EDISON

# Claranova

Q123 revenue update

## Mixed performance in FY22

Software and comp services

**After several years of rapid growth, Claranova reported flat revenue in FY22. This reflected a post COVID-19 slowdown and a tougher customer acquisition environment for PlanetArt, offset by organic growth in Avanquest and myDevices. We reduce our revenue and EBITDA forecasts to reflect a slower recovery in growth for PlanetArt and a higher group cost base exiting H222. Claranova continues to trade at a substantial discount to its peers – solving the customer acquisition challenge in PlanetArt in a cost-effective manner in our view will be an important step to reducing this discount.**

| Year end | Revenue (€m) | EBITDA* (€m) | PBT** (€m) | Diluted EPS** (€) | DPS (€) | P/E (x) |
|---|---|---|---|---|---|---|
| 06/21*** | 470.6 | 32.9 | 24.2 | 0.37 | 0.0 | 7.4 |
| 06/22 | 473.7 | 25.5 | 7.2 | 0.11 | 0.0 | 25.9 |
| 06/23e | 519.5 | 35.0 | 16.0 | 0.25 | 0.0 | 11.2 |
| 06/24e | 550.0 | 40.1 | 21.2 | 0.33 | 0.0 | 8.5 |

Note: *Pre-IFRS 16. **PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. ***Restated.

## Avanquest, myDevices growth offsets weak PlanetArt

PlanetArt reported a 12% decline in organic constant currency (cc) revenue in FY22; this improved to a decline of 3% in Q123 as the business refined its customer acquisition strategy. Avanquest reported 12% organic, cc revenue growth in FY22, dropping to 4% in Q123, or 9% cc once recent PDF software acquisitions are included. myDevices made good progress, reporting 29% cc revenue growth in FY22 and Q123, although it is less material to the group. Year-end net debt increased to €71m (end FY21 net cash €25m) after buying out minority interests (mainly Avanquest with some impact from PlanetArt) and Avanquest acquisitions.

## Estimates reflect H222 cost base and slower growth

We assume that PlanetArt makes a return to cc growth in FY23, with the added benefit of the stronger dollar versus the euro, although at a slower pace than previously forecast. For the group, we reduce our FY23 revenue forecast by 1.6% and this drops through to an EBITDA reduction of 21.5% and EBITDA margin down 1.7pp to 6.7%. We introduce FY24 forecasts for 5.9% revenue growth and a 7.3% EBITDA margin. We forecast net debt will increase to €88.5m by end FY23, reflecting further funding for Avanquest acquisitions and debt amortisation.

## Valuation: Return to growth in PlanetArt required

Reflecting the different business models for each division, we continue to use a sum-of-the-parts approach to valuation. Using EV/sales multiples that reflect our views on divisional growth and profitability, and are conservative compared to the peer group averages, and reflecting lowered forecasts for FY23, we reduce our valuation from €7.85 to €7.39 per share. In our view, consistent growth in revenues and margins towards the company's FY24 targets will be key to reducing the discount to peers. In the near term, resumption of growth in PlanetArt (while balancing profitability) will be the key trigger.

**24 November 2022**

| | |
|---|---|
| **Price** | **€2.77** |
| **Market cap** | **€126m** |
| | $1.04:€1 |
| Net debt (€m) at end FY22 | 71.2 |
| Shares in issue | 45.5m |
| Free float | 84% |
| Code | CLA |
| Primary exchange | Euronext Paris |
| Secondary exchange | N/A |

### Share price performance


| % | 1m | 3m | 12m |
|---|---|---|---|
| Abs | 14.5 | (17.1) | (45.4) |
| Rel (local) | 3.7 | (20.4) | (41.6) |
| 52-week high/low | | €6.4 | €2.3 |

### Business description

Claranova consists of three businesses focused on mobile and internet technologies: PlanetArt (digital photo printing; personalised gifts), Avanquest (consumer-focused software) and myDevices (internet of things/IoT). Its headquarters are in Paris, France and it has operations in Europe, the United States and Canada.

### Next events

| | |
|---|---|
| AGM | 30 November |

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***Claranova is a research client of Edison Investment Research Limited***

# Investment summary

## Bringing innovative products to the mass market

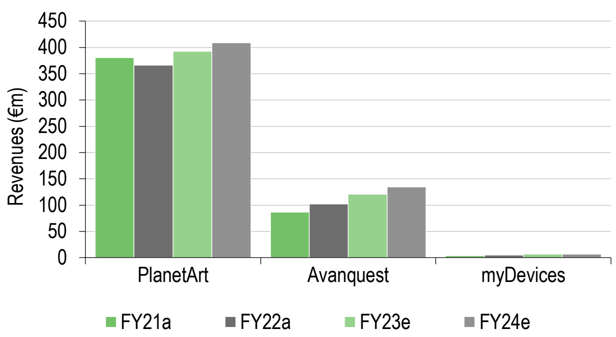
Claranova comprises three distinct businesses taking advantage of high-growth areas of internet and mobile technology: personalised e-commerce (PlanetArt), consumer software (Avanquest) and IoT (myDevices). Key investment considerations include:

- PlanetArt has an asset-light business model, with all printing and some customised product outsourced. This gives it significant flexibility to try out new products and new geographical markets without having to make large upfront investments.
- FreePrints (PlanetArt's photo printing service) is a market leader in the US and the UK.
- Avanquest is on track to show material revenue and profit growth, with further upside potential from targeted acquisitions.
- The buyout of minority interests in Avanquest (to zero) and PlanetArt (ultimately to less than 3%) make spinouts of either business more practical.

## Financials and valuation

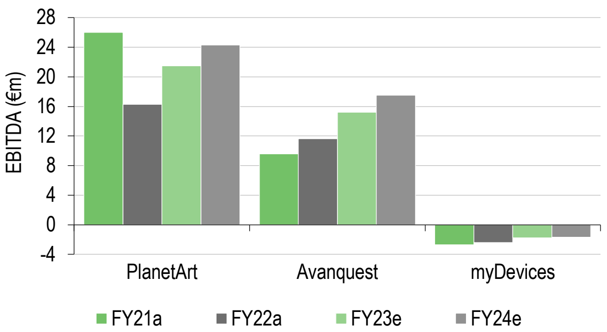
We assume that PlanetArt's work to develop new customer acquisition channels that adapt to app store privacy policies is successful and the division returns to growth in FY23, albeit more slowly than previously forecast. We forecast 10% group revenue growth for FY23 (c 8% organic) and 6% for FY24. We forecast group EBITDA (pre-IFRS 16) of €35.0m for FY23 (6.7% margin), rising to a 7.3% margin in FY24. With limited capex requirements, this translates into normalised operating margins of 6.5% in FY23e and 7.0% in FY24e, and EPS growth (on a normalised basis) of 131% in FY24e and 33% in FY24e.

**Exhibit 1: Divisional revenues (€m), FY21–24e**




Source: Claranova, Edison Investment Research

**Exhibit 2: Divisional EBITDA (€m), FY21–24e**




Source: Claranova, Edison Investment Research

Taking into account the differing growth trajectories and profitability of each division, as well as the different levels of minority investment in each, we use a sum-of-the-parts approach to valuation and estimate a fair value of €7.39 per share, before any conglomerate discount.

## Factors influencing growth and profitability

In addition to the usual competitive pressures and the requirement to keep abreast of technology, our forecasts and the share price are sensitive to the pace and success of geographic expansion for PlanetArt, supplier dependence for PlanetArt, changes to app store and search engine policies, integration of acquisitions, and the US dollar/euro and sterling/euro exchange rates.

# Company description: Online technology developer

Claranova is a group consisting of three businesses focused on mobile and internet technologies with high growth potential.

## Background

Claranova was originally founded in 1984 as a consumer software publisher called BVRP Software. In 1996, the company changed its name to Avanquest and listed on Euronext. From 2007 to 2012, it acquired multiple businesses. By 2013, growth had slowed and the company was loss-making – the decision was taken to restructure the business. The company raised €34.5m in equity in June 2015 through the issue of 345m shares at €0.10 per share. Also in FY15, it wrote off €10.7m of debt and converted €2.6m of debt to equity. As part of the restructuring, the company sold off a number of non-core businesses and restructured the remaining businesses into three divisions:

- **PlanetArt** – personalised e-commerce, including online and mobile photo printing and online and mobile personalised gifts (77% of FY22 revenues).
- **Avanquest** – online developer and retailer of consumer-focused software; internet traffic monetisation. It is the world's largest distributor of third-party software (22% of FY22 revenues).
- **myDevices (IoT)** – platform to manage connected devices in the cloud (1% of FY22 revenues).

