

CLIQ Digital

Diversifying marketing channels

Q323 results

Media

CLIQ Digital continues to deliver good progress as it focuses on conversions through its customer base through its bundled content offering. In 9M23, revenue and EBITDA grew by 25% year-on-year to €242m and €39m respectively, at a maintained margin of 15.9%. CLIQ's focus on acquiring more profitable customers with a higher lifetime value is delivering progress against key performance indicators, including growth of 21% in the customer base value. Our estimates remain unchanged, while management has reiterated its FY23 and mid-term FY25 guidance. CLIQ continues to trade at a significant discount to our peer group across EV/sales and EV/EBITDA multiples. Our implied share price comes to €62, reflecting continuing upside to the current price on our estimates.

Year end	Revenue (€m)	EBITDA* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/21	150.0	27.2	2.71	1.10	6.4	6.3
12/22	276.1	43.5	4.45	1.79	3.9	10.3
12/23e	345.0	51.0	4.86	1.97	3.6	11.4
12/24e	400.2	59.4	5.75	2.33	3.0	13.5

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

Growth driven by multi-content offer

CLIQ's focus on more profitable customers within its subscriber base through targeted marketing spend with its bundled-content offering continues to deliver both sales and profit growth. EBITDA grew in line with sales over both 9M23 and in Q323 to €39m and €13m, respectively. The profit growth was despite marketing bidding prices remaining stubbornly high, particularly in Europe. Management implemented several initiatives in the period to acquire new members with a higher expected average lifetime value (LTV), enhancing the quality and range of its content offering. Robust quarterly operating free cash flow of €4.2m resulted in an improved net cash position of €11.9m at the end of Q323.

Estimates left unchanged

We have left our estimates unchanged as we continue to expect CLIQ to deliver €345m of revenue and €51m of EBITDA in FY23. The historical seasonal weighting towards Q4 and initiatives to drive profitable customer acquisition, including new marketing channels, improving penetration in its geographies and further development of the content, underpin our profit assumptions.

Valuation: Delivery against guidance key

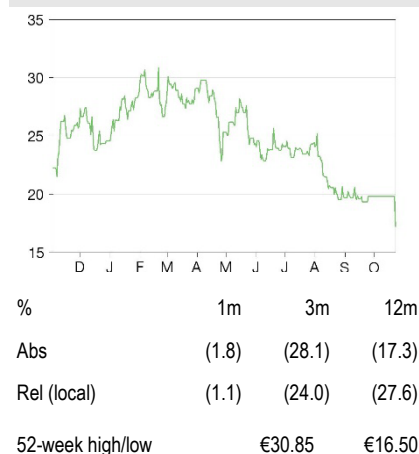
CLIQ's share price has come down in recent months reflecting the more challenging consumer environment. On EV/sales CLIQ trades at a significant discount of 75% and 77% across FY23 and FY24 to the peer average (excluding Netflix). On our revised valuation methodology (see page 3), parity to these average multiples equates to an implied share price of €62, reflecting in our view significant upside to the current share price. We believe delivery against financial guidance could result in the valuation gap narrowing.

3 November 2023

Price €17.32
Market cap €113m

Net cash (€m) at 30 September 2023	11.9
Shares in issue	6.5m
Free float	89%
Code	CLIQ
Primary exchange	XTRA
Secondary exchange	FRA

Share price performance



Business description

CLIQ Digital sells subscription-based streaming services that bundle movies and series, music, audiobooks, sports and games to consumers globally. In 9M23, 35% of sales were generated in Europe, 59% in North America, 4% in Latin America and 4% in other regions.

Next events

Deutsches Eigenkapitalforum 27–29 November 2023

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9M23 overview

In Exhibit 1 we highlight the strong year-on-year progress CLIQ has made in the year-to-date as it moves towards a greater proportion of revenue coming from bundled content.

Exhibit 1: 9M23 results summary

€m	9M22	9M23	Y-o-y change (%)
Revenue	193.3	242.2	25%
Europe	71.4	84.1	18%
North America	110.7	142.6	29%
Latin America	1.4	9.3	578%
RoW	9.8	6.2	-37%
Marketing spend	82.5	100.0	21%
EBITDA	30.8	38.5	25%
EBITDA margin	16%	16%	0.0ppt
EBIT	29.8	35.6	19%
Profit after tax	21.5	24.9	16%
Diluted EPS (€)	3.28	3.80	16%
Net cash	2.1	11.9	454%

Source: CLIQ Digital

Revenue growth continues to be driven by CLIQ's growing marketing spend promoting the group's multi-content offer, which accounted for 94% of group sales in 9M23 (9M22: 86%). The remaining 6% of sales came through single-content streaming services. Growth in Q323 was predominantly driven by strong growth in North America, supported by a growing contribution from Latin America, which first went live in Q322. North America continued to grow its share of total sales, up to 59% of 9M23 sales, compared to 57% in 9M22. Higher sales of bundled content also helped to grow revenue in Q323 by 8% both year-on-year and quarter-on-quarter. EBITDA grew in line with sales, resulting in a stable margin of 16% despite more competitive advertising bidding prices, which management note remained stubbornly high particularly in Europe. The elevated bidding prices were reflected in the marketing costs in Q323, which grew as a proportion of total revenue to 40% (Q322: 32%). Robust cash flow resulted in an improved net cash position of €11.9m (H123: €8.0m).

