Bryan, Garnier & Co

Claranova

BUY –TP EUR12

Technological by Nature (initiation of coverage)

Digital commerce & Distribution
How technology helps retail survive

Market Data:

Claranova

BUY

TP EUR12

Bloomberg / Reuters	CLA FP/AVQ.PA
Share price	EUR4.64
Market Cap.	EUR213m
E.V.	EUR188m
12m high / low	EUR8.8 / EUR4.4
Free Float	73.2%
Ytd Perf.	-30.9%

Shareholders

Management	6.8
Avanquest minority shareholders	8.9
Institutional funds	11.1
Free Float	73.2

1Y performance

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Fiscal year end 31/12	2020	2021	2022e	2023e	2024e
Financial Summary					
EPS (EUR)	0.01	0.27	0.33	0.50	0.64
Restated EPS (EUR)	0.13	0.30	0.31	0.42	0.51
% change	431.3%	132.2%	3.9%	37.1%	21.7%
FCF (EUR)	0.73	0.38	0.8	1.1	1.4
Net dividend (EUR)	0.0	0.0	0.0	0.0	0.0
Average yearly Price	6.07	6.66	-	-	-
Avg. Number of shares, diluted (m)	39	41	41	41	41
Historical Entreprise value (EURm)	226	248	-	-	-
Valuation (x)					
EV/Sales	0.6x	0.5x	0.41x	0.28x	0.17x
EV/EBITDA	13.0x	7.2x	4.87x	2.85x	1.55x
EV/EBIT	29.3x	9.9x	6.38x	3.53x	1.86x
P/E	47.5x	22.4x	15.05x	10.98x	9.02x
FCF yield (%)	12.0%	5.8%	18.25%	23.41%	30.16%
Net dividend yield (%)	0.0%	0.0%	NM	NM	NM
Profit & Loss Account (EURm)					
Revenues	409.0	472.0	515.1	596.3	652.0
Change (%)	55.9%	15.4%	9.1%	15.8%	9.3%
Adjusted EBITDA	17.4	34.3	43.0	57.9	69.3
EBIT	7.7	24.9	32.9	46.8	58.0
Change (%)	-32%	223%	32%	42%	24%
Financial results	-4.50	-6.80	-6.8	-6.8	-6.8
Pre-Tax profits	3.20	18.10	26.1	40.0	51.2
Exceptionals	-5.60	-4.40	-4.4	-4.4	-4.4
Tax	-2.10	-3.80	-5.5	-8.4	-10.7
Minority interests	0.70	3.70	5.3	8.2	10.5
Net profit	0.40	10.60	15.3	23.4	30.0
Restated net profit	5.80	15.50	19.7	27.8	34.4
Change (%)	-35.6%	167.2%	26.8%	41.5%	23.5%
Cash Flow Statement (EURm)					
Operating cash flows	7.4	23.9	38.5	53.2	64.7
Change in working capital	22.5	-4.4	1.4	-2.7	-0.7
Capex, net	-1.2	-3.8	-5.2	-6.0	-6.5
Free Cash flow	28.7	15.7	34.7	44.6	57.4
Financial investments, net	-31.9	-3.8	-47.7	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
Capital increase	0.0	2.4	15.0	0.0	0.0
Other	-6.5	-2.9	-23.6	0.0	0.0
Change in net debt	9.7	-11.4	21.6	-44.6	-57.4
Net debt (+)/cash (-)	-13.9	-25.3	-3.7	-48.3	-105.7
Balance Sheet (EURm)					
Tangible fixed assets	5.9	5.2	5.0	4.8	4.6
Intangibles assets	70.5	77.5	73.5	69.4	65.5
Cash & equivalents	82.8	90.4	68.8	113.4	170.8
current assets	33.5	38.0	43.7	49.0	53.8
Other assets	17.4	13.7	8.6	8.6	8.6
Total assets	210.1	224.8	199.6	245.2	303.3
L & ST Debt	88.9	80.5	81.3	82.1	83.0
Provisions	0.7	2.4	2.4	2.4	2.4
Others liabilities	58.1	58.8	60.7	68.7	74.2
Minority interests	11.7	16.2	16.2	16.2	16.2
Shareholders' funds	50.6	66.9	39.0	75.8	127.5
Total Liabilities	210.0	224.8	199.6	245.2	303.3
Ratios					
Gross margin	72.9%	69.1%	68.3%	68.3%	68.3%
EBITDA margin	6.2%	4.3%	7.3%	8.4%	9.7%
Net debt/EBITDA (x)	-1.4x	-0.8x	-0.7x	-0.1x	-0.8x
Operating margin	4.3%	1.9%	5.3%	5.7%	7.2%
Tax rate	-0.1%	0.7%	0.2%	24.4%	23.1%
Net margin	3.4%	1.4%	3.3%	5.4%	7.0%
ROE	17.1	11.5	23.2	71.1	54.9
ROCE	24.0	25.2	47.9	55.8	90.7
Gearing	-37%	-22%	-30.4%	-6.8%	-52.5%
FCF/EBIT	69%	216%	53.6%	103.2%	93.7%
Dividend payout	-	-	0.0%	0.0%	0.0%

Source: Company Data; Bryan, Garnier & Co ests.

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THEMATICS

As of September 2020, Bryan Garnier & Co's Equity Research is becoming more thematic-focused. This note is specifically addressing and illustrative of the following thematic

Digital commerce & Distribution

How technology helps retail survive

Technological by Nature

After its creation as a pure physical software distributor, a strategic repositioning was successfully carried out in 2013 making Claranova a diversified technology group in fast-growing technology sectors. Sales and margin growth opportunities are therefore attractive over the MT and should drive the stock's rebound after a temporary phase of "tech fatigue". Upside potential for the re-rating is quite significant given two other catalysts that are not included in our valuation: 1/ the gradual arrival of anchor investors to support the simplification of Claranova's shareholding structure, and 2/ future monetisation of its most-developed asset PlanetArt (i.e. IPO, partial or total sale to financial or strategic investors). As such, we are initiating Claranova with a Buy rating and a TP of EUR12, implying material upside of 159%.

- **A diversified tech group with an appealing sales and margin growth outlook.** Claranova operates in three major tech sectors: e-commerce (PlanetArt), software (Avanquest) and IoT (myDevices). These three divisions boast high sales growth and margin improvement potential, as indicated by our forecasts for a 2022-25 CAGR of ~11% for sales and ~25% for EBITDA, which factor in no contribution from future acquisitions.

- **NAV materially above current share price levels.** Claranova's diversified portfolio strategy requires an SOTP approach. We have deliberately retained cautious organic growth assumptions, as well as a significant 20% holding company discount, to underscore Claranova's unmerited discount. Indeed, our valuation comes out at EUR12/share, representing 159% upside vs. the current share price. As an illustration, we estimate that PlanetArt (EUR370m) and Avanquest (EUR328m) are worth more than Claranova's market cap (EUR210m).

- **Two powerful levers on top of Claranova's attractive growth profile:** Beyond the temporary "tech fatigue" that has placed the entire consumer tech sector under pressure since this summer, we are convinced the share's rerating will also be driven by two other levers: **1/** the growing presence of institutional investors within Claranova's shareholding structure, as evidenced by the entry of Heights Capital Management and Ophir AM this summer, and **2/** asset monetisation. On that front, PlanetArt would be the most obvious choice. Any proceeds would be returned to shareholders through share buybacks, or reinvested in new businesses.

Executive Summary

A successful transformation into a diversified tech group

Initially a pure B2C software distributor, Claranova (or Avanquest before 2017) navigated a major change in direction under the impetus of Pierre Cesarini, who was appointed CEO in May 2013. Since then, Mr Cesarini and his management team have successfully led the group's strategy to refocus on three main businesses: **1/** personalised e-commerce (PlanetArt), **2/** web traffic monetisation (Avanquest), and **3/** IoT (myDevices).

Strong presence in major tech sectors harbouring high growth potential

Despite limited synergies between these three businesses, they all share the same DNA, namely to simplify access to new technologies in order to boost traffic on all platforms (i.e. mobile and internet) that can eventually be monetised. Claranova also brings its expertise in tech and execution in order to rapidly scale these businesses, as evidenced by a proven-track record of delivering superior sales and earnings growth rates:

- **PlanetArt (80% of FY21 sales):** within a few years, PlanetArt has built a leadership position in personalised e-commerce thanks to a well-executed multichannel strategy (mobile apps and websites) and the industry's largest product offering, ranging from photo products to custom goods. Unlike all of its competitors who have invested massively in brand-building, PlanetArt's strong momentum is underpinned by user-friendly mobile apps and websites, as well as best-in-class targeting capabilities. In light of the post-lockdown normalisation phase, we have adopted a cautious stance in our forecasts, i.e. a 2022-25 CAGR of c.8% for sales and 17% for adj. EBITDA, pointing to significant upside potential.
- **Avanquest (19%):** the successful change in the business model to publishing, SaaS, and web traffic monetisation has resulted in better quality recurring revenues, very strong growth in proprietary software, and significant EBITDA margin improvement. As such, our modelling assumptions for FY22-FY25 include revenue growth above 10% and EBITDA margin heading to 20% by FY25.
- **myDevices (1%):** although this business still generates modest revenues and is loss-making, it remains promising with its construction of a solid ecosystem. We expect revenue growth to accelerate again from FY22 as the number of use cases is growing and the partnership with Sprint has been expanded to T-Mobile. We consider 50-60% LFL revenue growth is a reasonable assumption for myDevices in normal economic conditions and excluding 'one-off' projects.

Temporary "tech fatigue" and attractive MT growth prospects point to significant upside potential

In our view, the share's underperformance (-31% ytd) is largely due to temporary "tech fatigue" with the easing of lockdowns throughout the summer triggering arbitrage moves at the expense of consumer tech stocks, which had benefited from the temporary closure of physical stores.

In March 2019, Claranova provided FY23 sales guidance of "at least EUR600m" which included a contribution from M&A and which was latter upgraded to EUR700m in October 2019. Obviously our FY23 sales forecast (EUR560m) factors in no scope effect from potential future acquisitions that could occur by the end of FY23. At this stage, we are also more cautious regarding the FY23 margin target (>10% vs. BG ests at 8.5%e).

Despite our conservative approach, we value Claranova at EUR12 per share based on an SOTP valuation, which represents huge upside of 159% based on the current share price. The latter could increase further as Claranova accelerates its pace towards more profitable growth.

Icing on the cake: growing presence of anchor shareholders and asset monetisation also set to drive the share's MT re-rating

We would point out that our Buy recommendation and TP of EUR12 rely solely on our organic growth assumptions, and do not take into account two powerful sources of leverage that could drive a re-rating of the stock over the MT:

- **Growing presence of anchor investors within Claranova's shareholding structure**, as shown by the entry of Heights Capital Management and Ophir AM this summer. These cornerstone investors provide a more accurate valuation of the group's fundamentals (as evidenced by our SOTP) and actively support its MT growth strategy.
- **Externalisation of value:** management has often stated that once an asset reaches maturity, Claranova would consider either a partial/total sale, or an IPO. As PlanetArt and Avanquest are trading at a significant discount vs. their respective peer groups, a partial sale or an IPO would certainly lead to a revaluation of their value, in the same way as a revaluation of assets during an acquisition process (i.e. from book value to market value). The proceeds from a disposal would be distributed to shareholders, and/or reinvested in the group.

Claranova at a glance

Claranova in five charts

Fig. 1: FY 2020/21 revenue by business

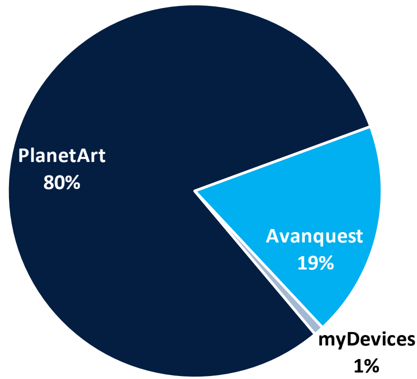
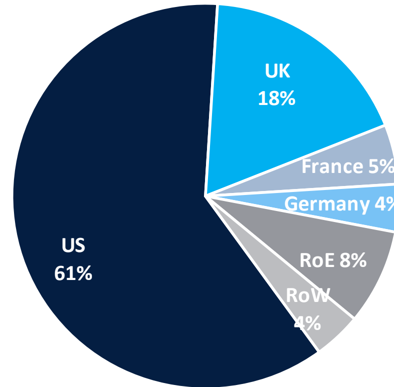


Fig. 2: FY 2020/21 revenue by geography



Source: Claranova; Bryan, Garnier & Co

Fig. 3: FY 2020/21 adj. EBITDA

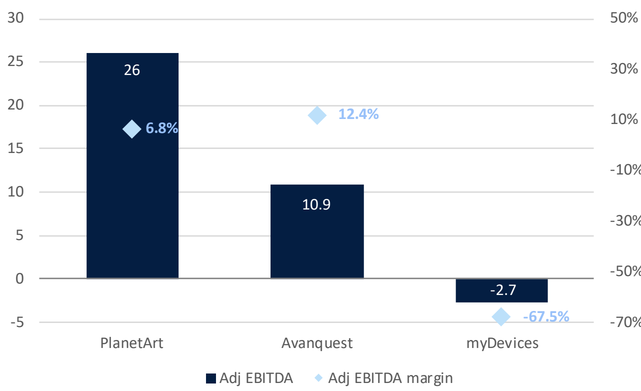
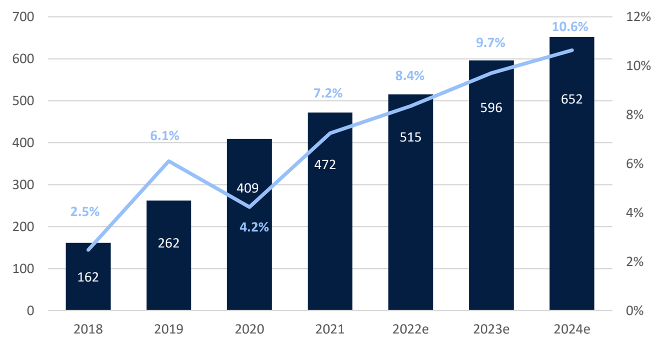
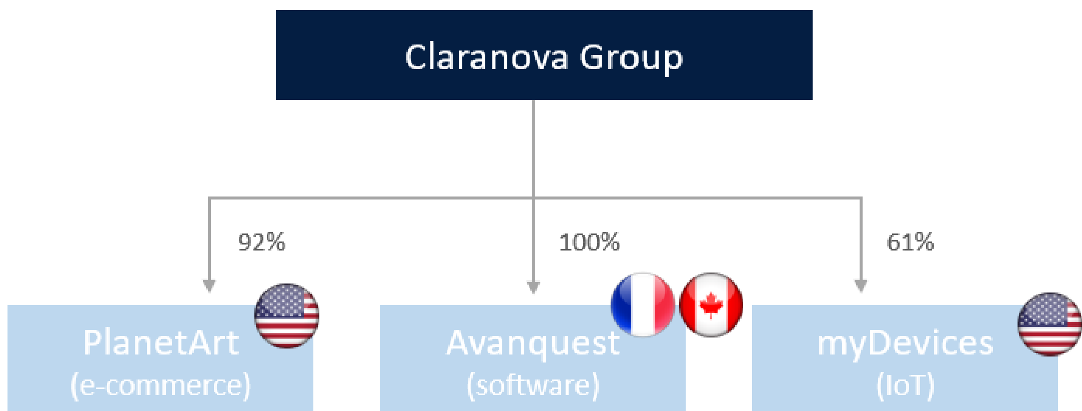


Fig. 4: Total sales and EBITDA evolution



Source: Claranova; Bryan, Garnier & Co ests.

