EDISON

Scale research report - Update

CLIQ Digital

UME adds to strong organic growth

CLIQ Digital's H117 results reflect a continuation of the strong organic growth delivered in Q117 and one month's contribution from the recently acquired Universal Mobile Enterprises (UME), leaving the group comfortably on track to deliver management's full-year guidance for double-digit growth across all key P&L lines, which it has reiterated. The shares trade at a slight discount to the peer group average FY17 P/E; but given the solid H1 results and potential upgrades to consensus following the UME deal, the shares may resume their upwards trajectory.

H117 results – 40% increase in customer base value

Consistent with its Q117 figures, CLIQ reported a strong set of H117 results. Including one month's contribution from the recently acquired UME, revenues increased 12%, EBIT 11% and net income 24% y-o-y. Despite the fall in marketing spend, the all-important 'CLIQ factor' nudged up to 1.48 (from 1.45), indicating continued improvements in the efficiency of marketing spend, and the customer base value increased by 40% (of which 11% was organic). Bank liabilities substantially reduced to €8.4m (FY16: €11.6m).

Guidance maintained – UME yet to be reflected

The solid organic performance in the first half puts the group on track to deliver management's expectation of double-digit growth in revenues, EBIT and consolidated earnings in FY17. In addition, effective 1 June 2017, CLIQ acquired a 51% controlling interest in UME, a rapidly growing, profitable, mobile content marketing and distribution specialist, which reported revenues of €11.5m in the year to April 2017. Terms of the cash deal have not been disclosed; however, it should provide further support to earnings momentum and is yet to be reflected in consensus estimates.

Valuation: Upgrades likely

Despite a strong run over the past twelve months (+100%), the shares have slipped somewhat since May, and now trade at a modest discount to peers on a FY17e P/E of 12.2x versus 13.8x for the peer group average. Furthermore, consensus has yet to account for the UME acquisition, which we expect to be earnings accretive. The successful integration of UME in addition to evidence that the group continues to find profitable marketing opportunities could support upside to the shares value towards a peer group rating.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/15	55.6	1.7	0.21	0.0	33.0	0.0
12/16	65.3	3.6	0.43	0.0	16.1	0.0
12/17e	72.8	4.7	0.57	0.0	12.2	0.0
12/18e	80.1	6.0	0.73	0.0	9.5	0.0

Source: Bloomberg, Edison Investment Research.

Media

23 August 2017

Price	**€6.94**
Market cap	**€43m**

Share price graph

Share details

Code	CLIQ
Listing	Deutsche Börse Scale
Shares in issue	6.2m
Bank liabilities as at 30 June 2017	€8.4m

Business description

CLIQ Digital is a sales and marketing group for digital products and services. It also operates a proprietary payments platform. It is headquartered in Dusseldorf and has offices in Amsterdam, London and Paris. Via its network of affiliate partners and its own direct media buying platform it has customers across the globe. In 2016 82% of sales were generated in Europe, 10% in the Asia Pacific region and 8% in the Americas.

Bull

- Exposure to the fast growth mobile marketing sector
- Experienced management
- Strong revenue momentum over the last few years

Bear

- As the group scales it may become harder to maintain the same rate of marketing efficiency
- Dependent on major mobile carriers and gateways for customer access and invoicing
- Limited exposure to the potentially faster growth developing markets

Analysts

Bridie Barrett Schmidt	+44 (0)20 3077 5700
Alasdair Young	+44 (0)20 3077 5700

media@edisongroup.com

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Review of H117 results

Results highlights

CLIQ Digital delivered a strong set of results for the first half of 2017. The key items are shown in Exhibit 1 below.

Exhibit 1: Financial highlights

€m	H116	H216	H117	% change y-o-y	% change h-o-h
Revenues	**31.2**	**34.1**	**34.9**	**11.9**	**2.4**
Gross profit	17.8	13.0	19.2	7.8	48.0
Total opex	4.99	5.5	6.44	29.0	16.6
EBITDA	12.8	13.3	12.8	0.0	(3.8)
EBIT	**2.2**	**2.3**	**2.4**	**10.6**	**2.1**
PBT	1.7	1.9	2.0	20.1	7.1
Net income	**1.2**	**1.6**	**1.5**	**23.8**	**(6.0)**
EPS (€)	**0.19**	**0.25**	**0.24**	**26.3**	**(4.0)**
Bank borrowings	13.6	10.6	8.4	(38.2)	(20.8)
Cash	0.07	0.05	4.30	6425	8676
Bank liabilities	**13.6**	**10.6**	**8.4**	**(38.0)**	**(20.5)**

Source: Company accounts.

While there was a 10.7% y-o-y reduction in ARPU, revenues increased 11.9% y-o-y, a continuation of the strong Q1 performance (11%). We estimate that 3pp of this growth (€0.9m) was a result of the June acquisition of UME (see below); however, the majority of growth was driven by a combination of an underlying 11% increase in the customer base value (a proxy for the total estimated cash flow from the current user base over the coming five years) and an increase to 1.48 (H116: 1.45) in the all-important 'CLIQ factor' (a measure of the efficiency of the company's marketing expenditure – please refer to our initiation report for more information on the group's business model).