In 2017, Claranova organised each division into its own legal entity, which enabled it to seek out minority investors in each of the divisions in order to accelerate growth; more recently the company has bought out the minority interests in Avanquest and has a scheme in place to buy back some of the PlanetArt minority interest. At the same time, it changed the company name from Avanquest to Claranova. Reflecting its growth ambitions, the company has made acquisitions in the gifting and software space over the last three years.

## Group strategy: Bringing innovative technology to the mass market

Claranova manages and co-ordinates a portfolio of majority owned interests in digital companies with strong growth prospects. The three divisions share a common vision: empowering people through innovation by providing simple and intuitive digital solutions that facilitate everyday access to the very best of technology. The company provides autonomy for each of its activities, with experienced entrepreneurs running each business, while providing strategic guidance and managing commercial or financial partnerships at the group level. The company has an investment horizon of five to 10 years for each business, depending on its maturity, with possible exit strategies including IPO, merger and partial or entire sale to financial or trade buyers.

The company is focused on driving the growth and profitability of each business, targeting group revenue of €700m and a group EBITDA margin of 10% by FY24 through a combination of organic growth and acquisitions.

**PlanetArt** is building a personalised e-commerce business. It started by exploiting the popularity of photography on smartphones – its FreePrints business enables consumers to order prints of their photos directly from their smartphones in a simple and cheap fashion. It has shown rapid growth, particularly in the UK and the US, and over the last three years has expanded across Europe. It has grown its product offering to include a wider range of customised products, helped by the acquisitions of online personalised gift providers Personal Creations and CafePress in the US. The business is focused on developing a comprehensive personalised e-commerce service that combines the photo printing and gifting businesses.

**Avanquest** is focused on developing proprietary software. It recently transitioned its licence model for the majority of products from one-off to subscription-based, which temporarily suppressed revenue growth and margins, but the division returned to organic growth in FY22.

Finally, the **myDevices** IoT platform is at an early stage of commercialisation. The business is focused on broadening the distribution channels for its technology and is seeing accelerating numbers of installations by end-customers. As this division is still in the early stages of revenue generation, it has not been included in the five-year growth targets for the group.

## Management

Claranova is headed up by Pierre Cesarini, chairman & CEO. Mr Cesarini joined the company in May 2013 to effect the restructuring of the group. He is supported by the management team: Xavier Rojo (deputy CEO and group CFO), Roger S Bloxberg (CEO PlanetArt), Todd Helfstein (president PlanetArt), Eric Gareau (CEO Avanquest) and Kevin Bromber (CEO myDevices).

Members of the board include Pierre Cesarini, Eric Gareau, Tood Helfstein, and Roger Bloxberg, as well as independent directors Viviane Chaine-Ribeiro, Christine Hedouis, Francis Meston, Luisa Munaretto, and Jean Loup Rousseau.

# PlanetArt: Personalised e-commerce

Historically, PlanetArt focused on providing photo printing services to consumers. With the acquisition of Personal Creations in August 2019, the business widened its offering into the market for mass customisation of consumer products, or what it calls ‘personalised e-commerce’. The division aims to provide easy-to-use services with a focus on value for money. The longer-term goal is to fully integrate photo printing and customised gifts to provide a comprehensive personalised e-commerce service. The division’s strategy is to grow through a combination of geographic and product range expansion.

## Photo printing: From standard prints to customised products

Several years ago, the company identified photo printing as an area ripe for innovation. It entered the market with Web-to-Print (a number of websites that offer printing services) before launching FreePrints in 2013. FreePrints is focused on printing photos using apps on mobile devices. The two businesses share the same fulfilment infrastructure and marketing teams. The majority of the division’s revenues are currently generated in the US and the UK, with a growing contribution from continental Europe; PlanetArt is present in 15 countries in total.

### FreePrints: Exploiting the shift in photography to phones

The FreePrints app (called **FreePrints**) is available for use on Apple and Android mobile devices in 15 countries. The app allows customers to print photos that are saved on the mobile device or stored on popular websites such as Facebook, Instagram, Flickr and Dropbox. The offer varies by country. For example, in Europe, customers are offered 500 free prints per year, or 45 free prints per month, for which they pay postage only. In the UK, this works out at up to £4 per order; in Europe, it costs up to €6. In the US, the offer is for 1,000 free prints per year, or 90 per month. The free prints offer is for prints of 6” x 4”/15cm x 10cm – if a customer wants larger prints, different-shaped prints (eg square), borders, duplicates or different finishes, these are available for an additional charge. Once an order is placed, customers are then offered extra printing services, such as customised mugs, fridge magnets or T-shirts. Building on the success of the FreePrints app, additional apps have since been launched:

- In early 2016, the business launched the **FreePrints Photobooks** app, which offers a free 20-page softcover photobook every month, again for the cost of postage only (UK c £6, Europe €8). Upgrades are available for larger formats, more pages and for hardback covers. This is available in 14 countries.
- In FY19, PlanetArt launched the **FreePrints Photo Tiles** app. This enables customers to order one free Photo Tile (an 8” x 8” canvas picture suitable to stick on the wall) per month, again for the cost of postage (£5.99 in the UK). This has so far been launched in 12 countries.
- In 2019, the **FreePrints Cards** app was launched in the US and the UK. Customers can order one free greetings-style postcard per month and pay just 95p to cover delivery. They can upgrade to a standard card format with envelope for £1.99.

All of the apps charge for printing on a per-job basis with no subscription required. Overall, 70–85% of monthly revenues come from returning customers; the average order value is €7–8. Through the acquisition of Personal Creations (see below), PlanetArt also offers the apps created by Sincerely.com: ink cards, easytiles and postagram. More than 3.5 billion photos have been printed by PlanetArt to date.

### Focus on customer service to maintain high ratings and rankings

FreePrints aims to maintain its app store ratings at as close to 5/5 as possible as this is a key factor in consumers’ decision-making when downloading apps. Currently, it is rated at 4.8/5 on the Apple App Store and on Google Play. This compares favourably with competitors, which receive lower average review scores on significantly fewer reviews. The business also aims to maintain high rankings within both app stores, as this also influences consumers’ propensity to download.

### Web-to-Print: Most orders originate from mobile browsers

Web-to-Print was the original photo printing service that has been offered by the company since the acquisition of SimplytoImpress in 2010. The business operates through four dedicated websites and generates most of its business in the United States.

- SimplytoImpress: high style cards and stationery products with text and photos.
- PhotoAffections: wide variety of personalised photo products.
- CanvasWorld: turns photos into canvas wall art.
- MyCustomCase: personalised cases for mobile phones, tablets and other devices.

Although it is called Web-to-Print, the majority of orders come from mobile browsers (rather than mobile apps). The business is very seasonal, with a large volume peak in November to December covering Thanksgiving and Christmas. This business typically has a higher order value ($70–80) than the FreePrints business. Customers tend to order less frequently than for FreePrints, typically once a year.

## Acquiring to enter the personalised gift market

In H120, Claranova acquired Personal Creations, the online gifts business of FTD Companies (FTD). Personal Creations operates two websites in the United States (www.personalcreations.com and www.gifts.com). It differs from the original PlanetArt services in that it does not depend on customer photos for personalisation. When acquired, Personal Creations did not have a mobile app. PlanetArt integrated Personal Creations during FY20 and it shares the PlanetArt back office. Several other areas of PlanetArt (eg SimplytoImpress, PhotoAffections and Freeprints Gifts) now use the Personal Creations manufacturing facility and some other PlanetArt brands are available on the Personal Creations website. Personal Creations was launched in the UK in H121 in a test phase.

In CY20, the business launched the **FreePrints Gifts** app to provide a free customised gift each month, in the same manner as the other FreePrints apps. Users can also access a large catalogue of products that they can personalise. The app is currently only available in the United States, but the business intends to launch this app in Europe in due course.

In H121, PlanetArt acquired the assets of CafePress from Shutterfly. CafePress is an online personalised product company headquartered in Kentucky, US. CafePress products are developed almost entirely by third-party content contributors and sold via CafePress websites in the US, the UK, Canada and Australia as well as via custom stores that can be set up by any user. CafePress is a licensee of hundreds of high-profile properties including Hasbro and Marvel. We see scope for Claranova to create cost synergies by integrating CafePress with PlanetArt's back-office functions and possibly using the Personal Creations manufacturing facility.

In H122, PlanetArt acquired certain assets of Minneapolis-based *I See Me!* from the McEvoy Group (www.iseeme.com). *I See Me!* publishes more than 60 personalised children's books as well as other products for children such as colouring books, puzzles and growth charts. These can be customised via its website with information such as the child's name and birthday. *I See Me!* had previously worked with Personal Creations, and PlanetArt highlighted the potential to leverage its broader product catalogue to create other customisable products for *I See Me!* customers.

