or as high as 70%. There is a benefit to gross margin from increasing consumer acceptance of the use of linked credit cards for mobile purchases, which reduces the cost of sales attributable to third parties, ie fees charged by the mobile carrier. Credit card payments also carry associated costs (traffic and service fees, the cost of customer support) and these are included in the 'other' element of cost of sales. Adding the third-party share to 'other' still shows a net benefit to operating margin from the migration of payment towards credit card, which we would expect to continue.

Exhibit 1: P&L highlights

	2017	H118	H218	2018	H119	H219	2019	H120
Revenue (€m)	70.5	30.0	28.2	58.2	28.2	34.9	63.1	47.2
Growth y-o-y %		-13	-22	-17	-8	24	8	67
Net revenue (€m)	42.5	19.6	19.5	39.1	20.5	23.7	44.2	35.3
Growth y-o-y %				-8	5	22	13	72
Gross profit (€m)	17.9	8.4	7.7	16.1	7.9	10.9	18.8	14.3
Growth y-o-y %				-10	-6	42	16	81
Opex (€m)	12	6.7	5.3	12.3	5.6	7.4	13.0	8.0
Growth y-o-y %				-2	-16	40	6	43
EBITDA (€m)	5.5	2.0	1.9	3.9	1.8	4.0	5.8	6.3
EBIT (€m)	5.2	1.5	1.5	3.0	1.4	3.4	4.8	6.0
Growth y-o-y %		-38	-46	-42	1	60	60	332
PBT (€m)	4.5	2.05	1.35	3.4	1.0	2.9	3.9	5.6
Attributable profit (€m)	3.3	1.41	0.79	2.2	0.48	1.73	2.21	3.04
EPS diluted (€)	0.52	0.22	0.12	0.34	0.08	0.27	0.35	0.47
Growth y-o-y %		-4	-59	-35	-64	125	3	488
Gross profit margin	25.4%	27.5%	27.8%	27.7%	28.0%	31.2%	29.8%	30.3%
EBITDA margin	7.8%	6.5%	6.9%	6.7%	6.4%	11.5%	9.1%	13.3%
EBIT margin	7.4%	4.9%	5.4%	5.2%	8.5%	6.9%	7.6%	12.7%
Attributable profit margin	4.7%	4.6%	2.9%	3.8%	1.7%	5.0%	3.5%	6.4%

Source: CLIQ Digital, Edison Investment Research

The other elements of operating expense are personnel costs and marketing costs, the latter of which are discussed in more detail below. Personnel expenses in H120 of €5.6m, compared to €4.0m in H119, partly reflect the increase in FTEs from 79 to 85, but are swollen by the increase in share-based payments due to the substantial uplift in the share price over the half year. If the current share price is at least maintained, this will also be a cost in H220.

Marketing spend increasing to drive top line

The growth in revenue is being driven by the twin engines of the marketing spend itself and the improved targeting of that spend, made more effective since bringing it in-house. Management articulates the efficacy of marketing spend through the 'CLIQ-factor', defined as the average revenue per acquired customer divided by the acquisition cost, or ARPU.

Marketing spend of €16.3m in H120 was 66% higher than H119 and 43% up on H219. The CLIQ-factor was 1.64 (H119: 1.40).

Exhibit 2 below highlights how the KPIs have driven the P&L performance through the past three years. Management has raised its expectations for FY20, lifting the revenue projection from €75m to €90m and EBITDA from €7.5m to €10.0m. The targeted marketing spend has also been lifted to €30m from €26m.

Exhibit 2: Development of KPIs

	FY17	H118	H218	FY18	H119	H219	FY19	H120	FY20e guidance
Revenue (€m)	70.5	30.6	27.7	58.2	28.2	34.9	63.1	47.2	90
Growth y-o-y %	8	-13	-22	-17	-8	26	8	67	19
CLIQ factor (ARPA/CPA)	1.47	1.38		1.36	1.40		1.51	1.64	1.58
Growth y-o-y %	4	-7		-7	1		11	17	5
Customer base value (€m)	26	25		24	24.5		26	31	
Growth y-o-y %	24	-7		-8	-2		8	27	
Marketing spend (€m)	18.6	10.6	8.2	18.8	9.8	12.4	22.2	16.3	30.0
Growth y-o-y %	-14	10		1	-1	51	18	66	35

Source: CLIQ Digital, Edison Investment Research

Further strengthening of the balance sheet

The improved group profitability helped drive operating cash flow in H120, with a further benefit to the working capital position from the greater element of credit card payments in the revenue mix (as well as an unwinding of the working capital position across the year-end).