Fig. 5: Claranova's structure



Source: Claranova; Bryan, Garnier & Co

Section 02

A leading global technology group

A leading global technology group

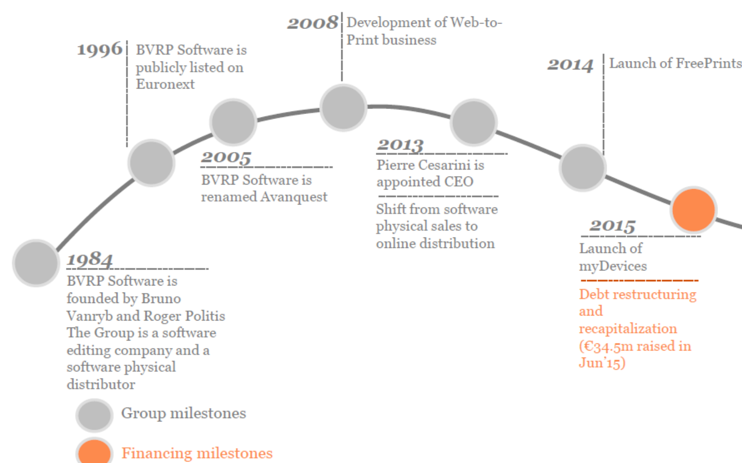
Successful transformation from a physical software distributor to a diversified tech group

Initially a pure player in software editing and solely operating in physical distribution, BVRP Software (1984-1996) / Avanquest (1996-2017) suffered from its overly fragmented business caused by the lack of clear vision, as evidenced by a poorly targeted acquisition strategy until 2013.

Benefitting from more than 30 years of experience in software and the internet space, Pierre Cesarini was appointed as CEO in May 2013 and successfully led the group's strategy to refocus on three main divisions: **1/ PlanetArt** (ex-Mobile), **2/ Avanquest** (ex-Internet) and **3/ myDevices** (ex-IoT), which are presented in more detail throughout this report. As highlighted in Fig. 6: below, this reorganisation phase over 2013-17 implied three main strategic decisions:

- **Disposal of non-strategic assets:** focusing on the three divisions led to a realignment of the group's product and service offering, and hence, the divestment of non-strategic assets such as Arvixe, ProcessFlows, EMME, etc. over 2014-16. As an illustration, out of the EUR100m in sales acquired before 2014, only approx. EUR30m remain within Claranova's scope today.
- **Restructuring and recapitalisation: in 2015,** the group successfully restructured its EUR35m debt (60% write-off) and raised almost the same amount in June 2015 (EUR34.5m). Approximately 70% of the proceeds were invested in accelerating growth in fast-growing businesses (i.e. EUR20m in PlanetArt), while the remainder was used to pay down debt.
- **Selected acquisitions:** Claranova's M&A strategy aims to strengthen its leading role exclusively in the three divisions mentioned above, through the acquisition of players in existing geographies.

Fig. 6: First and second phases of Claranova's repositioning (2013-15 period) prior to Claranova's selected acquisitions (third phase over 2018-21)



Source: Company Data, Bryan, Garnier & Co.

Freemium

A type of business model that offers basic features to users at no cost and charges a premium for supplemental or advanced features

Group strategy: three divisions to acquire customer data and monetise traffic

Through organic growth and acquisitions, Claranova has become a global leader in mobile and internet technologies, mainly focused on B2C. Whilst some businesses adopted a freemium business model, PlanetArt has a different approach since customers pay immediately on their first purchase (shipping costs).

Arguably there are limited synergies amongst Claranova's three divisions which are run independently. However, they all share the same DNA, i.e. simplifying access to new technologies in order to boost traffic on all platforms (i.e. mobile and internet), which can eventually be monetised. Claranova also brings its expertise in tech and execution in order to rapidly scale these businesses, as evidenced by a proven-track record of delivering superior top-line growth rates (see table below).

Fig. 7: A diversified tech group made up of three divisions

	PlanetART	AVANQUEST	myDevices
% of total sales (2021)	80%	19%	1%
Description	• **Mass customisation** platform • Disruptive business model based on a **fabless** model and **mutualised back & front office functions** • Two distribution channels: **1/** mobile apps and **2/** websites	• **Unique offering** combining **own IP software publishing** (PDF, security and photo edition) and **web traffic monetisation** • Business model based on **vertical integration** to maximise the overall value from user traffic	• **Mass market IoT platform** capable of deploying **large-scale IoT solutions** in safety, waste management, tracking, etc. • **Largest ecosystem of IoT developers: 700,000+** • Business model based on white label: partners or resellers use their own brand
Change in 2018-21 sales (EURm)	CAGR 18-21: 46% 2018: 122; 2019: 176; 2020: 314; 2021: 380	CAGR 18-21: 35% 2018: 36; 2019: 83; 2020: 90; 2021: 88	CAGR 18-21: 3% 2018: 4; 2019: 3; 2020: 5; 2021: 4
Change in 2018-21 EBITDA (EURm)	2018: 6; 2019: 11; 2020: 14; 2021: 26	2018: 1; 2019: 10; 2020: 7; 2021: 11	2018: -3; 2019: -5; 2020: -4; 2021: -3
Main growth drivers	• **Accelerating expansion into the mass customisation market** (Personal Creations, CafePress and I See Me!) • **Enlarging the offering** through new categories (kids, animals, etc.) • **Geographic expansion**	• **Launch of new features on Avanquest's mobile offering** • **M&A** • **Launching new software** in security and B2C photo edition	• **Enlargement of the IoT ecosystem** by extending plug & play IoT solutions • **Development of the resell partner network** • **Higher share of recurring revenue**

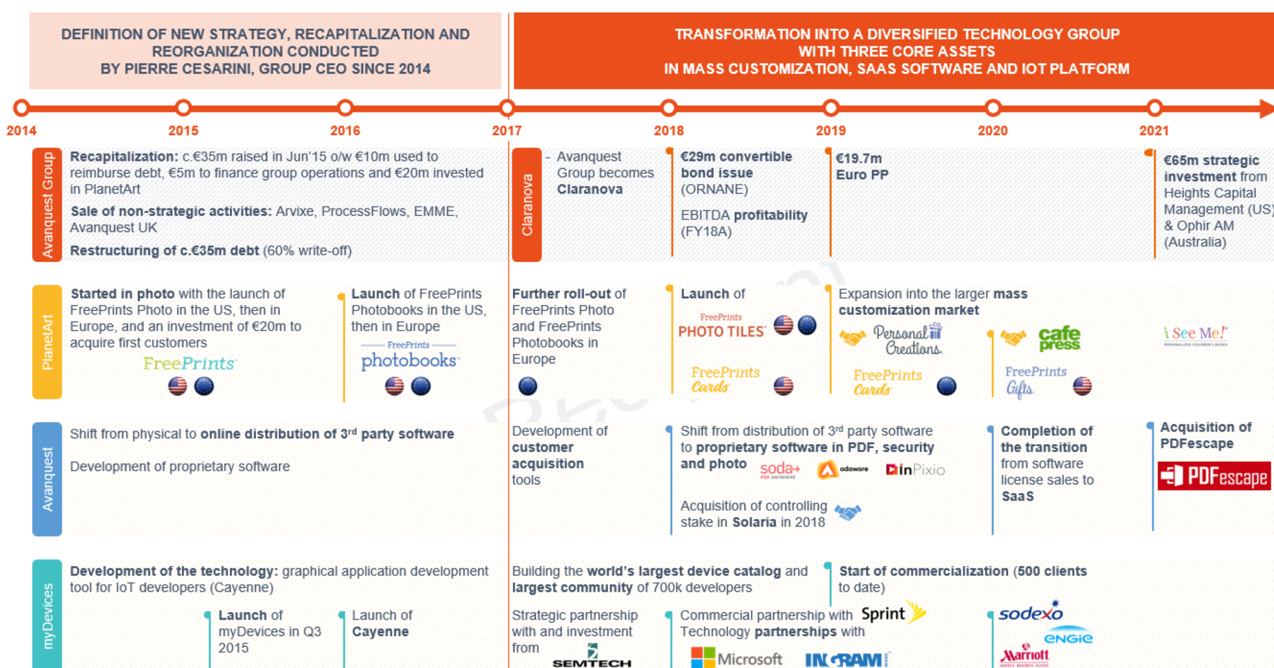
Source: Company Data, Bryan, Garnier & Co.

In these three divisions, **the group stands out from the competition thanks to two key competitive advantages:**

- **(i) Superior expertise in client acquisition:** best-in-class value-for-money positioning and user-friendly solutions boost traffic (app downloads, reorders, etc.) and drive customer satisfaction. This virtuous circle leads to a constant increase in the customer base (e.g.: >25m users just for PlanetArt), mainly through word-of-mouth, implying lower marketing costs, and enabling each business to outgrow virtually all their peers.
- **(ii) Best-in-class execution in marketing and logistics to achieve low customer acquisition costs (CAC)**: although synergies between the three divisions are small, they do exist within them. As an example, PlanetArt implemented a mutualised cost structure for the front office (i.e. customer acquisition, content) and back office (logistics, IT) functions. This common backbone is naturally margin-accretive going forward. Last but not least, PlanetArt is mostly exposed to mobile, which implies a lower CAC relative to desktop-native players.

Fig. 8: shows how the three divisions have gradually changed their business models to enable Claranova to become a leading player in online software.

Fig. 8: In 2020, Claranova's three divisions completed the transformation of their business models to align them with the group's vision



Source: Company Data, Bryan, Garnier & Co.

The group's repositioning has already started to yield positive results in terms of operating performance, as shown by robust FY21 sales growth of 21% FX-n and 14% LFL.

Needless to say that Claranova is now ideally positioned to capture MT market trends that have been exacerbated by the Covid-19 pandemic, which has undoubtedly accelerated the digital transformation and how people live, work and consume.

As an illustration, the group has set an ambitious sales target of at least EUR700m by end-2023, pointing to a CAGR of 22% based on 2021 figures. In light of the 2023 EBITDA margin target of 10%, earnings momentum will be even higher, at c.43% based on the 2021 level.

Section 03

PlanetArt: time to harvest

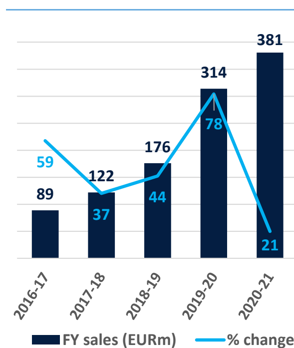
PlanetArt: time to harvest

From digital printing to mass customisation

Recognising growing demand for printing photos stored on smartphones and tablets, PlanetArt revolutionised the photo-printing market by being the first to launch a free photo-printing service for smartphone users in 2013 with its FreePrints app.

Driven by the success of this first app, which is now available in 15 countries, PlanetArt has been continuously enlarging its offering to expand into new markets:

Robust top-line trends over the past five years



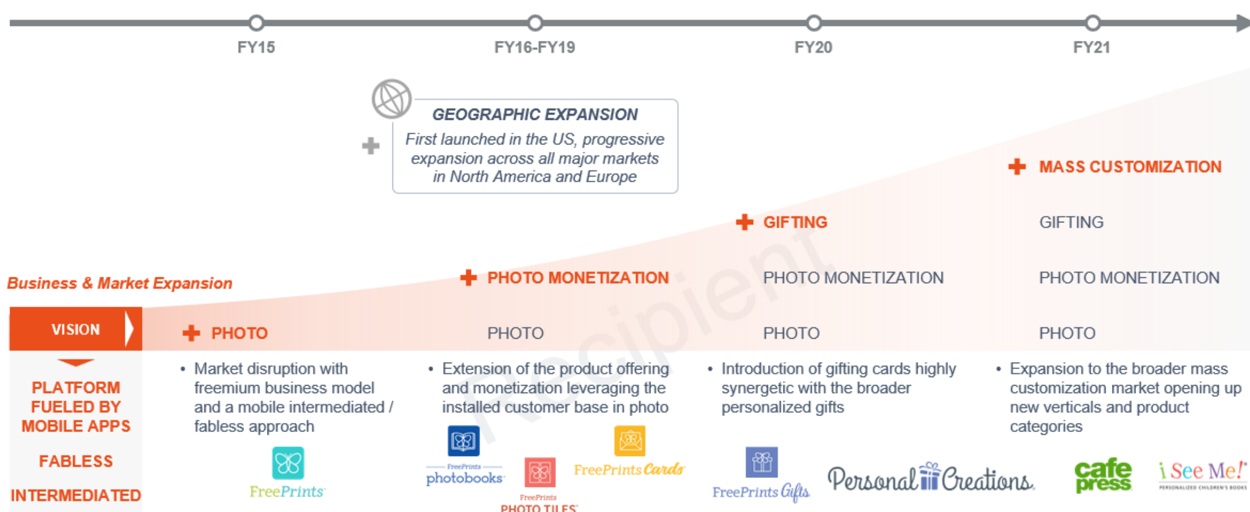
Source: Company Data

- **Photo monetisation and gifting:** PlanetArt's strong customer acquisition strategy was based on its unique pricing architecture, as customers only pay for shipping costs and additional prints. PlanetArt decided to leverage and monetise the huge photo printing customer base by launching four additional apps all revolving around the "FreePrints" brand to benefit from its strong global awareness: **FreePrints Photobooks** (2016), **FreePrints Tiles** (2018), **FreePrints Cards** (2019) and **FreePrints Gifts** (2020).

