CLIQ Digital

H122 results

Making CLIQ a household name

Software and comp services

CLIQ Digital's H122 results were strong across all KPIs, illustrating that the group is on track to reach management's FY22 guidance, which saw significant uplifts at its strategy update in June. Our revenue and profit forecasts remain materially unchanged. However, we have updated our balance sheet expectations to reflect CLIQ's committed investment in its new package offering, CLIQ.de. The new upscaled multi-content platform is designed to be simple but affordable, encouraging widespread adoption with the aim of making CLIQ a 'household name' in Germany.

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/20	107.0	14.4	1.2	0.5	26.4	1.6
12/21	150.0	25.3	2.6	1.1	12.2	3.5
12/22e	250.0	35.3	3.6	1.5	8.8	4.7
12/23e	300.0	45.0	4.6	1.9	6.9	6.0

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

Strong sales coupled with stable margins

CLIQ's H122 revenues were up by 85% y-o-y to €116.8m, with growth accelerating in Q2 at 94% y-o-y to €64.2m. Marketing spend, which was up 149% to €29.6m, and its shift to direct media buying continue to drive sales growth and operational KPIs. The number of paid memberships was up 0.2m to 1.7m at period-end and the lifetime value of its customer base grew to €121m (Q122: €104m), benefiting from investments in its multi-content offering. Despite elevated investment in its platform, EBITDA increased by 58% y-o-y to €18.4m with the margin remaining consistent q-o-q at 16%. Management is guiding for revenue to increase to over €250m in FY22, up more than 67% y-o-y, and an EBITDA margin of at least 15%, with its planned marketing spend of over €90m for the year (over 66% y-o-y) providing good visibility. This is in line with our forecasts.

Bucking the trend

While other content platforms have been raising their prices, CLIQ announced that it would be launching an enhanced version of its multi-content portal, CLIQ.de, in September 2022 at an introductory price of €6.99/month. The attractive pricing alongside focused marketing spend should continue to drive an increase in sales and customer stickiness (we provide further analysis here). The significant investment required for CLIQ.de, 114% y-o-y increase in dividends paid and large working capital movements, have led us to move the company from a net cash position of €12m to a net debt position of €5.7m at year end. However, continued revenue and profit growth, as well as lower working capital requirements, should allow CLIQ to return to a net cash position in FY23.

Valuation: Discount persisting

CLIQ's share price is up 28% year to date, while peers are down %. Despite this strong performance, the company's shares continue to trade at an average 67% discount across EV/Sales, EV/EBITDA and P/E for FY22e and FY23e.

5 August 2022

Price	**€31.7**
Market cap	**€206m**
Net debt (€m) at 30 June 2022	5.8
Shares in issue	6.5m
Free float	89%
Code	CLIQ
Primary exchange	XETRA
Secondary exchange	FRA

Share price performance

%	1m	3m	12m
Abs	13.7	15.0	26.5
Rel (local)	6.3	17.6	45.3
52-week high/low		€32.30	€18.20

Business description

CLIQ Digital is a global streaming provider specialising in the direct marketing of affordable entertainment products and offering its members unlimited access to music, audiobooks, sports, movies and games. It works in over 30 countries. In H122, 38% of sales were generated in Europe, 57% in North America and 5% in other regions.

Next events

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Investing in new strategic direction

In Exhibit 1 we summarise the strong progress CLIQ has made in H122, both on a year-on-year and quarter-on-quarter basis. Its shift to direct media buying and elevated marketing spend continues to drive rapid growth in the membership base in North America and Europe, with more members now choosing to pay for its multi-content offering.