The group has very low capital requirements (as a reminder, CLIQ does not generate its own content, rather licenses it from external suppliers). Net operating cash flow of €5.7m compares with EBITDA for the period of €6.3m, with free cash flow of €4.3m.

At 30 June 2020, the group had net debt of €5.3m (€5.7m including €0.4m of financial leases under IFRS 16). This comprised cash of €4.8m and bank debt (including leases) of €10.4m.

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 H120 would be expected to result in growing revenues for H220 and on. As shown in Exhibit 2, above, management guidance indicates a CLIQ factor for FY20 of 1.58x from 1.51x in FY19, reflecting the lengthening record of data collection and experience built around conversion. The more efficient the marketing effort, the lower the cost per customer acquisition (CPA). The more targeted the marketing spend is towards a higher revenue-generating cohort of customers, the greater the ARPU. The achieved CLIQ factor in H120 was 1.64x, which implies that there is an upward tension in the guided figure.

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 that will attract consumers. These are bundled within one subscription and in one place, without any device restrictions. The current product range comprises music, audiobooks, sports, films and games.

- Music: 50 different premium music channels, operating as playlists, each with over 100 tracks. These are across genres such as classic, pop, rock, jazz, indie and folk, but also on a thematic basis, and are regularly curated and refreshed.
- Audiobooks: over 150k audiobooks, mostly in English, with some in German. These are across all genres and are again curated. Unlike Amazon's Audible, subscriptions grant access to the entire catalogue, rather than paying (or using credits) on a title-by-title basis.

- Sports: includes most major international leagues, with highlights and live match trackers. Sports include football, tennis, NFL (American football), NBA (basketball) and ice hockey, catering well for the North American market.
- Films: European productions, selected independent films and a selection of international film productions across different genres.
- Games: a wide range available.

Management guidance for FY20e was lifted at the time of the first-half trading update in July. This raised the expected revenue to €90.0m (a 19% increase over FY19, which was €75.0m) and for EBITDA to climb from €5.8m to over €10.0m in FY20 (previously €7.5m), a 72% gain and an improvement in EBITDA margin from 9.2% to 11.1%.

Given the scale of the progress achieved in H120, these guided figures already look to be constrained and some broker forecasts are being lifted again, having been upgraded in July. The range of estimates for FY20 revenue is now €95.2–98.5m, averaging €96.8m, increasing to €110.4m for FY21e and to €121.0m for FY22e. Commentating analysts are also looking for further steps up in EBITDA margin as the group scales, from the 9.1% achieved in FY19 to 12.2% for FY20e and 12.7% for FY21e.

With the progress made to date in building the North American revenue base, these assumptions look achievable, with the risk appearing to be more on the upside.

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 (%)
			1FY	2FY	1FY	2FY	1FY	2FY	1FY	2FY	Last
IMImobile	£337	20	1	5	2.1	2.0	22.9	20.2	30.9	27.7	N/A
XLMedia	£44	-46	-	-	-	-	-	-	-	-	22.1
Tremor	£198	-7	-7	40	0.7	0.5	-	3.1	-	4.4	N/A
Claranova	€272	-14	55	12	0.7	0.6	31.5	11.6	79.7	29.6	N/A
Kape Technologies	£310	11	84	12	3.7	3.3	13.6	11.9	20.6	15.4	N/A
Average		-7	33	17	1.7	2.2	17.7	11.7	43.7	19.3	N/A
CLIQ Digital	€75	326	53	14	0.8	0.7	7.5	6.2	14.6	11.9	N/A
Discount			(61%)	18%	53%	67%	58%	47%	67%	39%	

Source: Refinitiv. Note: Prices at 1 September 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 and P/E across current year and forecast year is 55%. Given the improvement and momentum in the financial performance of CLIQ Digital, we feel the extent of this discount is too great. This is particularly as the business model is considerably more resilient to the COVID-19 lockdowns and current economic backdrop than some of the others cited here, which are more dependent on general levels of advertising spend.

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