Ultimately, the division wants to offer a comprehensive personalised e-commerce service, where consumers can buy a wide variety of items that can be customised in some way. This would not be restricted to gifting, but would also include items for consumers' own use, such as clothing or household items.

## Personalised gifts present significant opportunity

Since the advent of the smartphone more than 10 years ago, consumers have increasingly shifted from taking photos using digital cameras to using their phones for the majority of their photography. This shift is only likely to continue as smartphone manufacturers constantly improve the camera technology on phones. Mobile apps for photo printing are designed to make the process of printing out the photos taken by mobiles simple and cheap.

In 2018, Future Market Insights estimated that the market for global photo printing and merchandise was worth $16.9bn in 2018 and is likely to grow at a CAGR of 2.6% to reach $22bn by 2028. This masks the shift in distribution channels – in 2018 c 49% of the value was expected to be generated from online services, forecast to grow to 55% by 2028, which implies a CAGR of 3.9%. Within this category, we expect a continuing shift from web-based to mobile app-based printing.

The global market for personalised gifts is much larger than the photo printing market. A Research and Markets report from 2020 estimates that the market was worth $25.8bn in 2020 (of which $7.6bn is in the US) and will grow at a CAGR of 7.7% over the seven years to 2027. Non-photo personalised gifts (c two-thirds of the market) are expected to grow at a CAGR of 7.1% over the same period.

## A competitive market with a shifting landscape

**FreePrints** competes against large, multinational companies such as Snapfish, Photobox and CEWE, as well as local players such as Lalalab in France and Bob Books in the UK. **Web-to-Print** competes against services from larger online players such as Shutterfly, Photobox and Vistaprint, as well as services offered by pharmacies and retailers such as Walmart, Walgreens, Boots and Tesco, and by specialist photography companies such as Snappy Snaps and Jessops.

We note that the printing business has no legacy film printing services and does not own any printing or retail facilities, unlike many of its competitors. This affords it the flexibility to enter new markets at lower cost and with less risk.

In the **personalisation** market, Claranova competes against greetings card businesses (American Greetings, Card Factory, Hallmark Cards, funkypigeon.com, Moonpig.com), photo printing companies such as Cimpress and Snapfish, specialist providers (eg Not On The High Street (UK), society6 (US), Minted (US), Personalization Mall (US), Things Remembered (UK/US), Zazzle in the US) and e-commerce retailers such as Etsy.

## Business model

### Sales strategy and customer retention

The division targets revenue growth from a combination of growing the customer base and encouraging the existing customer base to order more frequently and buy a wider range of products. The acquisitions of Personal Creations and CafePress have provided a new range of products that can be sold into FreePrints, and vice versa.

Advertising costs are almost completely variable, with spend being dialled up or down depending on the cost of advertising at any given time, and the availability of cash. The division's experience is that this has a direct relationship with the number of new users acquired.

To retain and encourage existing customers to spend, the business sends app notifications and emails with special offers and runs a loyalty programme. It also has a 'refer a friend' scheme. The business makes use of the FreePrints customer base to sell the Photobooks, Photo Tiles, Cards and Gifts services.

To win new customers, the division has typically focused its advertising on Facebook, Google Ads, TikTok, Twitter and other channels. Occasionally, the company buys TV advertising, and during the pandemic took advantage of much cheaper TV ad rates. As we have previously written (Post-lockdown hangover), Apple's App Tracking Transparency (ATT) policy, introduced in April 2021, has made new customer acquisition much more difficult. The company has been working with Meta to trial new algorithms that work around the ATT policy. It has also been looking at alternative customer acquisition channels, such as working with influencers on YouTube and TikTok.

### Logistics: Outsourced printing; some in-house customisation

The division outsources all photo printing to one printer in the US, one in the UK and one in the Czech Republic. As the mobile app service is less seasonal, it can provide good volumes through the year, not just at Christmas time. During the Christmas peak, it can push delivery out from five to 10 days to ensure stable pricing. The company has built the IT systems to manage high volumes and if a new country is added, the system can manage localisation.

Personal Creations has a facility in Illinois, US, where items are customised. CafePress does not have any manufacturing facilities, outsourcing product manufacturing and customisation. As the business launches personalised e-commerce outside of the US, the intention is to work with manufacturing partners rather than vertically integrating.

### Minority investment to fund growth

In September 2017, a group of investors including Cap Investissement, the family office of Groupe Riccobono (a French industrial printer), invested €11.4m in PlanetArt in return for a 7.1% stake. An additional €0.8m was invested in April 2018, for a total minority investment of 7.7%. In January 2022, Claranova announced that it would buy back some of the minority interests (see Increasing stake in PlanetArt).

## PlanetArt Financials: Balancing growth and profitability

The business has grown rapidly since launch and moved into EBITDA profitability in FY18. Sales growth has been driven by geographic and product expansion and more recently by the acquisitions of Personal Creations and CafePress. Cost of sales consists of printing costs, the cost of items such as mugs or T-shirts, shipping costs and payment processing fees. Operating costs include variable costs such as marketing spend, and others that are more fixed in nature: support, marketing staff (staff in the US as well as several people in France to manage European marketing), developers, general admin and share of corporate costs (based on revenues). We note that the business hires temps to cover increased support demands during the seasonal peak of the Web-to-Print business in November and December, which results in higher staff costs in H1.

**Exhibit 3: PlanetArt quarterly revenues, Q120–Q123**

| €m | Q120 | Q220 | Q320 | Q420 | Q121 | Q221 | Q321 | Q421 | Q122 | Q222 | Q322 | Q422 | Q123 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenues | 48.5 | 137.7 | 49.7 | 78.1 | 69.4 | 164.3 | 71.9 | 74.7 | 63.8 | 163.3 | 63.6 | 75.4 | 67.9 |
| *y-o-y growth (%)* | *60* | *104* | *42* | *80* | *43* | *19* | *45* | *(4)* | *(8)* | *(1)* | *(11)* | *1* | *6* |

Source: Claranova

**Exhibit 4: PlanetArt annual forecasts**

| €m | FY19 | FY20 | FY21 | FY22 | FY23e | FY24e |
|---|---|---|---|---|---|---|
| Revenues | 176.1 | 314.0 | 380.3 | 366.2 | 392.3 | 408.4 |
| *y-o-y growth (%)* | *44* | *78* | *21* | *(4)* | *7* | *4* |
| EBITDA | 10.9 | 14.1 | 26.0 | 16.3 | 21.5 | 24.3 |
| *EBITDA margin (%)* | *6.2* | *4.5* | *6.8* | *4.4* | *5.5* | *5.9* |

Source: Claranova, Edison Investment Research

PlanetArt revenue declined 4% y-o-y in FY22 (9% cc, 12% organic, cc), mainly due to the challenge in acquiring new customers because of Apple's ATT policy. By Q422, the decline had reduced slightly to 11% y-o-y on an organic, cc basis. The company has tried to balance revenue growth and profitability, using a similar customer acquisition budget as in the prior year, which has resulted in a lower number of new customers and therefore lower growth. The company also invested in improving cybersecurity within the business. Revenue in Q123 increased 6% y-o-y; stripping out the effect of currency, it declined 3%, an improvement on the Q422 decline.

EBITDA of €16.3m for the year declined 37% from the €26.0m reported in FY21, although we note that FY21 included a €4.3m benefit from the forgiveness of a PPP loan in the US, which was originally taken out in FY20. The 4.4% margin therefore compares to 5.7% on an adjusted FY21 basis.

We forecast a return to growth in FY23, helped by the strength of the US dollar versus the euro, factoring in low single-digit cc revenue growth. We forecast EBITDA margin recovery over the same period.

# Avanquest: B2C focus

Avanquest is a consumer-focused online software business operating in three key verticals (photo editing, pdf, security/privacy). As well as selling software online, Avanquest monetises the traffic that visits its online properties via advertising, commission and transaction-based fees.

## A long history as an online software retailer

Claranova has been developing and selling consumer-focused software since the company was founded in the 1980s. It currently sells a mixture of third-party software and own-IP software, with a focus on building up its proprietary software business. Up to the end of FY18, the company sold products that broadly fell within one of the following four categories:

- operating tools (eg PC clean-up, anti-virus);

- office tools (eg PDF-based software);
- interior/exterior design (eg architecture software); and
- photo-related, imaging.

Software was typically from less well-known brands and does not include household names such as Adobe, Microsoft or Norton. In July 2018, Avanquest acquired 50.1% of a group made up of three Canadian businesses: Adaware, Lulu Software and Upclick. All software intellectual property (IP) is proprietary. The acquired businesses have kept their existing business models and brands. We detail below the products offered by each business:

- **Adaware:** H20 (software installer tool), Web Companion (browser security tool), anti-virus software, ad-blocking software.
- **Lulu Software:** Soda PDF publishing software – converts documents to PDF and vice versa.
- **Upclick:** e-commerce software – platform providing sales funnel optimisation and monetisation for merchants of digital goods and software.