Exhibit 1: H122 results summary

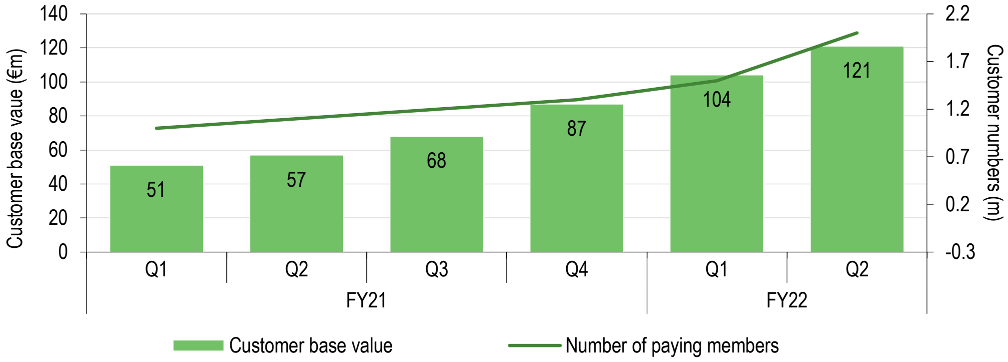
€m	Q222	Q122	q-o-q change (%)	Q221	y-o-y change (%)	H122	H121	y-o-y change (%)
Revenue	64.2	52.6	22%	30.1	113%	116.8	63.2	85%
Europe	23.4	21.2	10%	14.1	66%	44.6	26.5	68%
North America	38.0	28.3	34%	16.0	138%	66.3	30.9	114%
RoW	2.8	3.1	(10%)	3.1	(10%)	5.9	5.8	2%
Marketing spend	29.6	22.5	31%	9.1	224%	52.1	21.0	148%
EBITDA	10.1	8.3	22%	6.3	90%	18.4	11.6	58%
EBITDA margin	16%	16%	0%	18%	(2%)	16%	18%	(2%)
EBIT	9.7	8.0	22%	6.0	92%	17.7	11.1	59%
Profit after tax	7.0	5.8	20%	4.1	101%	12.8	7.6	69%
Diluted EPS (€)	1.1	0.9	19%	0.6	102%	2.0	1.1	76%
Net debt/(cash)	5.8	(2.5)	N/A	1.7	241%	5.8	1.7	241%

Source: CLIQ Digital

As well as continuing to elevate marketing spend, management has invested significantly in enriching the platform's content across Europe and North America. So far this year, the company has integrated new movies and series from several partners, as well as new sports content from its new partnership with Sportdigital. We believe adding a diverse range of content has been key to broadening its customer base, reflected in its 16% q-o-q increase in customer base value to €121m and rise in paid members in H1 (Exhibit 2).

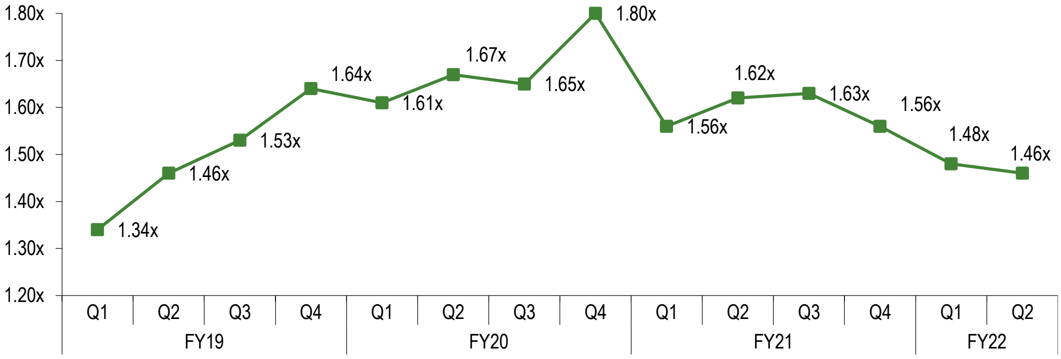
While investment has been key to expanding its customer base, it has put pressure on profitability which is evident from the decline in CLIQ's profitability index (six month expected revenue per customer over cost of acquiring them). At the half year, the company remains above its minimum level of 1.4x but management has stated that it will prioritise elevating the lifetime value of a member over profitability in the short term. In Q221, the company saw a notable €1.14 q-o-q increase in the lifetime value of a member from €71.27 to €72.41. Given the backdrop of both rising pressures on household disposable incomes and prices from other content providers, we believe this is an opportune time for CLIQ to focus on growing its customer base. Despite CLIQ.de's lower pricing than the typical monthly average, management believes there is no risk of cannibalising its existing customer base. The CLIQ.de portal will be the first time CLIQ has used its own branding for its content, and therefore existing customers will see the portal as a completely different product to what they already pay for.

Exhibit 2: Marketing spend continuing to drive value in its customer base



Source: CLIQ Digital

Exhibit 3: Investment's impact on CLIQ's profitability index



Source: CLIQ Digital

Recent announcements indicate that management remains focused on growing its presence in the North American and European markets, where we believe there is still significant scope for growth. The market potential is supported by how CLIQ's FY21 revenue of €150m made up less than 0.1% of the combined FY21 revenues for the US and European digital media markets of US$168bn (Statista).

Refinanced credit facility to support growth

As previously stated, the investment required for its CLIQ.de offering, a 114% y-o-y increase in dividends paid in Q2 of €7.2m and a €13.5m negative movement in working capital at the half year resulted in a large cash outflow for the period and a move to a net debt position of €5.8m (31 December 2021: net cash of €2.3m). On 25 July management secured liquidity with an increase in its existing credit facilities by €24m to €37.5m (option to extend to €57.5m).