- **Mass customisation:** the successive acquisitions of **Personal Creations** in 2019 and **CafePress** in 2020 really enabled PlanetArt to strengthen its presence in the personalised gifts market, especially in new product categories such as clothing, gift cards, custom smartphone cases, etc. CafePress also added Canada and Australia to the existing countries into which PlanetArt sells. The latest acquisition was **I See Me!** (July 2021), which is a fast-growing US player in the customised children's products category.

As such, PlanetArt has posted booming sales trends over the past five years through the combination of organic growth (5Y avg: +38%) and M&A.

Fig. 9: PlanetArt's path to becoming a leading mass customisation platform



Source: Company Data, Bryan, Garnier & Co.

PlanetArt set to become a coherent B2C mass customisation platform…

As the first player to penetrate the fast-growing Mobile-to-Print (MtP) segment, PlanetArt is characterised by a fairly balanced sales contribution between its two

distribution channels, as shown in **Error! Reference source not found.**on the next p age:

- **Mobile Apps (c.50% of PlanetArt's sales):** this universe is composed of specialised apps but it is centred around the global "FreePrints" brand in order to offer a complete and complementary range of products. As discussed in the next section (see page 17), PlanetArt's single entry-point on mobile, i.e. FreePrints, allows conversions amongst those apps and therefore represents attractive cross-selling opportunities and potential for margin improvement in the MT.

- **Websites (c.50% of PlanetArt's sales):** whereas this channel still accounts for approx. half of PlanetArt's total revenues, the acquisitions of Personal Creations, CafePress and I See Me! highlighted PlanetArt's strategic decision to accelerate its shift from the saturated Web-to-Print (WtP) to the "personalised" e-commerce universe, which has more dynamic underlying market trends given real consumer appetite for more personalisation of products and services.

Fig. 10: A coherent B2C mass customisation platform with a multichannel approach

Source: Company Data, Bryan, Garnier & Co ests.

... supported by a centralised infrastructure and organisation

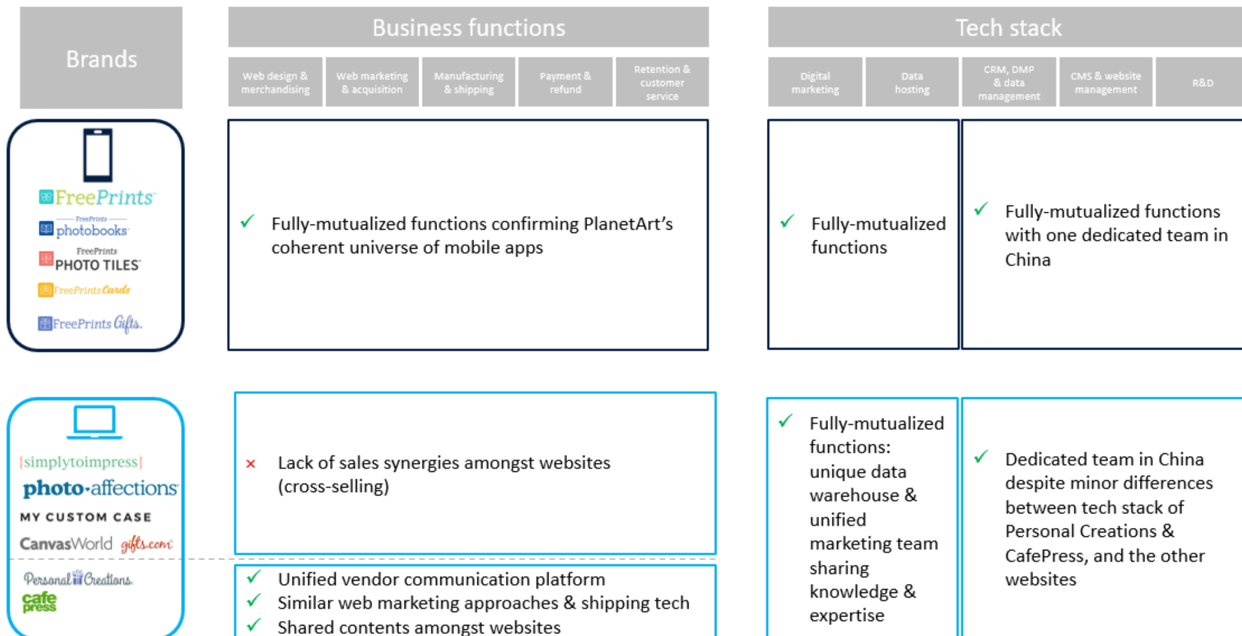
PlanetArt's active M&A strategy could have led to a complex organisation, with a lack of interoperability between software systems and infrastructure.

Reassuringly, PlanetArt has successfully managed these integration issues so far, since a global and centralised platform has been erected behind PlanetArt's vast portfolio of B2C brands, aiming for maximum mutualisation over the entire group structure, as illustrated in Fig. 11: on the next page:

- **Mutualised business functions (front-office):** in mobile and internet, front office functions such as web marketing, supply chain and payment, have all been fully mutualised. However, there is potential for further integration among PlanetArt's websites which are quite specialised in their product offering (e.g.: smartphone case for MyCustomCase.com, photo gifts and custom cards for Photoaffections.com), although there is not enough cross-selling synergies between these websites.

- **Mutualised tech stack:** PlanetArt's entire tech stack has been pooled under a single IT system. For instance, a unique data warehouse covers all the websites, which also share a single marketing team. Hence, another good opportunity for PlanetArt's websites to team up and offer a seamless journey for customers willing to purchase various custom goods.

Fig. 11: Pooling of front & back office functions well underway



Source: Company Data, Bryan, Garnier & Co.

No complexity as PlanetArt does not run a brand portfolio

Looking at Fig. 10: on the previous page, Fig. 10: and Fig. 11: above, we could fear that running such a vast number of "brands" would represent a complex portfolio management for PlanetArt. Counterintuitively, this is not the case, far from it!

Whereas peers have developed their businesses through brand awareness (e.g.: Moonpig, Desenio, etc.), PlanetArt has built its strong momentum on user-friendly mobile apps and websites, as well as best-in-class targeting capabilities to continuously gain new customers. This major difference in growth model largely explains why peers continue to show heavy marketing investments compared with PlanetArt.

With brand-building not at the heart of PlanetArt's growth strategy, and the full-integrated platform (i.e. mutualisation of front & back office functions) minimising complexity, running a vast number of apps and websites is clearly no issue for PlanetArt, which could continue to enlarge this portfolio going forward.

Significant synergy potential going forward

Integration of Personal Creations and CafePress well underway

In just one year, PlanetArt has completed the acquisitions of Personal Creations (August 2019) and CafePress (September 2020) to accelerate its footprint in the personalised gift/products market.

Arguably, PlanetArt's successful integration process has been partly overshadowed by relatively lower profitability weighing on its margins although the new assets had very low margins. Indeed, Personal Creations even had negative EBITDA in 2019 prior to the acquisition, management pointed out that since then, Personal Creations has a fairly similar Contribution Margin level as PlanetArt.

Despite their recent integration, Fig. 11: on the previous page shows that the mutualisation of their business functions has gone further than the other "historical" websites:

- **Commercial integration:** Personal Creations and CafePress now benefit from a unified vendor communication platform. Personal Creations also uses the CafePress marketplace to increase its presence.
- **Operational integration:** marketing and administrative functions have been pooled and the two websites now share similar marketing approaches.

As a consequence, we are convinced that profitability will improve as PlanetArt progresses in unlocking sales synergies, whether from websites (cross-selling) or mobile apps.

Interesting example of synergetic collaboration: FreePrints Gifts (mobile app) x Personal Creations (website)

Personal Creations is a leading player in US online retail of personalised products. Less than a year after its acquisition and capitalising on the strong expertise of the Personal Creations teams, PlanetArt launched its new mobile app dedicated to personalised gifts, FreePrints Gifts, which has two main objectives:

(i) **To extend its product offering in the app ecosystem:** prior to FreePrints Gifts, the offering was largely concentrated on digital printing of photos and cards. Obviously, FreePrints Gifts' product offering is highly complementary given its very large catalogue of hundreds of personalised products.

(ii) **To disrupt the personalised product market with a mobile solution:** indeed, the market remains largely dominated by websites. Modelled on what PlanetArt has done in the photo printing market, this new app aims to actively favour the customer shift to mCommerce.

Significant potential by increasing conversion rates within FreePrints apps

FreePrints clearly offers an attractive value proposal in digital printing, resulting from the virtuous combination of a freemium model and a very user-friendly app. As such, it is no coincidence that FreePrints has been growing in popularity over recent years, especially in an age where the smartphone is king.

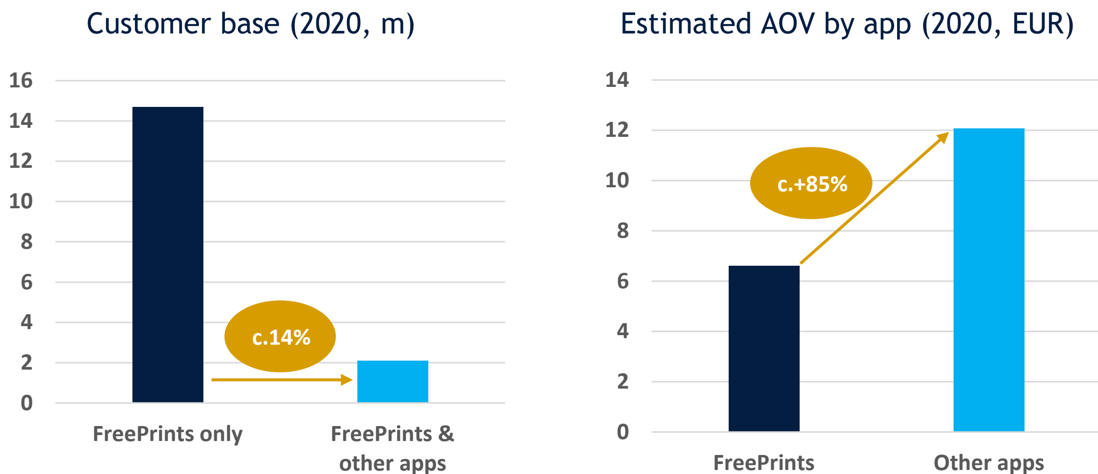
The left-hand chart in Fig. 12: on the next page clearly points out the strategic role of the FreePrints app in attracting new customers. In 2020, we estimate the FreePrints customer base was slightly shy of 15m users. In comparison, approx. 2m customers have been converted by FreePrints and used at least one of the four other apps in addition to FreePrints, **pointing to a conversion rate of approx. 14% for the FreePrints app.**

As shown by the right-hand chart below, we estimate that the other apps enjoy a c.85% higher AOV (i.e. average order value) than FreePrints'. This huge discrepancy is explained by a different product mix and a higher customisation level with regards to gifts and goods.

Consequently, if PlanetArt continues to increase the FreePrints conversion rate over coming years, there is a significant upselling potential. The latter will translate into margin improvement given that this natural conversion from FreePrints to other apps is purely organic and does not require additional marketing expenses, hence an accretive impact on PlanetArt's profitability.

We could imagine that PlanetArt would drive conversion by launching an app with "*everything under one roof*" that would house the entire product offering of the five apps. However, the opposite is actually better: a dedicated app for a specific usage implies greater convenience and improves UX (user experience), which is why PlanetArt still has five different apps.

Fig. 12: FreePrints is clearly the entry door to other apps but this success can be leveraged further



Source: Company Data, Bryan, Garnier & Co ests.

PlanetArt has strong competitive moats

A fabless model that is quite unique in the industry

Fabless

Fabless manufacturing in the personalised products industry implies that digital printing and production of customised goods are entirely outsourced to third-party suppliers

Since its creation, PlanetArt has adopted a fabless model, which is quite unique in the industry (see Fig. 20: on page 24). Indeed, virtually all PlanetArt's peers keep production in-house, while Moonpig, the online market leader in cards in the UK and the Netherlands (through its Greetz brand), has adopted a hybrid model combining in-house production (one factory in the UK and one in the Netherlands) and outsourcing.

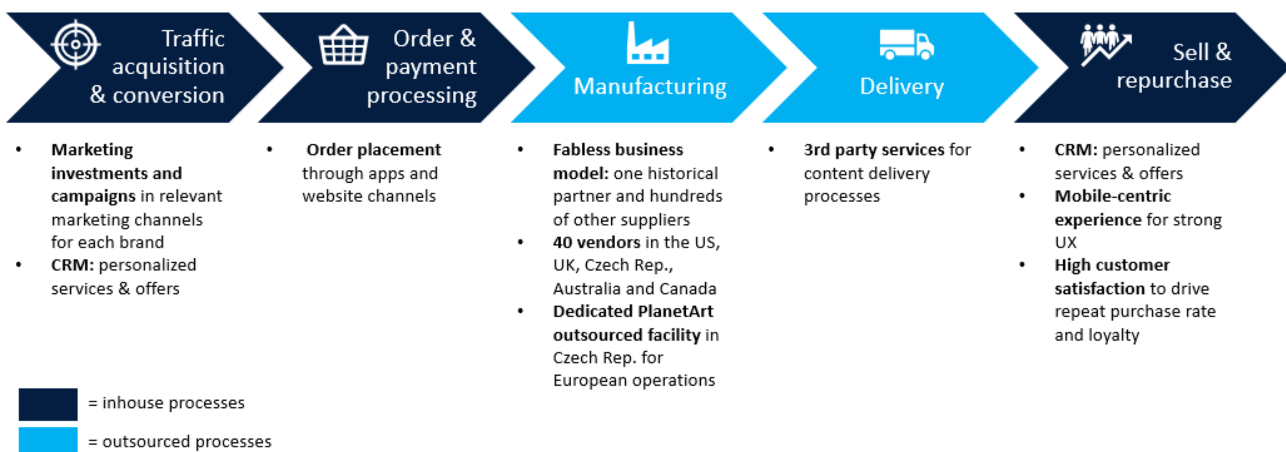
Admittedly, a fabless model implies two main drawbacks:

- **Dependence on third-party suppliers:** a breach of contract with PlanetArt's manufacturers who supply its products, or with logistics suppliers, could therefore have an adverse effect on the group's revenue during a transition period. Beyond its longstanding relationship with its historical partner in photo printing (District Photo), the company considers it is not overly dependent on these partners as it works with hundreds of suppliers.
- **Structurally lower GM:** PlanetArt has an estimated GM of c.40-45% that is structurally lower than most peers (c.60%) since it does not capture the manufacturing margin. To offset this structural headwind, it is crucial to drive the product mix by expanding in other categories such as custom gifts/goods that enjoy higher margins.