## Product strategy – focus on developing own IP

While Avanquest continues to sell third-party software, the focus now is very much on building the proprietary software side of the business.

The legacy business used to have more in-house developers but refocused many of them on PlanetArt to develop the photo-printing services. The division therefore has a number of legacy products and uses freelancers to keep them up to date. It also has a number of niche products where it has looked at the most commonly used functionality of popular software such as Photoshop, and developed a simplified version so that a consumer can use the software without being an expert eg InPixio. As noted earlier, the acquired businesses own their software IP.

Product development is now focused around three core areas based on the main proprietary solutions:

- **Pdf:** Soda PDF;
- **Photo editing:** InPixio; and
- **Security/privacy:** Adaware.

Over the last two years, Avanquest has made several acquisitions to strengthen the PDF business. In FY21, Avanquest acquired PDFescape. PDFescape has integrated Soda PDF technology into its desktop solution since 2016 and has more than a million visitors to its site each month. Since the end of FY22, the company has made two further PDF-related acquisitions: PDFforge (see Stable performance year to date) and Scanner App (announced 10 October). Scanner App is a US company specialising in the development of mobile apps, licensed on a subscription basis, with solutions for scanning, filling, modifying and signing PDFs; converting JPG files to PDF format and sharing scans from any source. Scanner App's software is sold on Apple's App Store, available in 10 languages and 40 countries. The acquisition should help Avanquest to expand its PDF solutions to include mobile functionality and brings Scanner App's expertise in iOS customer acquisition.

## Business model

The division generates revenues in four different ways:

- **Paid-for products**. While legacy software was mainly sold on a one-off licence basis, where the customer is likely to need to use the software on an ongoing basis, the business has moved products to a subscription model (eg OneSafe PC Cleaner). Where a product is more suited to a one-off purchase as they tend to be linked to one-off projects, such as Architect 3D, they will continue to be sold as a one-off licence. Soda PDF was based on a one-off licence fee but has been converted to a subscription licence model.

- **Freemium products/services**. The legacy business offers a few freemium products, including Photo Editor by InPixio and InstaCards. Adaware offers its anti-virus software on a freemium basis; the paid version of the software is subscription-based.
- **Advertising/traffic-based**. Adaware's Web Companion tool is a browser add-in for secure browsing, ad blocking and identifying phishing sites. As the software diverts browsers such as Firefox to search services provided by Google or Bing, Web Companion earns a revenue share based on the searches pushed to these search providers. Adaware's software installer tool is used by websites that offer software downloads. When a consumer decides to download software, they first download a small file onto their PC. Once clicked on, an executable file runs to fully download the software. In the process, the user is prompted to accept and install other complementary software products. If the user accepts any of these additional software products, Adaware will earn a commission from the third-party software provider.
- **Transaction-based.** Upclick sells its services on a business-to-business (B2B) basis. Merchants sign up to use the platform on a per-transaction basis.

### Distribution: Mostly web-based

The business sells across Europe and North America through the Avanquest and Micro Application websites, affiliates (either via a traditional distributor model, or paid on a revenue share of units sold) and sub-licensing. The business only has limited retail activity in Germany and a larger presence in the US (combined making up less than 20% of divisional revenues and decreasing).

## Consolidating a fragmented market

The market for consumer software is made up of:

- solutions sold by well-known software companies such as Microsoft (Office suite), Adobe (Acrobat PDF, Photoshop) and Symantec (Norton anti-virus), which typically make the majority of their money from enterprise customers;
- a large number of very small independent software vendors, which often struggle to market their products; and
- a small number of larger companies specialising in online consumer software sales, typically leveraging their marketing expertise to reach a wide audience.

Avanquest falls into this last category, along with companies such as Avast, Kape, Foxit Software and Nitro Software. Avast and Kape both sell cybersecurity and PC hygiene tools and have been actively buying software providers in the space. Foxit and Nitro both sell pdf software.

## Growth strategy: Build a recurring revenue model

The company views one of the division's key skills as marketing, with unique expertise in acquiring customers online that was bolstered by the Canadian acquisitions. The business is keen to increase the level of recurring revenue, mainly through offering software on a subscription basis, and is already seeing the benefits of this shift: recurring revenues made up 62% of FY22 revenue, up from 58% in FY21 and 46% in FY20. The division would also consider more acquisitions, targeting profitable companies with high levels of web traffic.

## Avanquest financials: Solid growth in FY22

Exhibit 5 shows the quarterly revenue progression over the past three years; this business sees a seasonal peak in Q2 (ie calendar Q4). Costs of sale include the cost of products (ie royalties paid to third-party software providers), bank fees, distribution costs for physical goods and server hosting. Operating costs include advertising, marketing, administrative and R&D. The division operates with single IT, marketing and finance teams.

In its August trading update, the company restated revenue for earlier in FY22 and for FY21, to recognise Soda PDF subscription revenue according to IFRS 15. This had the effect of reducing revenue and EBITDA in both years by just over €1m. FY21 EBITDA was reduced from €10.9m to €9.6m (margin from 12.4% to 11.1%). FY22 revenue grew 18% y-o-y (12% in cc). FY22 EBITDA of €11.6m was below our forecast partly due to this restatement but also because the company decided to increase investment in customer acquisition in H222 with a view to driving growth in FY23. It also incurred a few hundred thousand euro in expenses relocating Ukrainian staff to a new Polish office. Despite these extra costs, the margin expanded slightly from 11.1% to 11.4%. Q123 revenue increased 20% y-o-y (15% organic), or 9% in cc (4% organic). This implies that PDFforge added c €1.1m to revenue in the quarter.

Management has suggested that 20% pa growth rates for products such as PDF should be achievable and ultimately EBITDA margins in the region of 20% should be attainable. Our FY23 revenue forecast is boosted by the recent PDF software acquisitions (contributing c 6% growth), with growth moderating in FY24 to low double-digits. We assume that this growth translates to EBITDA margin expansion over the forecast period.

**Exhibit 5: Avanquest quarterly revenues, Q120–Q123**

| €m | Q120 | Q220 | Q320 | Q420 | Q121 | Q221 | Q321 | Q421 | Q122 | Q222 | Q322 | Q422 | Q123 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenues | 20.8 | 25.1 | 22.1 | 22.3 | 19.2 | 21.9 | 22.5 | 22.8 | 22.6 | 27.8 | 25.7 | 26.1 | 27.1 |
| *y-o-y % growth* | *23* | *8* | *8* | *(1)* | *(8)* | *(13)* | *2* | *2* | *18* | *27* | *14* | *15* | *20* |

Source: Claranova

**Exhibit 6: Avanquest divisional forecasts**

| | FY19 | FY20 | FY21 | FY22 | FY23e | FY24e |
|---|---|---|---|---|---|---|
| Revenues | 83.0 | 90.3 | 86.4 | 102.2 | 120.8 | 134.5 |
| *y-o-y growth (%)* | *132* | *9* | *(4)* | *18* | *18* | *11* |
| EBITDA | 10.3 | 7.2 | 9.6 | 11.6 | 15.2 | 17.5 |
| *EBITDA margin (%)* | *12.4* | *7.9* | *11.1* | *11.4* | *12.6* | *13.0* |

Source: Claranova, Edison Investment Research

## myDevices: Simplifying IoT for SMEs and corporates

Claranova has developed a management platform for IoT applications. Its **IoT in a Box** turnkey solution is designed to enable businesses and consumers to monitor assets remotely.

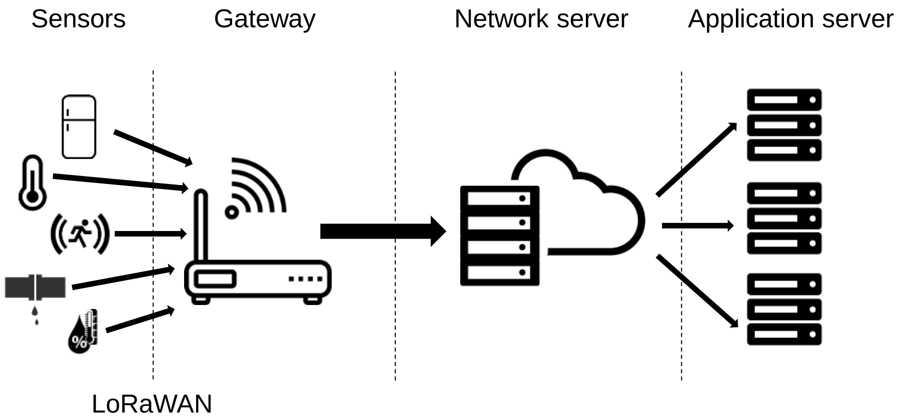
myDevices monetises the platform by selling its **IoT in a Box** solutions on a B2B basis through telecom operators, system integrators and other resellers. The standard IoT in a Box solution comprises a gateway (the link to the cellular/LoRa network or ethernet), sensors (positioned as required on the customer's premises (send data back to the gateway on a regular basis using the LoRaWAN protocol) and apps (mobile or web-based to control the network, to monitor the network and to provide alerts as required). Exhibit 7 shows how a typical IoT network is structured.