Exhibit 2: Development of key performance indicators

	H115	H116	H117
Revenues (€m)	29.3	31.2	34.9
Number of sales	1,129,291	1,263,252	1,331,705
ARPU (€)	9.32	12.15	10.85
CPA (€)	6.8	8.38	7.33
ARPU/CPA (CLIQ factor)	1.37	1.45	1.48
Customer base value (€m)	15.5	19.3	27
Marketing spend (€m)	7.68	10.24	9.6

Source: Company accounts.

Typically, an increase in these metrics would convert to an expansion in margins. However, as planned, management has increased investment into its digital payments platform and additional area sales teams. Consequently, EBIT margins remained relatively stable year-on-year at 6.9% and EBIT increased broadly in line with revenues to €2.4m (although it is worth noting that this figure includes transaction costs from the UME acquisition).

Gross debt (which does not reflect the cost of the acquisition of UME) reduced to €8.4m (Dec 2016: €10.6m) and the impact of a falling interest burden, a lower effective tax rate (25% vs 30% in H116) and one month's contribution from the UME acquisition converted this to a 23.8% increase in net profit.

Acquisition of UME – adds 29% to the customer base value

On 25 July, CLIQ Digital announced that it had acquired 51% of the UK's UME, specialists in mobile content marketing and distribution with a focus on the UK, Ireland, Italy and South Africa.

UME has grown rapidly to generate revenues of €11.5m in the 12 months to April 2017 (67% organic growth y-o-y), is profitable and is expected to continue to grow in the current year.

In addition to adding nearly 1m subscribers to CLIQ's products and services and adding c 29% to its customer base value, the acquisition expands CLIQ's presence in a number of markets and management believes there are also opportunities to generate synergies from both an efficiency perspective and from cross promotion. UME was founded in 2009 by Richard Keeley and Alex Rooke, who will continue to manage and operate the newly formed Red27Mobile.

While the deal completed at the end of the July (and hence the cost of acquisition is not reflected in the period-end net debt position), it has been consolidated as of 1 June. The balance sheet therefore reflects cash balances acquired from UME (cash reserves increased from €50k to €4.3m), but does not include the gross costs of the deal, which are included in other liabilities, which increased from €4.2m to €12.9m.

Assuming no growth or seasonality, we estimate that UME contributed c €0.9m revenues and €0.1m of net income to H117 figures (or c 3pp to revenues and 8pp to net income in the period).

Outlook: Guidance reconfirmed

The H1 results appear to leave CLIQ Digital on track to deliver management's expectation of another year of double-digit increases in EBITDA and net profit. It has reiterated this guidance; although with total marketing spend down in the first half of the year, the route to achieving this target may be slightly different than originally planned.

Valuation

The group is making solid progress towards its targets for the year and, while marketing spend was down in the period, we are encouraged to see the increase in the CLIQ factor and customer base value, and management expects to ramp marketing spend back up in H2. The UME deal appears to have a strong strategic fit, adding 29% to customer base value, representing a step increase in scale.

While the cost of the UME acquisition has not been announced, as a profitable growing business financed from existing credit lines, we believe upgrades to consensus forecasts, which do not yet reflect the deal, may follow suit.

The shares have performed strongly over the past 12 months, appreciating 101%, and 35% year to date, despite having retracted from highs above €8/share reached in May this year. At 12.2x 2017e earnings per share, CLIQ now trades at a discount of 11% compared with the peer group average of 13.8x, with this discount widening to 20% in FY18 (9.5x vs 12x).

Given the good first-half momentum and the strategic merits of the UME deal, we believe the shares look fairly attractive at these levels.

We compare CLIQ's valuation with a group of peers in Exhibit 3 below.

Exhibit 3: Peer comparison

Name	Market cap	Sales growth (%)		EBIT margin (%)		EPS growth (%)		EV/sales (x)			EV/EBIT last (x)			P/E (x)			Year end
	Ccy m	FY1	FY2	FY1	FY2	FY1	FY2	last	FY1	FY2	last	FY1	FY2	last	FY1	FY2	
CLIQ Digital	43	11.5	10.0	7.1	8.1	N/A	N/A	0.7	0.7	0.6	10.2	9.1	7.3	11.0	12.2	9.5	12/16
IMIMobile	117	25.3	7.4	N/A	N/A	(45.6)	81.6	1.3	1.1	1.0	19.3	N/A	N/A	14.8	16.3	14.8	03/17
Acotel	24	(3.6)	11.2	(30.4)	(18)	(88.0)	318.8	0.7	0.6	0.6	N/A	(2.0)	(3.1)	N/A	(7.8)	(13.4)	12/16
Onmobile Global	6,074	44.6	6.0	16.6	15.8	N/A	N/A	0.4	0.3	0.3	3.5	1.7	1.7	67.4	5.4	5.3	03/17
XLMedia	264	31.3	7.0	25.5	24.7	8.3	7.7	3.0	2.2	2.1	10.2	8.8	8.5	9.6	12.3	11.5	12/16
Taptica	241	71.6	63.2	13.0	10.2	25.4	26.2	2.3	1.3	0.8	14.7	10.3	8.0	8.1	13.9	11.4	12/16
Matomy Media	103	(2.4)	3.5	7.5	9.9	(26.3)	(111.3)	0.5	0.5	0.5	N/A	6.6	4.8	N/A	10.1	7.2	12/16
1000mercis	168	10.5	10.7	17.0	17.3	14.4	25.2	2.7	2.5	2.2	16.2	14.5	12.9	22.4	24.6	21.8	12/16

Source: Bloomberg, Edison Investment Research. Note: FY1 equates to first forecast year, FY2 second forecast year.

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