The new financing facility consists of an overdraft, borrowing base and an acquisition facility. The financing costs are lower than its previous agreement at an interest rate of 3m-Euribor plus margin, varying from 2.00–2.15% for the borrowing base and 2.65–2.90% for the overdraft facility.

We believe the additional financing should support the group's ambition to reach FY25 revenues of €500m (four-year CAGR of 35% based on FY21 actuals).

Exhibit 4: Financial summary

€m	2020	2021	2022e	2023e
Year-end 31-December	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT				
Revenue	107.0	150.0	250.0	300.0
Cost of Sales	(72.0)	(98.8)	(172.7)	(203.2)
Gross Profit	34.9	51.2	77.3	96.8
EBITDA	15.9	27.2	38.0	47.6
Operating profit (before amort. and excepts.)	15.2	26.3	36.1	45.6
Reported operating profit	15.2	26.3	36.1	45.6
Net Interest	(0.8)	(0.9)	(0.7)	(0.6)
Profit Before Tax (norm)	14.4	25.3	35.3	45.0
Profit Before Tax (reported)	14.4	25.3	35.3	45.0
Reported tax	(4.0)	(7.1)	(11.0)	(14.0)
Profit After Tax (norm)	10.4	17.4	24.3	31.0
Profit After Tax (reported)	10.4	18.2	24.3	31.0
Minority interests	3.3	0.4	0.6	0.7
Net income (normalised)	7.2	17.0	23.8	30.3
Net income (reported)	7.2	17.8	23.8	30.3
Average Number of Shares Outstanding (m)	6.2	6.5	6.5	6.5
EPS - basic (€)	1.16	2.62	3.65	4.66
EPS - normalised fully diluted (€)	1.16	2.59	3.60	4.59
Dividend (€)	0.46	1.10	1.46	1.86
Revenue growth (%)	69.4	40.2	66.7	20.0
Gross Margin (%)	32.7	34.1	30.9	32.3
EBITDA Margin (%)	14.9	18.1	15.2	15.9
Normalised Operating Margin	14.2	17.5	14.4	15.2
BALANCE SHEET				
Fixed Assets	55.2	59.4	62.7	67.2
Intangible Assets	0.8	2.6	5.8	9.4
Tangible Assets	2.2	3.8	5.1	5.9
Goodwill & other	52.3	53.0	51.7	51.9
Current Assets	21.7	36.9	86.8	104.3
Receivables	9.1	12.5	34.2	41.1
Cash & cash equivalents	4.9	7.3	31.7	37.8
Other	7.7	17.1	20.8	25.4
Current Liabilities	(12.9)	(27.3)	(27.1)	(29.3)
Creditors	(2.0)	(7.9)	(13.2)	(15.4)
Tax	(3.2)	(1.2)	(1.2)	(1.2)
Borrowings	0.0	(5.0)	0.0	0.0
Provisions	(0.4)	(0.4)	(0.4)	(0.4)
Other	(7.3)	(12.8)	(12.4)	(12.4)
Long Term Liabilities	(8.5)	(9.4)	(46.6)	(46.3)
Long term borrowings	(3.8)	0.0	(37.3)	(37.1)
Other long-term liabilities	(4.7)	(9.4)	(9.3)	(9.2)
Net Assets	55.6	59.6	75.7	95.8
Minority interests	4.8	0.0	0.6	1.3
Shareholders' equity	50.8	59.5	75.1	94.6
CASH FLOW				
Operating Cash Flow	15.1	26.8	37.3	47.0
Working capital	1.6	(1.2)	(16.4)	(4.6)
Exceptional & other	0.9	1.3	(1.9)	(2.7)
Tax	(2.8)	(6.1)	(12.0)	(14.8)
Operating cash flow	14.8	20.8	6.9	24.8
Capex	(0.7)	(3.3)	(5.3)	(5.8)
Acquisitions/disposals	0.0	(10.3)	0.0	0.0
Net interest	0.0	0.0	0.0	0.0
Equity financing	0.0	0.0	0.0	0.0
Dividends	(2.1)	(3.3)	(9.5)	(12.1)
Other	(1.5)	(2.5)	(0.2)	(0.6)
Net Cash Flow	10.5	1.4	(8.1)	6.3
Opening net debt/(cash)	9.6	(0.9)	(2.3)	5.8
FX	(0.0)	0.0	0.0	0.0
Other non-cash movements	0.0	0.0	0.0	0.0
Closing net debt/(cash)	(0.9)	(2.3)	5.8	(0.5)

Source: Company accounts, Edison Investment Research

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