### Designed for easy installation and use

The solution is designed to be plug-and-play. The user first downloads the myDevices app, then plugs in the gateway and scans a QR code on the gateway, which registers it on to the network. Then all sensors are scanned via QR code to add them to the network and positioned where necessary. Within the app, the user then edits operating ranges for each sensor, so that SMS and/or email alerts can be sent if any sensor operates outside of the target range. The user can schedule regular reports and can access detailed sensor history via the app. The app also provides the ability to visualise the location of every sensor.

Customers can ask for the IoT in a Box solution to be customised, using the gateway and sensors of choice. myDevices works with a number of hardware suppliers to ensure that a wide range of gateways and sensors are available to suit every requirement.

**Exhibit 7: IoT network**




Source: Edison Investment Research

myDevices has already developed white-label solutions for applications such as temperature and humidity monitoring, property monitoring, air quality monitoring, rodent control and personal safety with multiple versions available for a variety of different users (eg restaurants, supermarkets, commercial buildings, holiday rentals, perishable food manufacturing and healthcare). Customers include BASF, Chick-fil-A, Compass Group, Engie, Hilton and Sodexo. The business has developed seven vertical-specific websites to help market the solutions.

**Exhibit 8: Vertical specific websites**

| Application | Website | Target audience |
|---|---|---|
| Cold chain management | SimplySense.com | Healthcare, food service, cold chain |
| Security | PushandProtect.com | Hotels, universities |
| | PushandCall.com | Hospitals (nurses) |
| | LockdownAlert.com | Schools, universities |
| Occupancy and space utilisation | Countario.com | Large venues, retail, workspace |
| Predictive maintenance | PredictAlert.com | Property managers |
| Water conservation | WaterSaveSensor.com | Property managers |

Source: Claranova

### LoRa focus attracts investment

The LoRa radio frequency protocol was designed by chip-maker Semtech, which then founded the LoRa alliance in 2015. The LoRa alliance is dedicated to the standardisation of low-power, wide area networks and the global promotion of the LoRaWAN open standard. myDevices is a member of the LoRa alliance, alongside 500 other members including chip manufacturers, gateway and sensor manufacturers, software companies, system integrators and telecom companies. In 2017, Semtech invested $3m in myDevices in return for a 13% stake and invested a further $3m in 2019. Claranova and Semtech together made further investments in myDevices in July 2020 and January 2022.

## Strong growth market; multiple platform providers

A large proportion of the IoT market is dominated by enterprises spending on applications in the manufacturing, automotive, logistics, utilities and smart cities sectors. The consumer IoT market includes applications such as wearables (eg Fitbit, Apple Watch) and domestic automation (eg Nest temperature controls, Ring home security). myDevices is positioned somewhere between the two markets, with a focus on simplifying the use of IoT for SMEs.

## Business model

As this is effectively a start-up business, myDevices is taking a flexible approach to monetising its technology. It is working with mobile network operators (MNOs), distributors, resellers, system integrators and other partners.

- **MNOs:** myDevices works with T-Mobile in the US and Dr Peng in China (which also has a 16% stake in myDevices). MNOs offer IoT applications to their SME and consumer subscribers, which are typically sold as add-on services on monthly contracts.
- **Distributors/resellers:** myDevices works with Ingram Micro (a global technology distributor with 200,000 resellers) and Alibaba Cloud (myDevices will market and sell IoT in a Box through Alibaba Cloud's existing reseller distribution network).
- **Technology partnerships:** ARM and myDevices have agreed to combine IoT in a Box with ARM's Pelion IoT platform; the ARM and Microsoft partnership allows users to onboard LoRaWAN devices to send data instantly to Microsoft Azure, enabling advanced analytics and business intelligence.

## myDevices: Growth in recurring revenues

Exhibit 9 shows the quarterly revenue progression over the past three years. As customers pay to use myDevices on a per-device subscription basis, revenues are building up slowly, but as customers become familiar with the platform, the expectation is that they will want to use the service for more devices in more locations. myDevices FY22 revenue grew 36% y-o-y or 29% at cc. Stripping out the impact of the contract with T-Mobile (which contributed €3.8m in FY20, €2.5m in FY21 and €0.4m in FY22), underlying revenue increased by 207% y-o-y. Annual recurring revenue of €2.4m at the end of June 2022 was 71% higher y-o-y. Although the cost base increased to support the growth of the business, the EBITDA loss reduced slightly from €2.7m in FY21 to €2.4m in FY22. Q123 revenue grew 49% y-o-y (29% cc).

Headcount includes support engineers as well as staff to manage the relationships with MNOs and distributors. The company does not anticipate growing headcount materially unless there is a significant uplift in demand. The division uses Amazon Web Services for storage of all data uploaded to the platform. We model strong revenue growth in FY23 and FY24, reflecting customer wins and expanding usage by existing customers.

**Exhibit 9: myDevices quarterly revenues, Q120–Q123, €m**

| | Q120 | Q220 | Q320 | Q420 | Q121 | Q221 | Q321 | Q421 | Q122 | Q222 | Q322 | Q422 | Q123 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenues | 0.5 | 1.7 | 1.3 | 1.4 | 1.0 | 1.2 | 0.8 | 0.9 | 1.0 | 1.3 | 1.2 | 1.7 | 1.5 |
| *y-o-y % growth* | *(44)* | *113* | *39* | *125* | *100* | *(32)* | *(34)* | *(35)* | *(5)* | *17* | *44* | *97* | *49* |

Source: Claranova

**Exhibit 10: myDevices annual forecasts**

| €m | FY19 | FY20 | FY21 | FY22 | FY23e | FY24e |
|---|---|---|---|---|---|---|
| Revenues | 3.2 | 4.8 | 3.9 | 5.2 | 6.5 | 7.0 |
| y-o-y growth (%) | (14) | 50 | (20) | 35 | 24 | 9 |
| EBITDA | (5.2) | (3.8) | (2.7) | (2.4) | (1.8) | (1.7) |
| EBITDA margin (%) | (163.1) | (80.0) | (70.1) | (46.6) | (27.1) | (24.3) |

Source: Claranova, Edison Investment Research

# Sensitivities

In addition to the usual competitive pressures and the requirement to keep abreast of technology, our forecasts and the share price are sensitive to the following factors:

- **Changes to search engine and app store policies:** several products within Avanquest rely on search engines to generate revenues. Changes to these search engines' policies could reduce the ability to earn revenues. Similarly, PlanetArt relies on targeted advertising for customer acquisition; recent changes to Apple's privacy rules have made targeted customer acquisition more difficult.

- **FreePrints' geographical expansion:** FreePrints has launched in several countries over the last few years and is likely to expand into other new countries. The pace of customer adoption in these new geographies is unknown.
- **Supplier dependence:** in Europe and the US, PlanetArt relies on two printing suppliers. Any issues with these relationships could affect the profitability of the business. As the business expands into personalised gifts in Europe, it is likely to outsource manufacturing, which will increase supplier dependence.
- **Logistics:** the cost and efficiency of the delivery network in the countries in which PlanetArt operates will influence divisional profitability and customer demand.
- **Acquisition risk:** recent acquisitions introduce integration risk and the company may consider further acquisitions, which will require funding.
- **Currency:** Claranova's revenue is exposed to currency translation movements, as a large proportion is generated in US dollars, and to a lesser extent sterling. Across the three divisions, there is a high level of natural hedging, with the majority of costs incurred in the country in which revenues are generated.

# Financials

## FY22 results review

Exhibit 11 summarises FY22 results (the company had reported Q422/FY22 revenue in August).