However, PlanetArt made the strategic decision to adopt a fabless model based on these following advantages:

- **Infrastructure is easily scalable…:** we are convinced that PlanetArt could have not have achieved its best-in-class organic growth (5Y avg.: +38% vs. low single-digit for most of its peers) through in-house production, which is less flexible to support buoyant top-line momentum. With presence in 15 countries, PlanetArt is by far the most diversified player in terms of geographical presence.
- **… and is capex light:** indeed, the absence of factories means capex requirements are very low and have never exceeded 1% of total sales, which is positive for FCF generation.
- **Focus on customer-centric initiatives:** PlanetArt's business model, as well as its success, are based on the ability to achieve high customer acquisition and retention rates. Hence, with outsourced production, PlanetArt can focus its attention on a customer-centric strategy (see Fig. 13: Fig. 13: below) to improve customer satisfaction and support its strong growth.

Fig. 13: Fabless model to focus on the key processes within the value chain



Source: Company Data, Bryan, Garnier & Co.

Interestingly, Moonpig's former parent company Photobox is also adopting a hybrid manufacturing model. Over the past two years, it has wound down its UK production activities after the closure of a first factory and the sale of a second plant to its longstanding supplier Precision Proco in August 2021. Their production footprint is now composed of two owned factories in Continental Europe (one in Spain and one in Germany) and a network of third-party suppliers across Europe.

"Photobox was looking to outsource their production […] They would rather focus less on running a factory than developing the technology and marketing new products through their front end".

Gary Peeling, Precision Proco chief executive

High barriers to entry: PlanetArt's business model is hardly replicable

PlanetArt's disruptive growth strategy mainly relies on the "mobile-first" and fabless models, which are quite unique in the industry. In this section, we try to assess whether or not its main competitive moats represent high barriers-to-entry and could be hard to replicate by competition.

In the mobile channel, PlanetArt clearly benefits from the first-mover advantage after penetrating this channel as early as 2014. Over recent years, many "desktop natives" such as Shutterfly, Cewe and Photoweb have strived hard to expand their footprint in mobile, which requires a totally different approach in terms of UX design, culture, etc. Since it was too complex to develop internally, these companies had to rely on acquisitions to obtain this mobile expertise. The integration process somewhat delayed their expansion in this fast-growing channel.

In the meantime, PlanetArt continued to enlarge its product offering and has been working on strengthening relationships among mobile apps and even with some of its websites (i.e. Personal Creations and CafePress) to bring this mobile approach to the custom gifts/goods market.

Consequently, it is no surprise to see that PlanetArt's strongest competitive advantages are precisely in mobile, as shown in the table below.

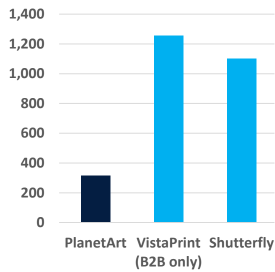
Fig. 14: PlanetArt's competitive moats in mobile apps

PlanetArt's strengths	Barrier-to-entry?	Comments
Unique app ecosystem with a vast choice of product offering	+++	Most of PlanetArt's competitors are niche players in specific product categories and/or with a local footprint. => Replicating PlanetArt's complementary app ecosystem will be long, complex and would require M&A.
Best-in-class customer acquisition combined with very low CPA	+++	It took years of test & learn to reach PlanetArt's expertise, also supported by a mutualised platform. Most competition has a cost structure aligned with a higher CPA and reducing the latter would hard and complex.
Superior mobile UX	++	Mobile UX design greatly differs from website UX. => Since most competitors are websites, developing a mobile app with a strong UX will take time.
Strong customer community	++	PlanetArt enjoys a high retention rate and repeat purchases of revenue) thanks to strong customer satisfaction. => Significant marketing expenses are required to detract customers from PlanetArt.

Barriers-to-entry are: +++ (high) / ++ (medium) / + (low)

Source: Bryan, Garnier & Co.

PlanetArt's main competitors in "Web-to-Print" (2020 sales, EURm)



Source: Company Data

In mobile, UX is the key driver for customer conversion whereas the main lever in the website channel is definitely the strategy of "offering". On this topic, it is worth noting that PlanetArt deals with competitors that are bigger in size (*see lhs chart*), and which can therefore spend more on marketing initiatives to attract new customers.

As a consequence, PlanetArt has adopted more of a "differentiation" strategy through its multi-entry point model with a logic of complementarity and segmentation (i.e. custom smartphone case on MyCustomCase, cards on Simplytoimpress, etc.). Furthermore, controlling the CafePress marketplace brings at least three main advantages to PlanetArt:

- **Downstream vertical integration:** CafePress represents an additional channel to market and sell products from PlanetArt's websites. More importantly, it allows an end-to-end customer experience. As evidenced by the Direct-to-Consumer business model, full control of the online customer experience is a significant driver for customer conversion and retention.
- **Opportunities to establish new business partnerships** with traders and suppliers. Owning a marketplace gives a better view of the best-selling brands and categories, which ultimately helps PlanetArt to curate its own offering according to changing consumer behaviour or tastes. Some of the players selling on CafePress might even become potential M&A targets for PlanetArt in the near future.
- **Improving data collection capabilities:** at a time when some of PlanetArt's marketing partners are irritated by the iOS 14 privacy update, a successful marketplace attracts new brands and vendors, which generate more traffic and customers and lead to improved data collection capabilities for PlanetArt.

Fig. 15: PlanetArt's competitive moats in websites

PlanetArt's strengths	Barrier-to-entry?	Comments
CafePress curated creators and content management experience	+++	CafePress has unique and battle-tested marketplace expertise to constantly attract new brands, vendors and products. CafePress is the exclusive licensee of properties from Marvel, Hasbro and many others => Key differentiating factor.
Cross-selling opportunities among websites	++	Admittedly interconnections among "historical websites" are still limited but Personal Creations and CafePress are strengthening their synergetic partnership (i.e. enlarge Personal Creations' products on CafePress' website).
Mutualised platform (front- and back office functions)	+	Many competitors have also implemented a mutualised platform to leverage the cost structure (e.g.: Moonpig and Greetz). PlanetArt is well ahead in the curve with regard to the fabless model.
Wide product offering in custom gifts/goods	+	A few players in the website channel are much bigger in size than PlanetArt (e.g.: Vistaprint, Shutterfly). Hence enlarging their offering is easy, albeit at a slower pace since they are not fabless.

Barriers-to-entry are: +++ (high) / ++ (medium) / + (low)

Source: Bryan, Garnier & Co.

Overview of PlanetArt's differentiating and disruptive business model

To wrap up this section on PlanetArt's disruptive business model, we have listed below the four main factors that differentiate PlanetArt from the rest of its peers.

In mobile, the group's main strength is clearly its unique offering that encompasses affordability ("free" components and attractive prices) and ease of use in order to attract and retain new customers with a modest upselling strategy throughout the CLV.

While its full-integrated platform and fabless model imply a highly scalable infrastructure that has enabled PlanetArt to gain presence in 15 countries already, we understand that opening new countries is not a top priority for the MT, with the group aiming more to expand the product range and leverage its platform in existing markets, thereby providing a source of margin improvement going forward.

Fig. 16: PlanetArt's global success is based on a few differentiating factors

PlanetArt	Peers
✓ **Mobile-first approach**	▪ Desktop natives
✓ **Growth strategy based on customer acquisition through user-friendly and affordable offering**	▪ Growth strategy based on brand-building and significant marketing investments
✓ **Full-integrated platform: back and front-office functions are mutualised**	▪ Complex organisation and distinct platforms (e.g.: Moonpig in the UK and Greetz in the Netherlands)
✓ **Highly scalable infrastructure thanks to fabless model**	▪ Not very scalable infrastructure as production is almost exclusively insourced

Source: Bryan, Garnier & Co.

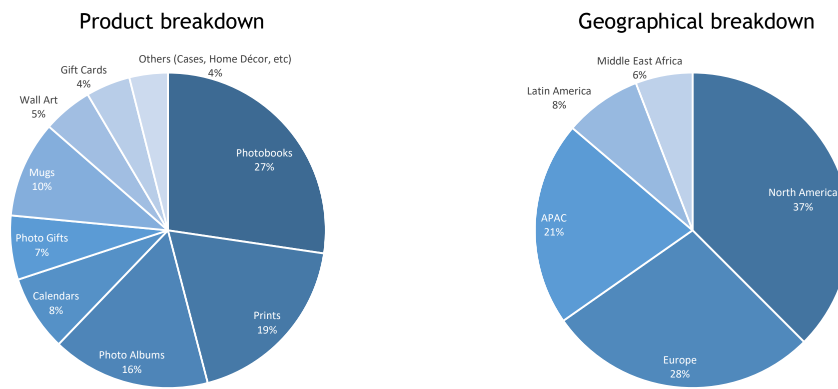
Photo printing and mass customisation market

A USD16bn market still driven by structural trends

The global photo printing market, to which PlanetArt mostly belongs, was estimated to be worth USD16bn in 2020 according to The Research Corporation. The market covers several printing types including classic photo printing (19% of the market), photobooks (27%), photo albums (16%), calendars (8%) and wall art (5%) etc.

In terms of geography, the photo printing sector remains highly focused on developed markets where the smartphone equipment rate is the highest and where consumers' purchasing power is strong enough to engage in this type of discretionary and impulsive spending. North America thus generates 37% of the total market and Europe 28% while APAC, Latin America and Middle-East Africa represent 35% combined.

Fig. 17: Photo printing market split (2020, % of total)

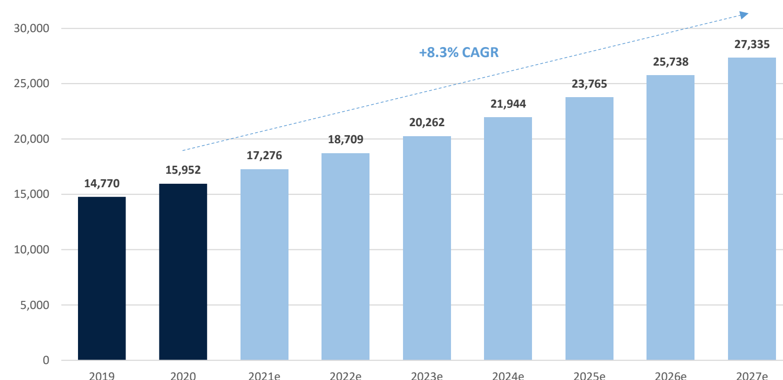


Source: The Research Corporation

The global photo printing market enjoys a structural growth trend estimated at around 8%. Three elements underpin this trend:

- A constant surge in the number of photos taken, amounting to 1.4 trillion in 2020, paving the way an increased amount of photo printing.
- Rising demand for convenience to quickly and easily print photos, driving on-demand photo printing platforms.
- The structural rise of mobile apps within the photo printing channel mix (now generating only 35% of the market vs. 65% generated by desktop websites) in light of a very high smartphone equipment rate, the fact that most photos are now taken by smartphones and that on-demand photo printing via mobile apps seems more convenient.

Fig. 18: Expected change in photo printing market (USDm)

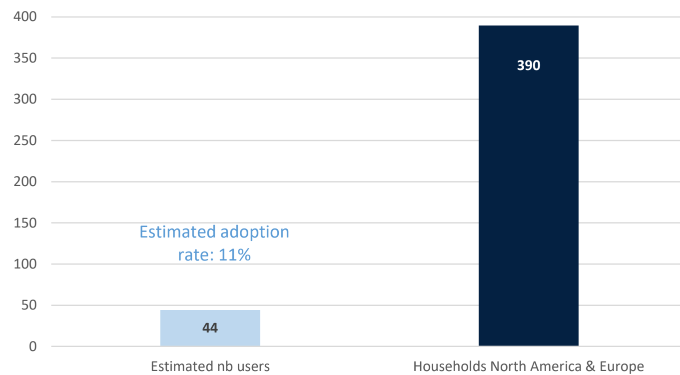


Source: The Insight Partners

To illustrate the limited current reach of on-demand photo printing platforms and the extent of their potential to educate and convert new consumers to their offerings, we have attempted to calculate a household adoption rate.

A look at the B2C market in the most developed markets, North America and Europe representing 65% of the global industry, points to 390m households. The major on-demand photo printing platforms, excluding VistaPrint which is a predominantly B2B player, registered an aggregate number of about 44m active customers in 2020. This implies a low adoption rate of 11% with meaningful upside given the current 75-80% smartphone equipment rate in developed countries and the wide potential reach of photo printing in terms of targeted customers (i.e. urban or rural, singles, couples or families, modest or wealthy).

Fig. 19: Estimated adoption rate of photo printing relative to the number of households in North America + Europe (in m)



Source: Bryan, Garnier & Co ests.

Increasingly fragmented market with the rise of “mobile-to-print”

The competitive landscape used to be dominated by a fairly small number of desktop website players in both the US and Europe, with companies such as Shutterfly and Cewe. However, the market is becoming increasingly fragmented with the rise of mobile-app native and desktop-mobile blended players such as Planet Art, Picanova…etc. showing high double-digit growth figures while incumbent desktop players are lagging behind with only low single-digit performances.

The “web-to-print” market is actually quite mature and consolidated already with relatively low growth prospects. This is why we would favour desktop-mobile blended players or even mobile-app native players which are evolving in a less saturated ecosystem, and are more able to ride the wave of smartphones and convenience as well as to recruit younger consumers.

We would also favour players already able to complement their offering by opening up to the attractive and huge “mass customisation” market. This adjacent market consists of printing personalised content on several types of items (i.e. t-shirts, mugs, pillows, shower curtains, phone cases, etc.) and requires broadly the same production/printing set-up as photo printing. According to Technavio, it was already larger than photo printing as of 2020 at USD29bn in size and with high-single digit growth prospects for coming years.

Fig. 20: Non-exhaustive competitive overview of the photo printing sector

	PlanetART	vistaprint B2B only	Shutterfly	cewe	PHOTOBOX	moonpig	photoweb	DESENIO	Picanova
Geographies	APAC							APAC	APAC
Channel	Mostly mobile	Web	Mostly web	Mostly web	Mostly web	Mostly web	Mostly web	Web	Mobile & Web
2020 sales (€m)	314m€	1,256m€	1,100m€	410m€	170m€	200m€	50m€	130m€	180m€
Categories	Photos Photo products Mass products	Photos Photo products Mass products	Photos Photo products Mass products	Photos Photo products	Photos Photo products Mass products	Photos Photo products Mass products	Photos Photo products	Photos Photo products Mass products	Photos Photo products Mass products
Operating model	Fabless	In-house	In-house	In-house	In-house	Mix in-house/fabless	In-house	In-house	In-house

Source: Bryan, Garnier & Co.