The success of the group's transition to bundled content offering away from single-content subscriptions can be seen in the progress against the group's key performance indicators. The number of unique paying members grew to 1.3m at the end of Q323 (Q223: 1.1m) as CLIQ ramped up the number of advertising campaigns to drive customer acquisition. There was a significant jump in the LTV to €89 in Q323 (Q322: €72), which reflects the focus on higher-margin customers through the selling of the multi-bundled offering. As such, CLIQ's customer base value rose to €159m at period-end (Q322: €131m).

Management has flagged a number of initiatives it is undertaking to diversify its marketing channels to help grow sales further. CLIQ has utilised search engine advertising, in particular keyword buying, directly advertising to consumers who are searching for content CLIQ offers. This is expected to become a successful marketing channel. Management is looking to develop new B2B partnerships, building on already existing partnerships with German retail and food services companies including Lidl, New Yorker and Call a Pizza. CLIQ will start an exclusive affiliate programme working with a German affiliate network in Q423. In France, CLIQ received approval to promote bundled-content sales with all mobile carriers, meaning payment can be taken from a customer's existing phone bill, creating greater convenience for customers. Furthermore, management announced that it expects to be operational in new countries in Asia and the Middle East in Q423, further diversifying its sales mix. The combination of these initiatives should help to drive diversification of the group's marketing channels and continued revenue growth.

Looking towards Q423, management expects more effective new marketing campaigns to achieve a higher conversion rate. When coupled with the B2B partnerships, new marketing channels, continued geographic penetration and the enhancement of the content offering, management expects these initiatives to support revenue growth in Q423. Given the historical weighting towards H2 (Q4 in particular) and these new initiatives, we maintain our forecasts. We note that our FY23 revenue forecasts require a strong Q4 performance. The emphasis on profitable growth underpins our confidence in CLIQ achieving its targeted FY23 EBITDA of over €50m.

Valuation

We have looked at CLIQ's valuation in comparison with other selected entertainment and customer acquisition groups across various metrics, as shown below (Exhibit 2). It should be noted that these groups are of greatly varying scale and have widely differing business models, with correspondingly disparate growth characteristics.

CLIQ's shares have come down in the last quarter despite little material news flow and the company's substantial growth prospects. That said, there has been some recent short selling activity, which has weighed on the share price. Year-to-date, the shares have fallen by 31% versus the peer average rise of 5%, although this has been predominantly driven by the strong returns of Spotify, Pantaflix and Netflix. CLIQ's bundled offering provides subscribers with wider ranging content than many of its peers at a lower monthly price point. Despite this and the higher expected sales growth rate on our estimates than the peer average in both FY23 and FY24, CLIQ continues to trade at a significant discount to EV/sales, EV/EBITDA and P/E multiples across both FY23 and FY24. Additionally, CLIQ is just one of two companies in the peer group that pays a dividend, as shown in Exhibit 2.

We have tweaked our valuation methodology slightly to provide a more consistent implied share price. Previously we took the median peer multiple; however, we are now using the average peer multiple, excluding Netflix, given the relatively small size of the peer group. We have excluded Netflix from the peer average as it is trading on multiples that are significantly higher than the peer group, which distorts the comparison. If priced at parity to peers on this basis, taking an average across FY23 and FY24 EV/sales multiples of 1.12x, CLIQ's implied share price would be €62. At 230% above the current share price of €17.32, this represents significant upside in our view. We continue to expect that delivery against its financial guidance will narrow the valuation gap.

Exhibit 2: Peer valuation

Company	Market cap	Share price perf ytd	Sales growth (%)		EV/sales (x)		EV/EBITDA (x)		P/E (x)		Hist div yield (%)
	(m)	(%)	FY1	FY2	FY1	FY2	FY1	FY2	FY1	FY2	Last
Cineverse	\$14	(85)	36	1	0.2	0.2	N/A	6.2	N/A	N/A	N/A
Stingray	C\$227	(8)	10	2	1.9	1.9	5.4	5.3	5.7	5.3	6.8
Spotify	\$32,649	112	10	17	2.2	1.9	N/A	66.3	N/A	111.2	N/A
Netflix	\$185,887	44	6	14	5.8	5.1	26.3	20.6	35.0	26.8	N/A
Pantaflix	€34	90	56	(2)	1.6	1.6	2.1	2.4	N/A	N/A	0.0
Nordic Entertainment	SEK1,901	(88)	14	(1)	0.2	0.2	N/A	14.9	N/A	7.0	0.0
Storytel	SEK2,479	(27)	2	12	0.8	0.8	12.7	9.2	N/A	N/A	0.0
Peer average (ex Netflix)		(1)	21	5	1.15	1.08	6.7	17.4	5.7	41.2	1.7
Clq Digital	€113	(31)	25	16	0.3	0.3	2.0	1.7	3.5	3.0	10.3
Premium/(discount)					-75%	-77%	-71%	-90%	-39%	-93%	

Source: Edison Investment Research, Refinitiv. Note: Priced at 3 November 2023.