**Exhibit 11: FY22 results versus FY21 and forecasts**

| €'m | FY21a | FY22e | FY22a | % change | % y-o-y |
|---|---|---|---|---|---|
| Revenues | 470.6 | 472.8 | 473.7 | 0.2 | 0.7 |
| EBITDA | 36.5 | 33.7 | 28.3 | (16.1) | (22.5) |
| *EBITDA margin (%)* | *7.7* | *7.1* | *6.0* | (1.2) | (1.8) |
| EBITDA - pre IFRS 16 | 32.9 | 29.6 | 25.5 | (13.8) | (22.5) |
| *EBITDA margin - pre IFRS 16 (%)* | *7.0* | *6.3* | *5.4* | (0.9) | (1.6) |
| Normalised operating profit | 31.0 | 28.2 | 23.7 | (16.0) | (23.6) |
| *Normalised operating margin (%)* | *6.6* | *6.0* | *5.0* | (1.0) | (1.6) |
| Reported operating profit | 23.5 | 25.0 | 18.0 | (28.1) | (23.5) |
| *Reported operating margin (%)* | *5.0* | *5.3* | *3.8* | (1.5) | (1.2) |
| Normalised PBT | 24.2 | 19.6 | 7.2 | (63.5) | (70.4) |
| Reported PBT | 16.7 | 12.3 | (4.2) | (134.5) | (125.5) |
| Normalised net income | 14.9 | 14.3 | 5.0 | (65.1) | (66.4) |
| Reported net income | 9.5 | 5.4 | (10.5) | (294.8) | (210.9) |
| Normalised basic EPS (€) | 0.38 | 0.32 | 0.12 | (63.1) | (68.9) |
| Normalised diluted EPS (€) | 0.37 | 0.32 | 0.11 | (66.1) | (71.4) |
| Reported basic EPS (€) | 0.24 | 0.12 | (0.25) | (305.9) | (202.6) |
| Net debt/(cash) | (25.3) | 61.3 | 71.2 | 16.1 | (381.4) |
| Net debt/EBITDA (x) | | 2.1 | 2.8 | | |

Source: Claranova, Edison Investment Research

Revenue was substantially in line with our forecast due to the August trading update. Adjusted EBITDA (described as 'EBITDA - pre-IFRS 16' in Exhibit 11) was below our forecast, with both PlanetArt and Avanquest generating lower EBITDA than forecast. Normalised operating profit was also lower than forecast due to lower EBITDA and higher amortisation. Reported operating profit included a net exceptional charge of €0.7m (which includes a €2.4m gain on the disposal of LastCard, acquisition costs of €1.3m, redundancy costs of €0.5m and restructuring charges). Net finance costs of €22.2m included debt amortisation of c €9m for the bonds issued at the start of

FY22, a €4m write-down of LastCard receivables (the business has been closed down), interest and finance fees of €7.5m and exchange losses of €1.6m.

Net debt at year-end of €71m was higher than our €61m forecast, despite the first payment of €19m for PDFforge shifting to 1 July (we had expected it to be made in Q422). The main differences were lower EBITDA and working capital inflow and higher than expected tax paid and debt amortisation.

## Outlook and changes to forecasts

We have reduced our revenue forecasts for FY23 to reflect a slower return to growth for PlanetArt and the higher cost base exiting FY22. We introduce FY24 forecasts for revenue growth of 5.9% and an EBITDA margin of 7.3%. We have increased our net debt forecasts to reflect the unwind of the discount on the convertible bond issued at the start of FY22 (c €9m pa).

**Exhibit 12: Changes to forecasts**

| €'m | FY23e | FY23e | | | FY24e | |
|---|---|---|---|---|---|---|
| | Old | New | % change | % y-o-y | New | % y-o-y |
| **Revenues** | **528.1** | **519.5** | **(1.6)** | **9.7** | **550.0** | **5.9** |
| EBITDA | 48.5 | 38.5 | (20.6) | 36.4 | 43.7 | 13.5 |
| *EBITDA margin (%)* | *9.2* | *7.4* | *(1.8)* | *1.5* | *8.0* | *0.5* |
| **EBITDA - pre IFRS 16** | **44.5** | **35.0** | **(21.5)** | **37.1** | **40.1** | **14.7** |
| ***EBITDA margin - pre IFRS 16 (%)*** | ***8.4*** | ***6.7*** | ***(1.7)*** | ***1.3*** | ***7.3*** | ***0.6*** |
| Normalised operating profit | 43.1 | 33.5 | (22.2) | 41.8 | 38.7 | 15.5 |
| *Normalised operating margin (%)* | *8.2* | *6.5* | *(1.7)* | *1.5* | *7.0* | *0.6* |
| Reported operating profit | 40.0 | 29.0 | (27.4) | 61.8 | 34.0 | 17.2 |
| *Reported operating margin (%)* | *7.6* | *5.6* | *(2.0)* | *1.8* | *6.2* | *0.6* |
| Normalised PBT | 34.6 | 16.0 | (53.7) | 123.9 | 21.2 | 32.5 |
| Reported PBT | 31.5 | 11.5 | (63.5) | (370.9) | 16.5 | 43.4 |
| Normalised net income | 26.7 | 12.3 | (53.9) | 145.6 | 16.3 | 32.4 |
| Reported net income | 24.3 | 8.8 | (63.7) | (184.2) | 12.7 | 43.4 |
| Normalised basic EPS (€) | 0.58 | 0.27 | (53.8) | 129.1 | 0.36 | 32.4 |
| **Normalised diluted EPS (€)** | **0.58** | **0.25** | **(57.4)** | **130.5** | **0.33** | **32.4** |
| Reported basic EPS (€) | 0.53 | 0.19 | (63.6) | (178.6) | 0.28 | 43.4 |
| **Net debt/(cash)** | **42.7** | **88.5** | **107.3** | **24.3** | **76.0** | **(14.1)** |
| ***Net debt/EBITDA (x)*** | ***1.0*** | ***2.5*** | | | ***1.9*** | |
| Divisional revenues | | | | | | |
| PlanetArt | 399.7 | 392.3 | (1.9) | 7.1 | 408.4 | 4.1 |
| Avanquest | 121.9 | 120.8 | (0.9) | 18.2 | 134.5 | 11.4 |
| myDevices | 6.5 | 6.5 | (0.8) | 24.0 | 7.0 | 8.5 |
| Total | 528.1 | 519.5 | (1.6) | 9.7 | 550.0 | 5.9 |
| Divisional EBITDA | | | | | | |
| PlanetArt | 28.2 | 21.5 | (23.8) | 32.1 | 24.3 | 13.0 |
| Avanquest | 19.5 | 15.2 | (22.1) | 30.6 | 17.5 | 15.1 |
| myDevices | (3.2) | (1.8) | (45.3) | (27.7) | (1.7) | (2.9) |
| Total EBITDA - pre IFRS 16 | 44.5 | 35.0 | (21.5) | 37.1 | 40.1 | 14.7 |

Source: Edison Investment Research

# Valuation

In Exhibit 13, we show Claranova's valuation and operating metrics versus four peer groups: personalised e-commerce companies, online software publishers, IoT companies and French software companies. As Claranova is a combination of the first three groups and there are minority investors in two of the businesses, we use a sum-of-the-parts approach to fully capture the value of the group.