Are GAFAs a credible threat to the photo printing business?

As in any e-commerce sector, the question of a threat from GAFA companies is always present. In this case, it could be especially relevant bearing in mind that Google, Amazon and Apple are already quite active in the photo storage business and benefit from a large user base comprising several hundreds of millions of users.

However, despite their firepower, none of these giants have succeeded in entering the photo printing business so far:

- **Google** tried to leverage its base of one billion users by launching Google Photo Prints in the US in 2019 with what seemed to be a soft success. Since then, Google has launched a USD6.99 monthly premium photo printing subscription and even tried to bump its photo printing store to its app's homepage to encourage customers to order. However, its decision in June 2021 to make its photo storage business a pay service could hold back its entire photo business.
- **Amazon Photo** relies on a 200m Prime member base and launched Amazon Prints in the US and Canada in 2017 with free shipping costs for Prime members. Since then however, we have seen no geographic expansion of the service or any news on the success of the offering.
- **Apple** has around 660m Apple One users notably including iCloud, and launched its photo printing business in the US and Europe back in 2002 with no resounding success.

While there could be numerous reasons, we mostly believe that photos have always been viewed as a service in the GAFA's offering, implying that only storage is strategic and easily profitable. Negotiating printing contracts with printing facilities and delivering such small basket size orders to the consumers' home has ultimately proved too complex. Hence, internal resources allocated to the launch of a printing business may have been too limited to create a credible business model within the GAFA's large ecosystems.

We could also wonder whether PlanetArt could become an M&A target for any GAFA willing to really expand into printing and acquire a turnkey printing fabless platform with the relevant network of printing suppliers.

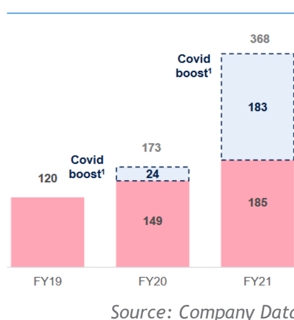
Sales forecasts: near-term headwinds but LT growth opportunities largely untapped

PlanetArt's softer Q1 sales trend should be put into perspective

Covid-19 lockdowns across the globe implemented in spring 2020 accelerated the structural customer shift to online shopping in consumer segments. Hence, a digital player like PlanetArt witnessed a positive impact on its top-line trends throughout the Covid-19 pandemic, especially since customers stuck in coronavirus lockdown turned to physical photos/photo albums and other custom goods.

This "Covid-19 boost" was even greater for e-commerce players such as **Moonpig** (gift cards) and **Desenio** (curated wall art) who really benefited from the temporary closure of physical stores as consumers had no real alternatives other than to buy online. Unsurprisingly, the removal of lockdown restrictions and consumer decisions to reallocate part of their spending on travel, leisure and restaurants resulted in normalisation phase since the summer:

Moonpig FY sales: "Covid boost" was huge in FY21 ending in April (GBPm)

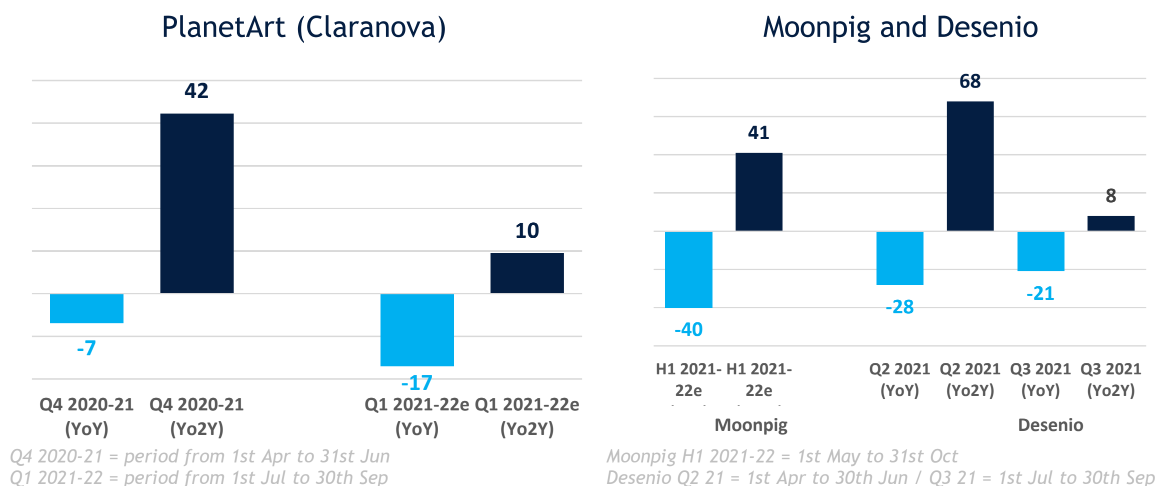


Source: Company Data

- **PlanetArt:** beyond the easing of restrictions that already affected the Q4 FY20/21 sales performance, PlanetArt has also suffered from the release of iOS 14.5+ (see next section), which limits customer data collection and results in less accurate ad targeting and less transparent conversion measurements, thereby prompting the 17% organic sales decline seen in Q1 2021-22 (July-September).
- **Moonpig:** following a significant "Covid-19 boost" (*see left-hand chart*), Moonpig reiterated a prudent FY22 outlook, even though its FY22 sales outlook was slightly revised upwards on 28th September, with a contraction of "only" 24% at the midpoint of the revised range, from -31% initially.
- **Desenio:** this normalisation phase had a greater negative impact than Desenio had expected, with Q2 and Q3 sales dropping by 28% LFL and 21% LFL respectively as people focused more on socialising than on home decor.

On a positive note, the two charts in Fig. 21: below clearly show that despite this temporary normalisation phase, sales remain well below their pre-pandemic levels: Q1 sales of **PlanetArt** grew by 10% Yo2Y. As for Moonpig, we assume a steeper decline in H1 compared with FY22 sales guidance, given the more challenging comparison base. However, H1 2021-22 sales could rise 41% Yo2Y. **Desenio** is undoubtably the most affected player since Q3 organic growth, i.e. excl. the acquisition of Poster Store, was only up 8% Yo2Y after +68% Yo2Y in Q2.

Fig. 21: Top line trends are normalising in a lockup era but remain well above pre-pandemic levels (organic growth YoY and Yo2Y in %)



Source: Companies Data, Bryan, Garnier & Co ests.

Apple's App Tracking Transparency or "ATT"

Source: Bryan, Garnier & Co.

What's going on with Apple Privacy Policy?

In April, Apple released iOS 14.5 and required that app developers and apps request users' permission to track them. As part of Apple's App Tracking Transparency (ATT), Apple only makes the IDFA (Apple ID For Advertisers) available to the app when users give permission for tracking using this unique identifier.

According to a survey carried out by Flurry Analytics in June, **approximately 85% of US users and 88% of worldwide users opted out of data collection and sharing of data from various apps and websites**, making personalisation and contextualisation much harder to achieve for advertisers. **Since June, the opt-in rate has picked up slightly.**

When looking at numbers just in the US, PlanetArt's largest market, it is easy to see why Apple's privacy changes had a significant impact for the online advertising industry. In March 2021:

- Apple had over 113m iPhone users in the US, accounting for 47% of all smartphone users in the US.
- Apple's iOS operating system has a 60% market share in the US.
- Mobile accounts for over 50% of traffic on the internet.

Why is Facebook the most hurt relative to Google?

In the past, Facebook was a key partner of PlanetArt for automated ad targeting. When Facebook released its Q3 earnings on 25th October, its ad sales, Facebook's primary revenue source, had slowed during the first full quarter since Apple released iOS 14.5 in April. This update affected Facebook's capabilities with regard to ad retargeting, ad measurement and reporting and conversions:

- There are approximately **230m Facebook users in the US and 65% of those people access Facebook via all versions of iOS** (52% of them via iOS14+).
- About **60m people, or about 26% of Facebook's US audience in non-FB applications and websites, opted out of Ad Tracking** at the same rate.

Sheryl Sandberg, Facebook's chief operating officer, said that sales would have grown from the second quarter without the Apple privacy changes.

> ***"We and our advertisers will continue to feel the effect of these changes in future quarters"***
>
> Sheryl Sandberg, Facebook Chief Operating Officer

Meanwhile, Alphabet Inc.'s Google, posted its highest sales growth in more than a decade in the Q3 as many brands shifted their ad spending to Google because its flagship search-ad business relies on customer intent (user search terms immediately reveal what they are interested in) rather than data collected from app and web tracking. Moreover, Google can count on the estimated 130m Android smartphone users in the US, and up to three billion worldwide since Android remains by far the leading mobile operating system worldwide, controlling the mobile OS market with a 72% share.

Below we list some of the countermeasures initiated by PlanetArt to mitigate these headwinds in order to return to positive territory in Q2 2021-22 (we are more cautious and expect flattish top-line growth):

- **Growing focus on Android users:** as iPhone users represent the majority of its revenue, PlanetArt reallocated a portion of its marketing towards the 130m US Android users.
- **Accelerating the diversification of customer acquisition channels:** PlanetArt had already reduced its partnership with Facebook in the US (CAC was becoming too expensive) in favour of more affordable channels like Instagram, TikTok, etc.). This trend has further accelerated over the past months.

- **Leveraging PlanetArt's European footprint:** at end-2020, Android was the operating system for over 70% of smartphone users across Europe. Moreover, customer acquisition channels are generally more affordable than in the US.

Thanks to this action plan, PlanetArt does not expect any material inflationary trend with regard to CAC in the MT.

PlanetArt to achieve another year of growth unlike Moonpig and Desenio

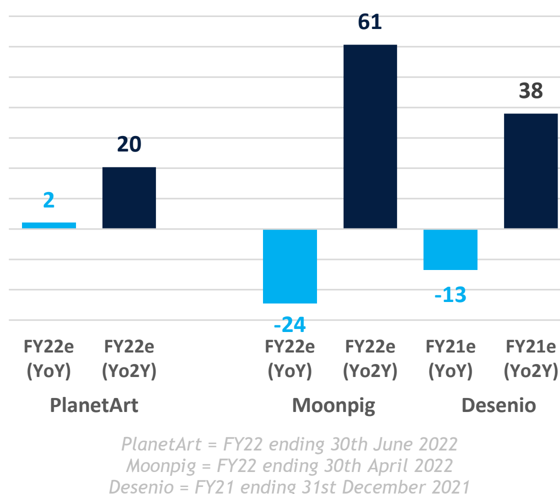
Although **Moonpig** has recently revised its FY22 sales guidance upwards thanks to more resilient trading over recent months, this new objective still implies a 24% YoY decline.

Following another dramatic sales drop in Q3, **Desenio** dropped its FY21 sales target after a first cut post-Q2 (net growth of 15-25% vs. +35-40% initially). Stripping out the contribution from Poster Store, the former objective calls for a c.13% organic sales decline.

As a consequence, Fig. 22: below shows that PlanetArt could be the only player in this sample to register positive revenue growth during its FY22. Arguably, the two-year stacked performance is relatively lower than its two peers but the latter also confirms that PlanetArt has not benefited from a "Covid-19 boost" as much as Moonpig and Desenio, due to two main factors:

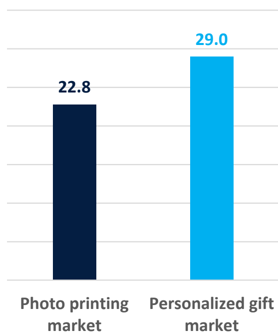
- **Product-mix:** gift cards (Moonpig) and home decor (Desenio) were clearly among the categories that benefited the most from lockdown measures: online sales boomed while physical stores were closed and home improvement sales surged on the back of customers stuck at home during lockdowns. Even though a few PlanetArt activities were also boosted by Covid-19, it is worth noting that others were negatively impacted by fewer promotional events (custom goods) and lockdowns (travel restrictions).
- **Channel-mix:** Moonpig and Desenio are mainly e-commerce platforms, which really benefited from the customer shift to online while physical stores selling gift cards and home improvements were closed. Conversely, the online share for digital photo printing and custom goods was already quite high, meaning that the temporary closure of physical stores has not really disrupted the customer shopping journey, hence a relatively lower boost from the customer channel shift.

Fig. 22: YoY and two-year stacked organic growth levels expected for PlanetArt, Moonpig and Desenio (%)



Source: Bryan, Garnier & Co ests for PlanetArt; Reuters consensus for Moonpig and Desenio.

PlanetArt now operates in two main segments (2020, USDbn)



Source: The Research Corporation, Technavio, Bryan, Garnier & Co.

Growth opportunities remain largely untapped

It is striking to note that PlanetArt is only present in 15 countries despite enjoying a wide customer base of over 25m people across the globe and generating 95% of its revenue outside France! While this international footprint could be considered relatively small, it is well above most peers which often have a strong local/regional presence. As an example, the Moonpig Group only operates in two markets, with two very local brands: Moonpig in the UK and Greetz in the Netherlands.

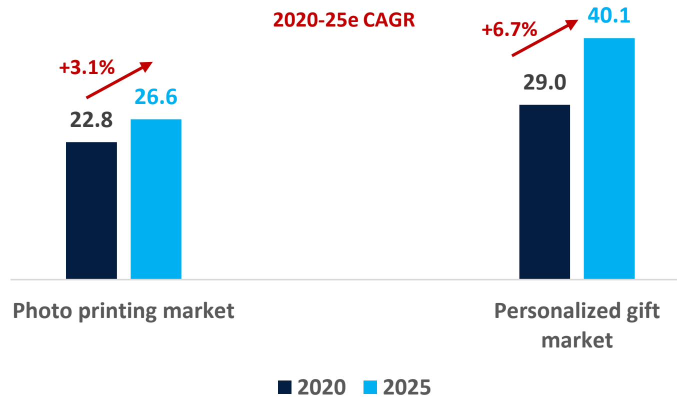
As a consequence, we understand that opening new countries beyond the 15 existing markets is not a top priority for PlanetArt, which aims more to amplify its positions in existing markets, particularly in mass customisation, which harbours significant growth opportunities. In our view, this focus on existing markets is quite promising as it implies limited execution risks and increases the chances of margin improvement in the MT.

Strengthen PlanetArt's footprint in mass customisation…

Within just two years, PlanetArt has also accelerated its expansion into the personalised gift market, which is not only 1.3x bigger than the photo printing market, but is also expected to grow twice as fast as the latter over 2020-25, as shown in Fig. 23: below.

We see two main drivers that could strengthen PlanetArt's footprint in the global mass customisation market: **1/** geographical expansion, albeit limited within the current scope of 15 markets, and **2/** extending the product offering to kids, pets, etc.