Exhibit 3: Financial summary

	€m	2020	2021	2022	2023e	2024e
31-December		IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT						
Revenue		107.0	150.0	276.1	345.0	400.2
Cost of Sales		(72.0)	(98.8)	(201.3)	(256.1)	(297.1)
Gross Profit		34.9	51.2	74.8	88.9	103.1
EBITDA		15.9	27.2	43.5	51.0	59.4
Operating profit (before amort. and excepts.)		15.2	26.3	42.1	47.6	56.2
Reported operating profit		15.2	26.3	42.1	47.6	56.2
Net Interest		(0.8)	(0.9)	(1.2)	(0.8)	(0.8)
Profit Before Tax (norm)		14.4	25.3	40.9	46.8	55.4
Profit Before Tax (reported)		14.4	25.3	40.9	46.8	55.4
Reported tax		(4.0)	(7.1)	(11.9)	(14.1)	(16.6)
Profit After Tax (norm)		10.4	18.2	29.0	32.8	38.8
Profit After Tax (reported)		10.4	18.2	29.0	32.8	38.8
Minority interests		3.3	0.4	(0.1)	0.7	0.9
Net income (normalised)		7.2	17.8	29.1	32.1	37.9
Net income (reported)		7.2	17.8	29.0	32.1	37.9
Average Number of Shares Outstanding (m)		6.2	6.5	6.5	6.5	6.5
EPS - normalised (€)		1.16	2.74	4.47	4.93	5.83
EPS - normalised fully diluted (€)		1.16	2.71	4.45	4.86	5.75
Dividend (€)		0.46	1.10	1.79	1.97	2.33
Revenue growth (%)		69.4	40.2	84.1	25.0	16.0
Gross Margin (%)		32.7	34.1	27.1	25.8	25.8
EBITDA Margin (%)		14.9	18.1	15.8	14.8	14.8
Normalised Operating Margin		14.2	17.5	15.2	13.8	14.0
BALANCE SHEET						
Fixed Assets		55.2	59.4	65.1	72.6	81.0
Intangible Assets		0.8	2.6	8.4	15.7	23.8
Tangible Assets		2.2	3.8	5.0	4.9	5.1
Goodwill & other		52.3	53.0	51.7	51.9	52.1
Current Assets		21.7	36.9	70.0	95.7	128.4
Receivables		9.1	12.5	13.6	24.6	38.4
Cash & cash equivalents		4.9	7.3	16.8	22.8	31.4
Other		7.7	17.1	39.6	48.4	58.6
Current Liabilities		(12.9)	(27.3)	(31.2)	(36.1)	(43.9)
Creditors		(2.0)	(7.9)	(9.5)	(14.0)	(21.0)
Tax		(3.2)	(1.2)	(2.6)	(3.9)	(5.0)
Borrowings		0.0	(5.0)	0.0	0.0	0.0
Provisions		(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Other		(7.3)	(12.8)	(18.7)	(17.9)	(17.5)
Long Term Liabilities		(8.5)	(9.4)	(22.6)	(25.3)	(29.2)
Long term borrowings		(3.8)	0.0	(6.6)	(6.4)	(6.2)
Other long-term liabilities		(4.7)	(9.4)	(16.0)	(19.0)	(23.0)
Net Assets		55.6	59.6	81.3	106.8	136.3
Minority interests		4.8	0.0	(0.1)	0.7	1.5
Shareholders equity		50.8	59.5	81.4	106.2	134.8
CASH FLOW						
Operating Cash Flow		15.1	26.8	44.9	50.2	58.6
Working capital		1.6	(1.2)	(18.1)	(6.5)	(6.8)
Exceptional & other		0.9	1.3	1.6	2.8	2.8
Tax		(2.8)	(6.1)	(3.4)	(14.9)	(17.4)
Operating cash flow		14.8	20.8	25.0	31.7	37.2
Capex		(0.7)	(3.3)	(9.6)	(11.1)	(12.2)
Acquisitions/disposals		0.0	(10.3)	1.5	0.0	0.0
Net interest		0.0	0.0	0.0	0.0	0.0
Equity financing		0.0	0.0	0.0	0.0	0.0
Dividends		(2.1)	(3.3)	(7.2)	(12.8)	(15.2)
Other		(1.5)	(2.5)	(1.0)	(1.4)	(0.9)
Net Cash Flow		10.5	1.4	8.9	6.3	8.8
Opening net debt/(cash)		9.6	(0.9)	(2.3)	(9.9)	(16.2)
FX		(0.0)	0.0	(0.1)	0.0	0.0
Other non-cash movements		0.0	0.0	0.0	0.0	0.0
Closing net debt/(cash)		(0.9)	(2.3)	(9.9)	(16.2)	(25.0)

Source: CLIQ Digital accounts, Edison Investment Research

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