**Exhibit 13: Peer financial and valuation metrics**

| | Quote | Market | Rev growth (%) | | EBITDA margin (%) | | EBIT margin (%) | | EV/Revs (x) | | EV/ EBITDA (x) | | P/E (x) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | ccy | cap (m) | CY | NY | CY | NY | CY | NY | CY | NY | CY | NY | CY | NY |
| **Claranova** | **EUR** | **126** | **9.7** | **5.9** | **7.4** | **8.0** | **5.6** | **6.2** | **0.4** | **0.4** | **5.1** | **4.5** | **11.2** | **8.5** |
| Personalised e-commerce | | | | | | | | | | | | | | |
| *PlanetArt* | | | *7.1* | *4.1* | *5.5* | *5.9* | | | | | | | | |
| CEWE Stiftung | EUR | 688 | 4.0 | 3.1 | 17.8 | 17.8 | 10.3 | 10.4 | 1.0 | 1.0 | 5.9 | 5.7 | 13.8 | 13.3 |
| Cimpress | USD | 677 | 6.5 | 9.2 | 9.5 | 10.7 | 2.0 | 4.2 | 0.7 | 0.7 | 7.7 | 6.2 | N/A | 19.0 |
| Moonpig | GBp | 558 | 13.1 | 13.8 | 24.6 | 25.4 | 19.0 | 20.1 | 1.9 | 1.6 | 7.6 | 6.5 | 13.3 | 11.2 |
| 1-800-Flowers | USD | 513 | -4.5 | 4.3 | 3.4 | 4.8 | 0.7 | 1.6 | 0.4 | 0.4 | 11.0 | 7.5 | 127.9 | 20.0 |
| **Average** | | | **4.8** | **7.6** | **13.8** | **14.7** | **8.0** | **9.1** | **1.0** | **0.9** | **8.0** | **6.5** | **51.7** | **15.9** |
| Software publisher/reseller | | | | | | | | | | | | | | |
| *Avanquest* | | | *18.2* | *11.4* | *12.6* | *13.0* | | | | | | | | |
| Foxit | CNY | 4966 | 65.6 | 18.9 | 9.0 | 11.4 | 4.7 | 6.7 | 4.8 | 4.0 | 52.6 | 35.0 | N/A | N/A |
| IAC | USD | 4186 | 42.3 | 0.2 | 3.5 | 7.3 | -8.2 | -2.0 | 1.0 | 1.0 | 28.9 | 13.8 | N/A | N/A |
| Kape Technologies | GBp | 1013 | 168.1 | 12.0 | 33.2 | 32.4 | 24.3 | 24.4 | 2.1 | 1.8 | 6.2 | 5.7 | 7.2 | 6.7 |
| Nitro Software | AUD | 515 | 32.7 | 15.9 | -23.3 | -12.1 | -38.1 | -23.7 | 4.6 | 4.0 | N/A | N/A | N/A | N/A |
| **Average** | | | **77.2** | **11.7** | **5.6** | **9.7** | **-4.3** | **1.4** | **3.1** | **2.7** | **29.2** | **18.1** | **7.2** | **6.7** |
| IoT | | | | | | | | | | | | | | |
| *myDevices* | *EUR* | | *24.0* | *8.5* | *(27.1)* | *(24.3)* | | | | | | | | |
| CalAmp Corp | USD | 139 | -2.1 | 7.1 | 6.5 | 10.1 | 0.6 | 4.6 | 1.1 | 1.0 | 17.0 | 10.2 | N/A | 14.9 |
| Digi International | USD | 1466 | 10.1 | 9.6 | 21.5 | 23.7 | 14.1 | 17.9 | 3.4 | 3.1 | 15.8 | 13.0 | 22.2 | 18.4 |
| Sierra Wireless | CAD | 1504 | 44.8 | 3.7 | 9.9 | 10.5 | 7.8 | 8.4 | 1.6 | 1.5 | N/A | 14.3 | 25.1 | 22.0 |
| **Average** | | | **17.6** | **6.8** | **12.6** | **14.8** | **7.5** | **10.3** | **2.0** | **1.9** | **16.4** | **12.5** | **23.7** | **18.4** |
| French software | | | | | | | | | | | | | | |
| Axway Software | EUR | 350 | 3.3 | 3.1 | 13.0 | 14.4 | 10.6 | 12.1 | 1.5 | 1.4 | 11.3 | 9.9 | 17.0 | 14.0 |
| Cegedim | EUR | 217 | 5.8 | 5.2 | 17.8 | 19.2 | 4.5 | 5.9 | 0.8 | 0.8 | 4.8 | 4.2 | 16.2 | 13.4 |
| ESI Group | EUR | 439 | -17.9 | 5.9 | 15.2 | 18.4 | 8.8 | 12.0 | 4.0 | 3.8 | 26.5 | 20.7 | 31.3 | 29.1 |
| Esker | EUR | 888 | 18.7 | 13.5 | 20.4 | 19.8 | 13.5 | 13.2 | 5.4 | 4.7 | 26.3 | 23.8 | 49.4 | 46.6 |
| Lectra | EUR | 1269 | 89.5 | 3.9 | 18.9 | 19.5 | 13.7 | 14.6 | 2.5 | 2.4 | 13.0 | 12.2 | 24.0 | 22.0 |
| Linedata Services | EUR | 293 | 6.1 | 1.7 | 29.1 | 27.9 | 18.9 | 17.7 | 2.0 | 2.0 | 7.0 | 7.2 | 11.3 | 12.3 |
| **Average** | | | **17.6** | **5.5** | **19.1** | **19.9** | **11.7** | **12.6** | **2.7** | **2.5** | **14.8** | **13.0** | **24.9** | **22.9** |

Source: Edison Investment Research, Refinitiv (21 November)

We use average peer multiples for reference, adjusting them to reflect our views on the growth and profitability prospects for each division. In Exhibit 14, our sum-of-the-parts valuation is based on adjusted FY23e EV/sales multiples by division (rolled forward by one year since our last valuation). The EV/sales multiple for FY24e and the EV/EBITDA multiples for FY23e and FY24e are implied based on the EV/sales multiple used for FY23e. For PlanetArt, we use an FY23e multiple of 0.8x, with the c 25% discount to peers reflecting its lower profitability. For Avanquest, we use the value implied by the minority interest buyout, which equates to an FY23e EV/Sales multiple of 1.3x. We use a multiple of 2.0x for myDevices. This results in a new valuation of €7.39 per share, down from €7.85 when we last wrote, reflecting reduced revenue forecasts and slightly lower peer group multiples. Clearly, this valuation implies material upside to the current share price. However, several quarters of PlanetArt struggling with new customer acquisition has reduced investor confidence in the growth prospects of the group. We also assume that investors factor in a conglomerate discount. Factors that could restore confidence and start to close this valuation gap include:

- proof that the post-iOS 14.5 customer acquisition strategy is driving a resumption in growth in PlanetArt;
- successful roll-out of the full range of FreePrints products to all geographical locations;
- sustained revenue growth in Avanquest, with growth from the three focus areas outweighing the decline in legacy products;
- continued margin expansion in Avanquest;
- reduction in debt, as this has increased significantly over the last year, partly as a result of minority interest buyouts and partly because of acquisitions by Avanquest; and
- spin out or sale of either PlanetArt or Avanquest.

**Exhibit 14: Sum-of-parts valuation**

| | FY23e | FY24e | | EV based on FY23e sales multiple (€m) | Minority interest (%) | Value to shareholders (€m) |
|---|---|---|---|---|---|---|
| EV/Sales multiple (x) | 0.9 | 0.9 | | 470.8 | | 447.6 |
| PlanetArt | **0.8** | 0.7 | | 302.1 | 5.9 | 284.2 |
| Avanquest | **1.3** | 1.2 | | 155.8 | 0.0 | 155.8 |
| myDevices | **2.0** | 1.8 | | 12.9 | 41.6 | 7.5 |
| Implied EV/EBITDA multiple (x) | | | | | | |
| PlanetArt | 14.0 | 12.4 | | | | |
| Avanquest | 10.3 | 8.9 | | | | |
| myDevices | N/A | N/A | | | | |
| | | | | | | % upside/(downside) |
| Net debt at end FY22 (€m) | (71.2) | | | Equity value (€m) | 336.1 | |
| Cost of acquisitions (€m) | (40.3) | | | **Per share value (€)** | **7.39** | 167 |
| Adjusted net debt (€m) | (111.5) | | | | | |
| No. of shares (m) | 45.5 | | | | | |