Fig. 23: PlanetArt has more than doubled its TAM with the addition of the personalised gift market (USDbn)



Source: The Research Corporation, Technavio, Bryan, Garnier & Co.

… through geographical expansion…

Looking at Fig. 24: on next page, we see that PlanetArt's three main platforms offering customised products, i.e. Personal Creations, CafePress and I See Me!, generate the vast majority of their revenues in North America and have very limited presence outside this region.

Although Personal Creations and CafePress are already present in the UK, they do not operate in Continental Europe. **Considering that Europe accounts for c.35% of the global personalised goods market**, a deeper penetration of the region would represent a significant growth opportunity.

Arguably, management recently pointed out that this geographical expansion was constrained by suppliers' own supply chain capacity, which may push PlanetArt to find new suppliers specifically for the European market, but this logistic issue would not call into question a possible entry into the European market in the MT.

Fig. 24: The geographical presence of PlanetArt's main mass customisation platforms is limited…

	Personal Creations	cafe press	i See Me!
North America	US, Canada	US, Canada *(mainly)*	US, Canada *(mainly)*
Europe	UK	UK	
Asia-Pacific		Australia	

Source: Company Data, Bryan, Garnier & Co.

Fig. 25: below shows that PlanetArt's apps already enjoy strong positions in key European markets, which may favour the geographical roll-out of Personal Creations and/or CafePress there.

Fig. 25: … relative to FreePrints' and its other apps

	FreePrints	FreePrints photobooks	FreePrints Cards	FreePrints PHOTO TILES	FreePrints Gifts
North America	US	US	US	US	US
Europe	UK, Germany, Italy, France, Spain, Ireland, Netherlands, Belgium, Austria, Poland, Luxembourg	France, UK, Germany, Italy, Spain, Ireland, Netherlands, Belgium, Austria, Poland, Luxembourg	UK	France, UK, Ireland, Italy, Germany, Spain, Netherlands, Belgium, Luxembourg, Austria	
Asia-Pacific	India	India			

Source: Company Data, Bryan, Garnier & Co.

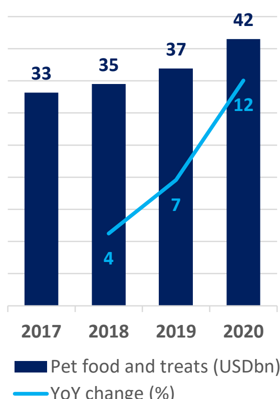
… and category diversification in existing markets

Enlarging the product offering is also an interesting diversification since it brings incremental traffic to platforms and more opportunities to monetise it. At this stage, we have identified three main categories that are highly complementary for PlanetArt's existing product offering:

1. **Custom children's products:** the acquisition of I See Me! was a first promising move into the custom children's products segment. Personalised storybooks are gaining traction with parents as they have been recognised as a powerful tool to motivate children in various educational activities. PlanetArt now plans to create new customisable products for I See Me! customers by using its wide catalogue of custom goods through its existing suppliers.

2. **Custom pets products:** according to the American Pet Products Association (APPA), 77% of dog and cat owners report that their pet is a family member "*just like anyone else*". Interestingly, the product trends in the pet care industry mirror those of consumers, i.e. a desire for a healthier lifestyle, increased focus on fitness, turning to supplements for improved well-being. Hence a fast-growing pet food and treats segment, which soared by 12% vs. 2019 to USD42bn (see chart opposite).

Pet food and treats segment (USDbn)



Source: APPA

3. **Online flower delivery:** the former owner of Personal Creations (Florists' Transworld Delivery) and Moonpig's partnerships in flowers and plants show that this category is perfectly complementary to PlanetArt's core business: **(i)** different seasonality (Valentine's Day and Mother's Day mainly), **(ii)** key category in gifting (>60% of flowers bought online are for gifting), and **(iii)** high AOV, amounting to c.USD75 in the US. The consolidation phase is already occurring as the UK-based Bloom & Wild has successively acquired Bloomon (NL) and Bergamotte (FR) this year, and is now generating revenues in excess of EUR230m. Interestingly, subscriptions already account for the majority of its revenues. The online flower market is worth EUR26bn in Europe.

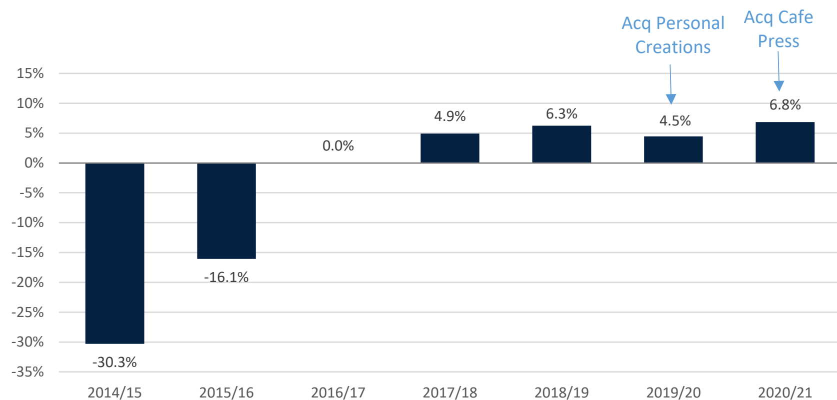
Significant upside potential for margins in the MT

Continuously improving margins but still lagging behind peers

Over recent years, PlanetArt has demonstrated an impressive improvement in EBITDA margin from -30% in 2014/15 to 6.8% in 2020/21, testifying to the efforts made to streamline the cost structure and the benefits of a larger business size.

It is also important to note that 2020/21 EBITDA remains affected by recent acquisitions in our view, i.e. Café Press in September 2020 and above all Personal Creations in August 2019. We therefore believe the underlying business of PlanetArt already generates EBITDA margin well above 7%.

Fig. 26: Change in PlanetArt EBITDA margin



Source: Claranova; Bryan, Garnier & Co.

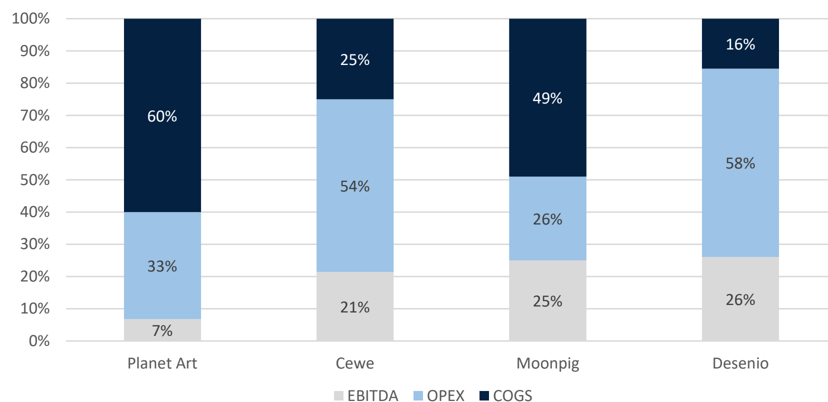
Even after such a material upward trajectory, PlanetArt's EBITDA margin remains 15-20 points below its listed peers with Cewe showing an EBITDA margin of 21%, Moonpig 25% and Desenio 26% in 2020. This current profitability gap can be explained by:

15-20pp

The gap in EBITDA margin between PlanetArt and peers

- PlanetArt's unique door-opener strategy to acquire new customers through its entry-range app FreePrints, which is still in what we consider an investment phase as the majority of FreePrints customers have yet to be converted to PlanetArt's other more profitable apps.
- PlanetArt's choice to be fabless, which grants far greater flexibility to open new countries but also implies a lower gross margin and operating leverage compared with competitors.
- PlanetArt's recent dilutive acquisitions of Personal Creations and to a lesser extent Café Press.

Fig. 27: Cost structure split between COGS, OPEX and EBITDA



Source: Companies data; Bryan, Garnier & Co ests.

On track to reach a c.9% EBITDA margin with “freemium” starting to bear fruit

Without going so far as to say that PlanetArt can fully close the gap with its competitors, we nevertheless believe that margin improvement potential is substantial over coming years.

8.7%

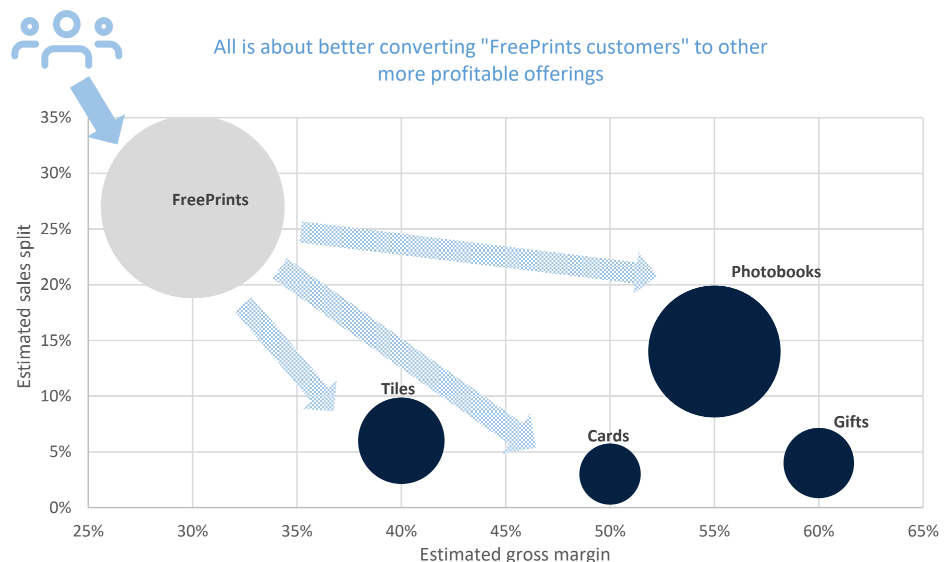
EBITDA margin we foresee by 2024/25

From almost 7% in 2020/21, we foresee an 8.7% EBITDA margin by 2024/25. With Claranova providing no detailed P&L for PlanetArt, we can only highlight what we believe will be the major moving blocks:

- Continuous growth at PlanetArt with critical mass of about EUR500m in sales should continue to unlock economies of scale in marketing in several geographies with a declining ratio as a percentage of sales. And even despite a likely temporary rebound due to the need to bypass iOS14-15 related-restrictions.
- These economies of scale will also be visible in General & Administrative costs, bearing in mind that PlanetArt is running a very centralised model with three regional headquarters.
- Recent dilutive acquisitions should match the profitability of the rest of the apps and websites going forward in our view.
- The most important lever might be gross margin improvement from c.40%e with PlanetArt’s freemium approach starting to bear fruit with an increasing number of FreePrints consumers converting ito other more profitable apps.

As shown in the chart below, we estimate that FreePrints is still one of the main contributors in terms of sales (i.e. around 25-30%e) but with low gross margin (i.e. around 30%e) given its business model, which also explains PlanetArt’s lower AOV compared to other peers.

Fig. 28: Time for PlanetArt’s door-opener strategy to bear fruit and boost gross margin



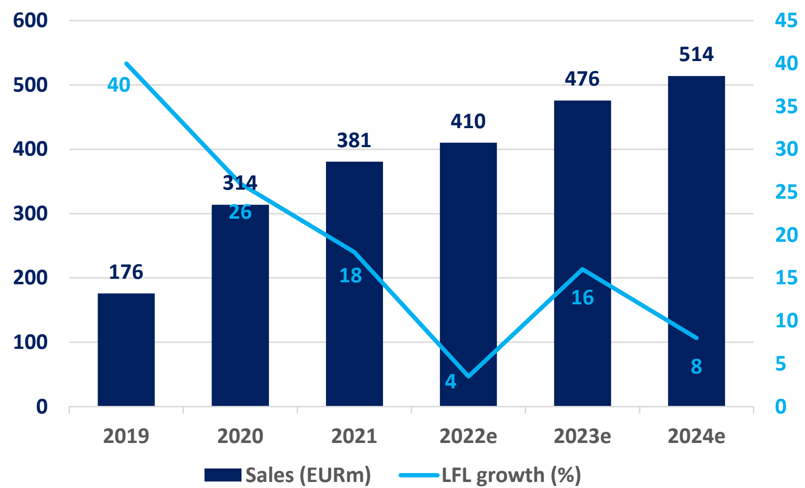
Source: Bryan, Garnier & Co ests.

Positioning FreePrints as a “door-opener” to attract as many consumers as possible before redirecting them to other more high-end and profitable offers, in the same way as retailers do in stores with “loss leader brands”, has logically been weighing on profitability as a first step. But we are now entering a second and more attractive phase with an upcoming boost in both AOVs and gross margin. Especially since we estimate that PlanetArt’s other apps are all more profitable as of today and with Personal Creations able to show a c.40% gross margin going forward as well.

PlanetArt: our forecasts over FY22-24

Following an outstanding growth phase over the past three years, highlighted by average LFL growth of 28%, we see a consolidation phase in 2022 as PlanetArt is lapping Covid-19 benefits. Thereafter, we anticipate 16% LfL growth in FY 2023 and high-single digit LFL growth of 8% for FY 2024. Note that despite this conservative scenario for FY 2022, we expect PlanetArt to largely exceed its 2023 sales target (EUR400m) with no incremental contribution from M&A.

Fig. 29: Sales and LFL growth over 2019-24 (FY ending 30th June)

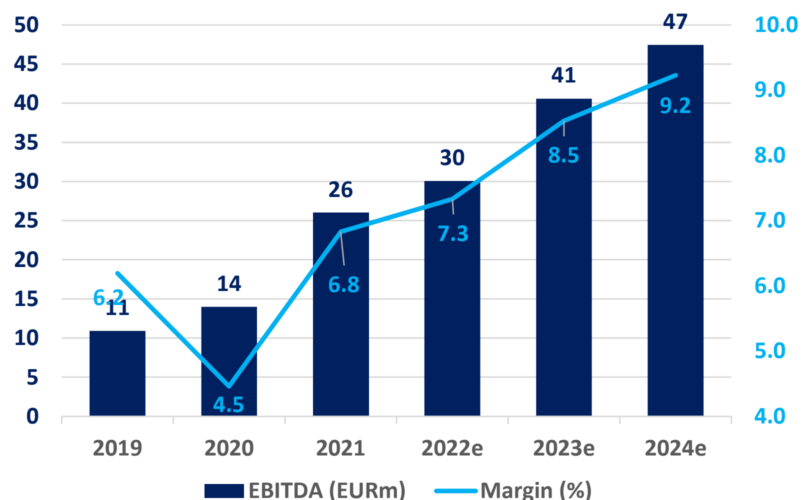


Source: Company Data; Bryan, Garnier & Co ests.

The time has come to harvest the benefits of the full-integrated platform through two main levers: **(i)** a positive price-mix as PlanetArt increases conversion from FreePrints to the other apps and thanks to a greater contribution from mass customisation, and **(ii)** favourable operating leverage implied by organic growth, especially since at this stage, we anticipate no dilutive impact from potential acquisitions in the MT.

Although we are cautious in the near-term (FY22), in light of the post-lockdown normalisation phase, we expect a more steady margin improvement from FY23 onwards.

Fig. 30: EBITDA and margin over 2019-24



Source: Company Data; Bryan, Garnier & Co ests.

Avanquest: successful transformation

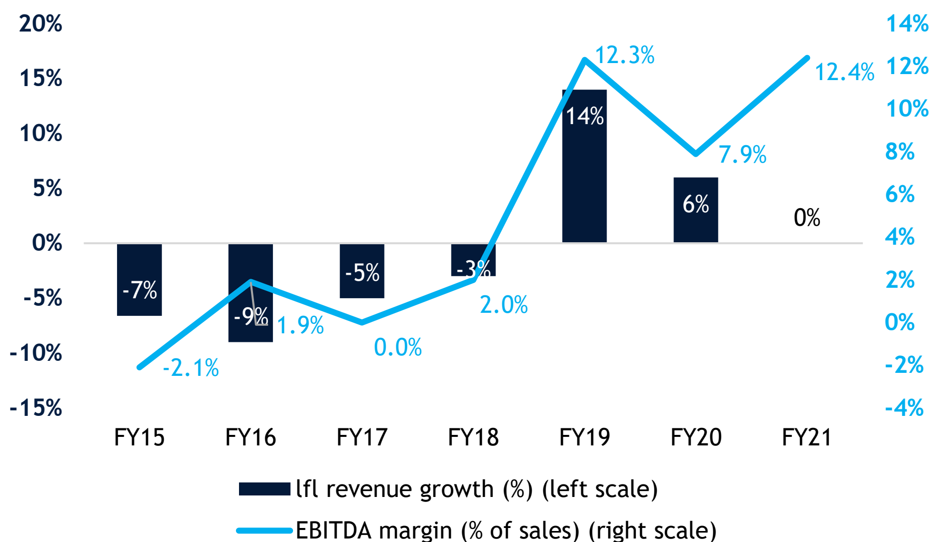
Avanquest: successful transformation

Business model switch to publishing, subscriptions and traffic monetisation now complete

Avanquest has achieved the transformation of its business model to publishing (instead of distribution and republishing), **subscriptions and SaaS** (instead of perpetual licences), **and web traffic monetisation** (instead of just selling software packages), which was initiated between 2015[1] and 2017.

This strategic move advanced in 2017 with the streamlining of the product range and catalogue, and really accelerated with the acquisition in July 2018 of Lulu Software (digital document management and PDF solutions with Soda PDF), Adaware (internet security and privacy tools) and Upclick (e-commerce transaction management solutions) from the Solaria Fund, and by Avanquest's **refocusing on three proprietary software brands: Soda PDF, Adaware and inPixio. Over FY15-FY21, this translated into better quality recurring revenues, very strong revenue growth in proprietary software, and significant EBITDA margin improvement**: over the period, revenues surged 131% to EUR87.7m (i.e. USD100m+) in FY21 and EBITDA margin widened 14.5ppt to 12.4% in FY21.

Fig. 31: Avanquest – lfl revenue growth and EBITDA margin



Source: Company Data.

We can sum up **Avanquest's turnaround** in three stages:

[1] As part of the group's reorganisation in 2015, all the group's software related activities were pooled under the "Avanquest Software" name. At the time, Avanquest was operating primarily as a third-party software distributor and republisher. Management reoriented its business model towards online selling, which has translated into a drastic reduction in sales to retailers in Europe and the disposal of non-strategic activities (the Arvixe web hosting business in the US in 2014, the ProcessFlows document process management business and Emme in 2015, and the distribution business in the UK in 2016).

- **FY15-FY18: product and channel rationalisation**. Although this operation had a negative effect on revenues with four consecutive years of lfl decline, it resulted in the transformation of Avanquest into a profitable business.

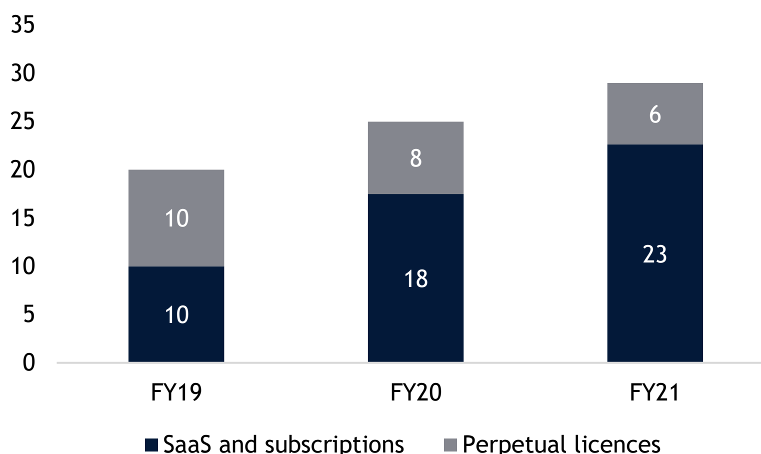
- **FY19: successful integration of Lulu Software, Adaware and Upclick**. Over their first year in Claranova's consolidation scope, these three companies posted sales and profitability way ahead of internal expectations[2]. For FY19, this translated into solid lfl revenue growth and a surge in EBITDA margin.

- **FY20-FY21: the move to SaaS and subscriptions**. During this period, lfl growth – and EBITDA margin for FY20 - was burdened by the move to SaaS and subscriptions, the reinternalisation of online sales generated through affiliates, the negative impact of lockdowns on retail sales, and significant digital marketing investments made for several major product releases[3]. EBITDA margin recovered in FY21, as did lfl growth in H2 FY21 (+5% lfl), with the completion of the move to subscriptions, and reduced customer acquisition costs thanks to the new digital marketing platform. Finally, the flat lfl sales reported for FY21 masked surges of 34% and 15% respectively for Soda PDF and inPixio over the year, and +28% for Adaware in Q4.

Fig. 32: , Fig. 33: and Fig. 34: below show the progress made on the transformation, as of FY21:

- **Subscriptions and SaaS** now account for 78% of revenues at the flagship brands (Soda PDF, Adaware and inPixio) – up from 70% in FY20 and 50% in FY19.

Fig. 32: Avanquest – Move to subscriptions (Soda PDF/Adaware/inPixio) (EURm)

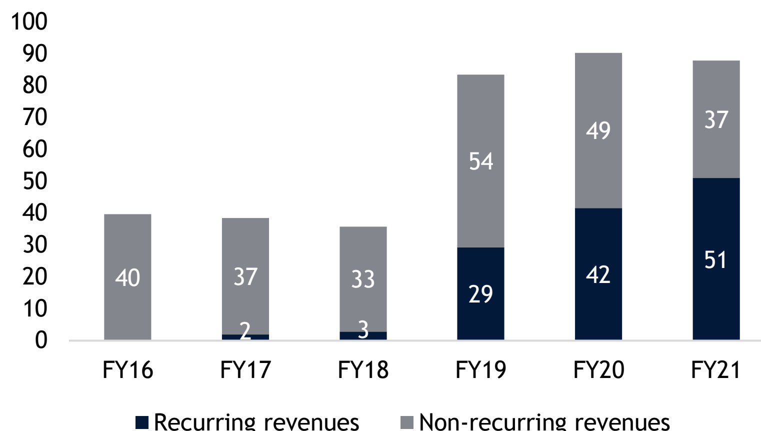


Source: Company Data; Bryan, Garnier & Co ests.

- **Recurring revenues** (i.e. revenues with existing customers) now account for 58% of total revenues – up from 46% in FY20 and 35% in FY19. Soda PDF and Adaware launched their subscription model in early 2018 before their acquisition by Claranova and inPixio did so in mid-2019. This means the transition was carried out in just two years, and the full positive effect of the transition to revenues has only been visible since H1 2021 (i.e. H2 FY21).

[2] Revenue of EUR41.4m and EBITDA margin of 22% in FY19, up from pro-forma figures of EUR29.9m and 19.3%, respectively, for FY18.
[3] These investments were related to the release of InPixio Studio Photo 10 (in March 2020), Adaware Antivirus (in August 2020), Soda PDF 12 (in August 2020) and Adaware Protect (beta version in October 2020).

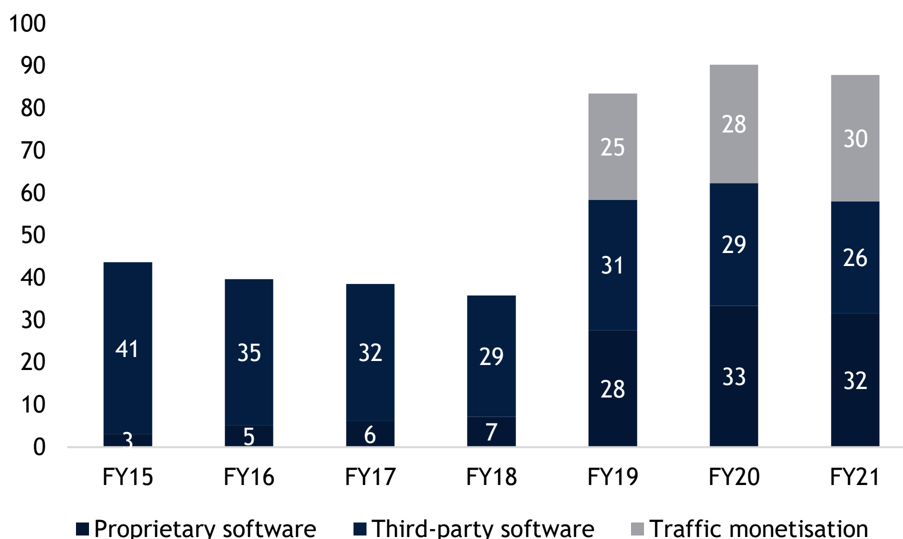
Fig. 33: Avanquest – Move to revenue recurrence (EURm)



Source: Company Data; Bryan, Garnier & Co ests.

- **Revenues with proprietary software** now account for an est. 65% of total revenues, thanks to Soda PDF, Adaware and inPixio, and the legacy third-party software distribution and republishing business has been minimised. NB. The decline in proprietary software revenues in FY21 is attributable to the reinternalisation of online sales generated through affiliates.

Fig. 34: Avanquest – Move to proprietary software and traffic monetisation (EURm)



Source: Company Data; Bryan, Garnier & Co ests.

The customer acquisition machine

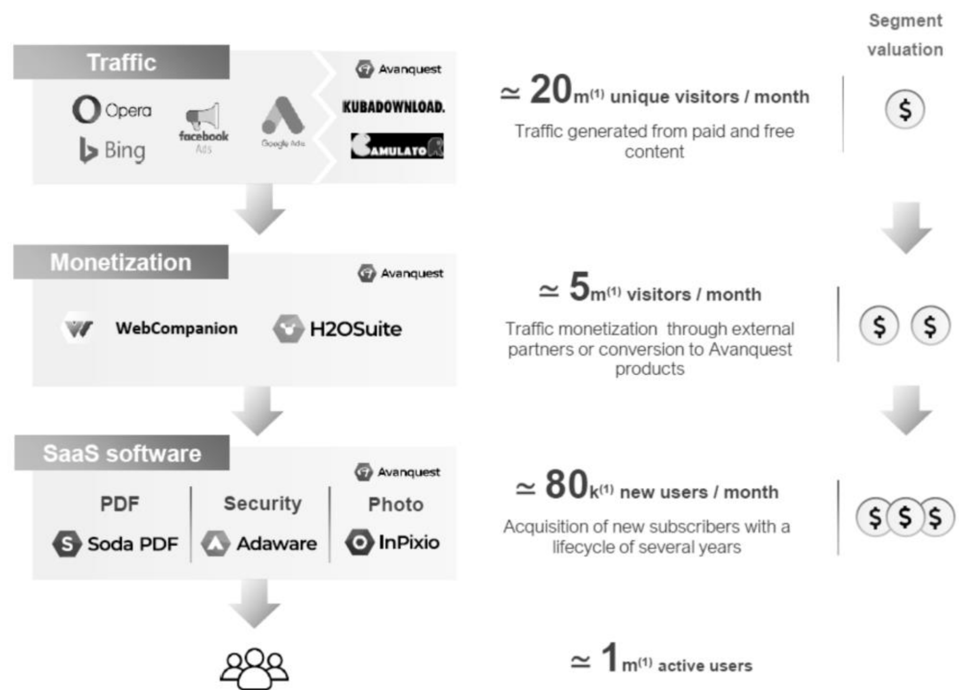
Over the last 10 years, the way software is sold to consumers has changed radically, with: 1) **the expansion of downloading** as the primary way to buy or subscribe to software online and **web search** as the primary way to seek software products matching consumer needs[4], as well as **the explosion of "freeware" and "freemium" business models** and **online advertising** through targeted websites; 2) **the decline in retail as a distribution channel**, as well as the disappearance of delivery on CD-ROM. This has led to the **emergence of new players** such as Avast and Bitdefender in internet security,

[4] Converting a document in PDF format, being protected from adware or malware, being connected to a VPN, editing photos…

and a myriad of other smaller players, resulting in the need for incumbents (Adobe, Symantec, McAfee, Trend Micro, Corel, Avanquest…) to transform their business models in order to keep, then expand, their positions. This has also led to Adobe's **switch to a SaaS/subscription model**, and, due to business model divergences between enterprise security and consumer security, to Symantec's split into two companies (the Consumer part being renamed NortonLifeLock), McAfee's disposal of its Enterprise business, or F-Secure's aim to spin off its Consumer business.

In this context, **Avanquest has transformed its selling model in order to generate as much web traffic as possible** (through search, content, free services…) **in order to monetise it through paid products, solutions and services or digital marketing.** This strategy stands on a specific infrastructure based on e-commerce and CRM tools, and is optimised by big data and AI technologies. Before the acquisition of Soda PDF, Adaware and Upclick, Avanquest had some traffic generation means (software catalogue, emailing, cashback and websites), but the deal has provided a more robust platform and raised Avanquest to 25 million single visits per month, more than 16 million downloads per month, an installed base of 40 million customers generating more than 1.5 million transactions per year, a product catalogue of 500 software products, and more than 500 million products installed globally. **This traffic generation strategy has been strengthened with the recent acquisitions of the iOS news portal Kubadownload and the arcade game emulator website Gamulator**, both of which could attract potential Avanquest product subscribers.