Source: Edison Investment Research

**Exhibit 15: Financial summary**

| €'m | 2017 | 2018 | 2019 | 2020 | 2021* | 2022 | 2023e | 2024e |
|---|---|---|---|---|---|---|---|---|
| 30-June | IFRS | IFRS | IFRS | IFRS | IFRS | IFRS | IFRS | IFRS |
| INCOME STATEMENT | | | | | | | | |
| Revenue | 130.2 | 161.5 | 262.3 | 409.1 | 470.6 | 473.7 | 519.5 | 550.0 |
| EBITDA | (5.0) | 3.9 | 16.0 | 20.6 | 36.5 | 28.3 | 38.5 | 43.7 |
| Company adjusted EBITDA | (5.0) | 3.9 | 16.0 | 17.4 | 32.9 | 25.5 | 35.0 | 40.1 |
| Normalised operating profit | (5.8) | 3.4 | 15.5 | 15.8 | 31.0 | 23.7 | 33.5 | 38.7 |
| Amortisation of acquired intangibles | 0.0 | 0.0 | (1.5) | (2.4) | (3.1) | (3.8) | (4.5) | (4.7) |
| Exceptionals | 0.4 | (2.4) | (2.9) | (5.6) | (4.4) | (0.7) | 0.0 | 0.0 |
| Share-based payments | (4.8) | (7.1) | 0.3 | 0.0 | 0.0 | (1.2) | 0.0 | 0.0 |
| Reported operating profit | (10.1) | (6.1) | 11.4 | 7.8 | 23.5 | 18.0 | 29.0 | 34.0 |
| Net Interest | (0.9) | (0.3) | (3.5) | (4.5) | (6.8) | (16.5) | (17.5) | (17.5) |
| Joint ventures & associates (post tax) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Exceptionals | 0.0 | 0.0 | (45.6) | 0.0 | 0.0 | (5.7) | 0.0 | 0.0 |
| Profit Before Tax (norm) | (6.6) | 3.1 | 12.0 | 11.3 | 24.2 | 7.2 | 16.0 | 21.2 |
| Profit Before Tax (reported) | (11.0) | (6.4) | (37.7) | 3.3 | 16.7 | (4.2) | 11.5 | 16.5 |
| Reported tax | (0.4) | (1.8) | (3.7) | (2.1) | (3.5) | (5.7) | (2.6) | (3.8) |
| Profit After Tax (norm) | (7.0) | 2.4 | 9.2 | 8.7 | 18.6 | 5.5 | 12.3 | 16.3 |
| Profit After Tax (reported) | (11.4) | (8.2) | (41.4) | 1.2 | 13.2 | (10.0) | 8.9 | 12.7 |
| Minority interests | 0.3 | 0.2 | 0.6 | (0.7) | (3.7) | (0.5) | (0.0) | (0.0) |
| Discontinued operations | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net income (normalised) | (6.7) | 2.6 | 9.8 | 8.0 | 14.9 | 5.0 | 12.3 | 16.3 |
| Net income (reported) | (11.0) | (7.9) | (40.8) | 0.5 | 9.5 | (10.5) | 8.8 | 12.7 |
| Basic ave. number of shares outstanding (m) | 38 | 39 | 39 | 39 | 39 | 43 | 46 | 46 |
| EPS - basic normalised (€) | (0.18) | 0.07 | 0.25 | 0.20 | 0.38 | 0.12 | 0.27 | 0.36 |
| EPS - diluted normalised (€) | (0.18) | 0.06 | 0.25 | 0.20 | 0.37 | 0.11 | 0.25 | 0.33 |
| EPS - basic reported (€) | (0.29) | (0.20) | (1.04) | 0.01 | 0.24 | (0.25) | 0.19 | 0.28 |
| Dividend (€) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Revenue growth (%) | 10.9 | 24.0 | 62.4 | 56.0 | 15.0 | 0.7 | 9.7 | 5.9 |
| EBITDA Margin (%) | -3.8 | 2.4 | 6.1 | 5.0 | 7.7 | 6.0 | 7.4 | 8.0 |
| Company adjusted EBITDA margin (%) | -3.8 | 2.4 | 6.1 | 4.3 | 7.0 | 5.4 | 6.7 | 7.3 |
| Normalised Operating Margin | -4.4 | 2.1 | 5.9 | 3.9 | 6.6 | 5.0 | 6.5 | 7.0 |
| **BALANCE SHEET** | | | | | | | | |
| Fixed Assets | 2.0 | 1.3 | 75.1 | 93.7 | 96.6 | 123.3 | 147.9 | 143.8 |
| Intangible Assets | 0.9 | 0.5 | 69.9 | 70.5 | 77.5 | 96.6 | 120.6 | 115.9 |
| Tangible Assets | 0.3 | 0.2 | 1.4 | 15.7 | 12.2 | 18.2 | 18.8 | 19.4 |
| Investments & other | 0.7 | 0.6 | 3.8 | 7.5 | 6.9 | 8.5 | 8.5 | 8.5 |
| Current Assets | 28.1 | 79.1 | 100.9 | 116.3 | 128.4 | 146.7 | 161.4 | 184.7 |
| Stocks | 3.7 | 3.7 | 4.8 | 14.4 | 16.1 | 22.0 | 24.1 | 25.5 |
| Debtors | 4.3 | 4.9 | 11.6 | 9.9 | 9.2 | 8.3 | 9.1 | 9.6 |
| Cash & cash equivalents | 17.1 | 65.7 | 75.4 | 82.8 | 90.4 | 100.3 | 112.0 | 133.5 |
| Other | 2.9 | 4.8 | 9.1 | 9.2 | 12.7 | 16.1 | 16.1 | 16.1 |
| Current Liabilities | (28.1) | (37.2) | (60.5) | (74.6) | (76.7) | (106.0) | (112.4) | (116.8) |
| Creditors | (26.6) | (35.4) | (54.8) | (64.3) | (63.8) | (78.1) | (84.5) | (88.9) |
| Tax and social security | (0.3) | (1.7) | (3.0) | (1.2) | (2.0) | (1.9) | (1.9) | (1.9) |
| Short term borrowings | (1.1) | (0.1) | (2.7) | (6.1) | (7.7) | (22.6) | (22.6) | (22.6) |
| Other | 0.0 | 0.0 | 0.0 | (3.0) | (3.2) | (3.4) | (3.4) | (3.4) |
| Long Term Liabilities | (0.7) | (29.0) | (52.0) | (73.1) | (66.1) | (162.3) | (191.3) | (200.3) |
| Long term borrowings | 0.0 | (28.1) | (49.1) | (62.8) | (57.4) | (148.9) | (177.9) | (186.9) |
| Other long term liabilities | (0.7) | (0.9) | (2.9) | (10.3) | (8.7) | (13.4) | (13.4) | (13.4) |
| Net Assets | 1.3 | 14.2 | 63.6 | 62.3 | 82.2 | 1.7 | 5.6 | 11.5 |
| Minority interests | (0.1) | (1.8) | (11.0) | (11.7) | (16.2) | (3.3) | 1.6 | 8.4 |
| Shareholders' equity | 1.2 | 12.5 | 52.6 | 50.6 | 66.0 | (1.6) | 7.2 | 19.9 |
| **CASH FLOW** | | | | | | | | |
| Op Cash Flow before WC and tax | (5.0) | 3.9 | 16.0 | 20.6 | 36.5 | 28.3 | 38.5 | 43.7 |
| Working capital | 6.8 | 7.9 | (4.1) | 22.5 | (3.1) | 3.2 | 3.4 | 2.5 |
| Exceptional & other | (2.2) | (5.7) | (5.2) | (6.3) | (8.9) | (4.2) | 0.0 | 0.0 |
| Tax | (0.0) | (1.2) | (3.8) | (6.8) | (5.1) | (9.4) | (2.6) | (3.8) |
| Net operating cash flow | (0.4) | 5.0 | 3.0 | 30.0 | 19.4 | 17.9 | 39.3 | 42.4 |
| Capex | (0.2) | (0.1) | (2.5) | (1.2) | (3.8) | (2.2) | (2.0) | (2.0) |
| Acquisitions/disposals | 3.6 | 14.2 | (13.3) | (31.9) | (3.8) | (73.3) | (33.5) | (6.8) |
| Net interest | (0.0) | (0.3) | 0.0 | (0.5) | (0.7) | (1.7) | (8.5) | (8.5) |
| Equity financing | 1.9 | 2.0 | (1.4) | 0.0 | 2.4 | 13.3 | 0.0 | 0.0 |
| Dividends | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | 0.1 | (0.6) | 0.0 | 0.4 | (2.6) | 1.9 | (3.6) | (3.6) |
| Net Cash Flow | 5.0 | 20.1 | (14.2) | (3.2) | 11.0 | (44.1) | (8.3) | 21.4 |
| Opening net debt/(cash) | (9.8) | (16.0) | (37.5) | (23.6) | (13.9) | (25.3) | 71.2 | 88.5 |
| FX | (0.6) | 0.4 | 0.3 | (0.8) | 1.8 | 2.1 | 0.0 | 0.0 |
| Other non-cash movements | 1.8 | 1.1 | 0.0 | (5.7) | (1.3) | (54.5) | (9.0) | (9.0) |
| Closing net debt/(cash) | (16.0) | (37.5) | (23.6) | (13.9) | (25.3) | 71.2 | 88.5 | 76.0 |

Source: Claranova, Edison Investment Research *Restated

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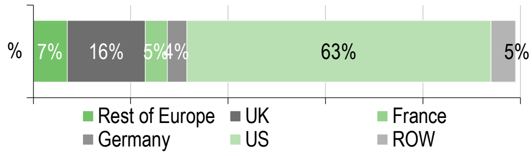


**Management team**

**Chairman & CEO: Pierre Cesarini**

Prior to joining Avanquest as group CEO in May 2013, Mr Cesarini began his career at Apple's California headquarters, where he spent 10 years and played a key role in the development of the PowerMac. In 1998, he founded TempoSoft, a supplier of intranet applications for HR management and planning, which was purchased by Oracle in 2005. In 2007, he became CEO of Atego, an embedded software provider.

**Deputy CEO and CFO: Xavier Rojo**

Mr Rojo joined Claranova in May 2022. He started his career with Dexia Group where he served in various roles over 17 years. In 2011 he became in investor in the healthcare sector. In 2015 he founded Keystone Conseil, a business development consulting firm that assists small private banks and SMEs with their strategic positioning and development.

| Principal shareholders | (%) |
|---|---|
| Daniel Assouline | 5.9 |
| Pierre Cesarini | 5.6 |
| Michael Dadoun | 2.8 |
| Generali Investment Partners | 1.0 |
| Invesco Advisers | 1.0 |
| DNCA Investments | 0.8 |
| Claranova management | 0.8 |

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