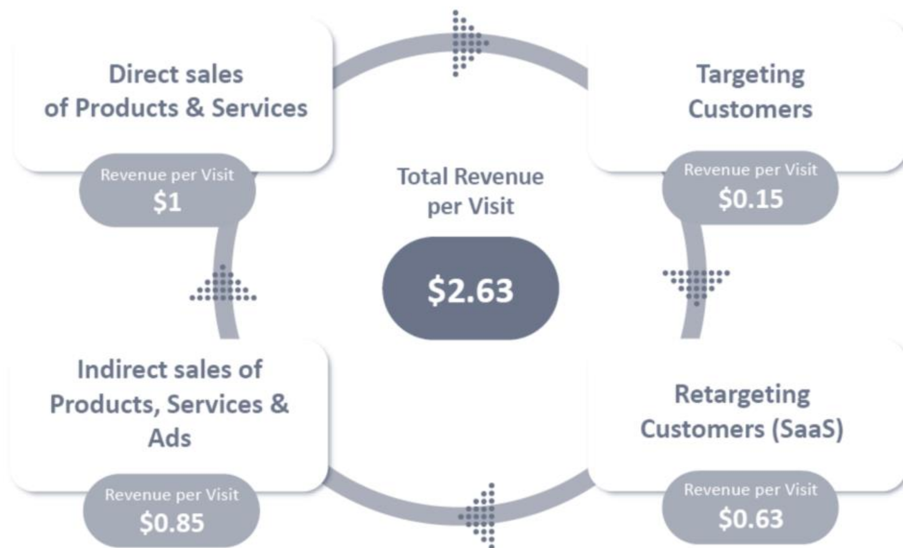
Fig. 35: How Avanquest monetises web traffic into software subscriptions



Source: Company Data.

Avanquest's customer acquisition tools include Web Companion (free software enabling private search and web security including "white listing") **and H2O Suite** (an e-commerce platform providing software installations, with expertise in traffic monetisation to help its customers increase conversion rates and average revenue per order). **They generate revenues from revenues-per-install and revenues-per-thousand, and from distribution fees** paid by software vendors such as the peer-to-peer file sharing leader BitTorrent, with whom it has an exclusive agreement.

Fig. 36: Avanquest - From sources of monetisation to revenue per visit



Source: Company Data.

Products and market catalysts

Avanquest's product strategy is to develop software providing features that are "good enough" for the needs of the average consumer user. In other words, Soda PDF, Adaware and inPixio address customers requiring software that is easy-to-use, simple enough, **and available at lower price than the market-leading software suites in their respective categories** (e.g. Acrobat, Norton, McAfee, Photoshop…).

Digital document software with Soda PDF

First-launched in 2010, **Soda PDF is a family of applications used to open, view, create, convert, edit, secure and share PDF files**. The latest version, Soda PDF 12, was released in August 2020 and also enables users to make optical character recognition and apply e-signature (SignPDF). **Soda PDF is available in three paid editions** (Standard, Pro and Business) with monthly or annual subscription plans, **but can be downloaded for free for basic functionalities** (visualisation, creation, merger and division, compression – subject to limitations). Paid versions are cheaper than those of its main competitors (half the price of Acrobat) for almost equivalent features.

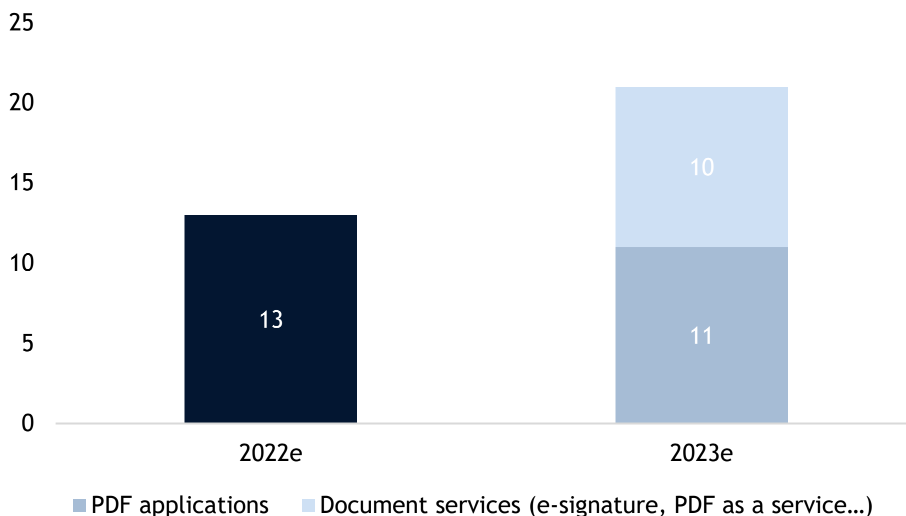
The rationale behind the **acquisition of CTdeveloping's PDFescape assets in March 2021 for EUR1.8m** is: 1) the **ability to generate online traffic**, with more than one million visitors per month on the pdfescape.com website, which provides a free online PDF reader, editor, form filler, form designer, and annotator containing basic and limited features (files up to 10 MB and 100 pages, maximum 10 stored files for seven days); 2) **PDFescape is consistently ranked among the top positions of search engines** for the keywords most searched by users of PDF solutions (in the UK and the US it ranks above Adobe Acrobat); 3) **strong potential to monetise this traffic** as it offers visitors to its website a paid desktop version of PDFescape, which has been integrating the Soda PDF technology since 2016. PDFescape offers two paid online editions: Premium (ad-free interface, files up to 40 MB and 1,000 pages, maximum 100 stored files for 30 days) and Ultimate (Premium + publish forms and collect responses, no file expiration date).

In the digital documents market, Soda PDF is a second-tier challenger product for Adobe Acrobat, along with Foxit Phantom PDF (from Foxit, USA/China), Nitro PDF Pro (from Nitro Software, Australia), and PDFescape. Third-tier players include PDFelement (from Wondershare, China), PDFFiller (USA/Ukraine), ABBYY FineReader (USA/Russia), SmallPDF (Switzerland), Qoppa PDF Studio (USA), Readdle PDF Expert (USA), PDF

Creator (from PDFForge, Germany), RAD PDF (from Red Software, USA), PDF Candy, PDF Complete (USA), and open source tools like Apache PDFBox and XPDF Reader.

According to Adobe and IDC (December 2020) digital document software represents a total addressable market of USD13bn for 2022 and USD21bn for 2023 (USD11bn for PDF applications and USD10bn for document services such as e-signature, embedded PDF as a service and document intelligence services), which is boosted by three catalysts: 1) AI, cloud and mobile reshaping productivity; 2) paper-to-digital transformation; 3) the emergence of cloud ecosystems (the so-called “API economy”).

Fig. 37: Addressable market for digital document solutions (2020-2023) (USDbn)



Source: IDC, Adobe (December 2020)

- **Online PDF**. According to Bridge Edge (cited by Adobe in December 2020 at a capital markets day), there is strong online demand for PDF actions initiated by a search query (50m+ searches for PDF actions every month). The affinity for a PDF brand drives traffic growth on this PDF brand’s website, which usually leads to a registration and an upsell to a paid software subscription.
- **Document services**. For instance, many PDF software vendors have added e-signing features in their offerings, as demand in that space is growing way faster than the core PDF applications market. According to Prescient & Strategic Intelligence[5], the global e-signature market was worth USD1.86bn in 2020 and is expected to demonstrate a CAGR of 29% over 2021-2030. This potential has pushed Nitro Software and Foxit to respectively acquire Connective (for c. USD81m or 11.4x est. 2021 sales) and eSign Genie, in 2021.
- **Mobile users to monetise**. Artificial intelligence in PDF tools for responsive mobile viewing for PDF documents, scanning for PDF creation on mobile, e-signature for completion of business transactions on-the-go, premium mobile features to upsell to paid subscriptions. In addition, mobile usage drives ID creation and funnel for desktop offerings.
- **Paper-to-digital transformation**. As Adobe mentioned in December 2020, all business functions are going digital. PDF documents, forms and e-signature delivered through a unified document platform are now seemingly a must.

[5] Prescient & Strategic Intelligence, *Global Digital Signature Market Report* (psmarketresearch.com), June 2021.

Utility software with Adaware

First-launched in 1999, **Adaware is a family of applications used to detect and block adware, spyware and malware and ensure privacy protection over the web**. The product has been enriched with third-party technologies such as Bitdefender's antivirus engine (in 2013). Adaware Antivirus has been downloaded over 390 million times on the Download.com/Telecharger.com website. The latest version, Adaware 12, was released in September 2021. In a crowded internet security software market, **Adaware stands out from the competition for its specialisation in personal data security and protection, instead of being a general purpose internet security suite vendor**.

- **Adaware Antivirus is available in three editions** (Free, Pro and Total). The Free downloadable edition neutralises viruses, ransomware and spyware, scans downloaded elements before they harm the PC, and blocks malicious processes and infected files. The Pro edition is the Free edition *plus* 24/7 technical support, web protection, safe online shopping and banking, firewall, email protection, antispam filters, network protection and parental control. Finally, the Total edition has all the features of the Pro edition *plus* PC speed up and optimisation, privacy protection, Windows issue fixes, and file clean-up.

- **Other Adaware products are AdBlock** (blocks website ads, pop-ups and video ads), **the free Adaware Safe Browser, Adaware PC Cleaner** (registry and disk cleaner available for free in Adaware Antivirus Standard edition, and as a more sophisticated paid version as Adaware Antivirus Pro edition, which includes file retrieval, deletion of duplicated files, permanent destruction of confidential files, and protection for personal information), **and the free Adaware Driver Manager** (auto-update drivers, backup drivers)

- **In October 2020, Adaware launched Adaware Protect (in beta version)**, which includes VPN, online security, private search, ad blocker, camera/micro blocker, antitracking, antivirus, PC cleaner, driver manager, and secure browser. **The goal is to move Adaware towards a utility suite by including several utility products which have been part of Avanquest's proprietary portfolio for long** (OneSafe, Driver, Registry, Fix-It, AutoSave…).

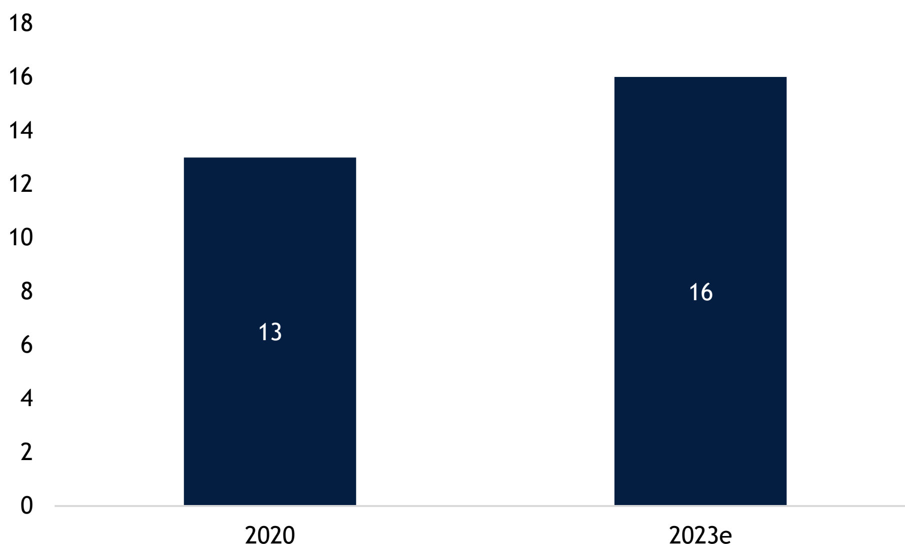
In the cyber safety market, Adaware is one of the main third-tier players along with AdBlock (USA), Malwarebytes (USA) and Avast CCleaner (UK), the leaders being McAfee (USA), Norton (USA) and Trend Micro (Japan), and second-tier players being Kaspersky (Russia), Avast (Czech republic), F-Secure (Finland), Bitdefender (Romania), Check Point ZoneAlarm (Israel), Kape CyberGhost (UK), and Eset (Slovakia). Other third-tier players include ClamWin Free Antivirus (Australia) and Dr. Web (Russia).

Cyber safety software represents a total addressable market of USD13bn for 2020 and USD16bn for 2023, growing 5-10% a year on average, according to NortonLifeLock (May 2021) based on IDC, Gartner, Javelin, GlobalInfoResearch, Maia Research and Statista. **However, this market has a penetration rate below 5%**, as less than 250 million are paid consumers out of five billion global internet users. **Drivers for stronger adoption of cyber safety software products are the expansion of two domains**: 1) **"digital life"** such as shopping, online banking, remote working, content streaming, connected home appliances, distance learning, social networks, or telehealth; 2) **cyber criminality** with increasing activity through malware, ransomware, data breaches, credential stuffing, phishing, or crypto jacking.

- **Digital life**. There is growing exposure of personal information including names, email addresses, credit card numbers and IP addresses. The average internet user's information will be shared with 800 different websites, thus enabling internet service providers to sell confidential data pertaining to how consumers use the internet, share consumers' information without their consent, and withhold news of a data breach from consumers and law enforcement, even where consumer information is at risk.

- **Cyber criminality**. According to a report published by Meticulous Market Research (June 2020), over 490m individuals were affected by data breaches in 2019 with an estimated global cost of cybercrime of USD600bn per year.

Fig. 38: Addressable market for cyber safety software (2020-2023) (USDbn)



Source: IDC, Gartner, Javelin, GlobalInfoResearch, Maia, Statista, NortonLifeLock (May 2021)

Photo editing software with inPixio

inPixio is a family of photo editing software created by Avanquest and launched in 2012. It has more than 10 million users globally, and is available in 11 languages on desktop, web and mobile devices. The latest version, inPixio Photo Studio 11, was released in March 2021. The 11.5 release (July 2021) embeds for the first time advanced AI features for automating and optimising edition. With just one click and in a few seconds, the software cuts out, removes and replaces the background or sky of an image using machine learning technologies. Fuelled by tens of thousands of photos before its official launch, the algorithm continues to progress as customers use the software.

inPixio stands out from the competition for a combination of low cost, advanced features and ease of use, which fits very well with the consumer market segment. It offers access to a level of photo editing previously reserved for sophisticated and expensive professional solutions, e.g. removing unwanted elements from a picture, cropping, removing and editing backgrounds, or photo edition finishing (correction of perspectives, integration of metadata, application of filters…).

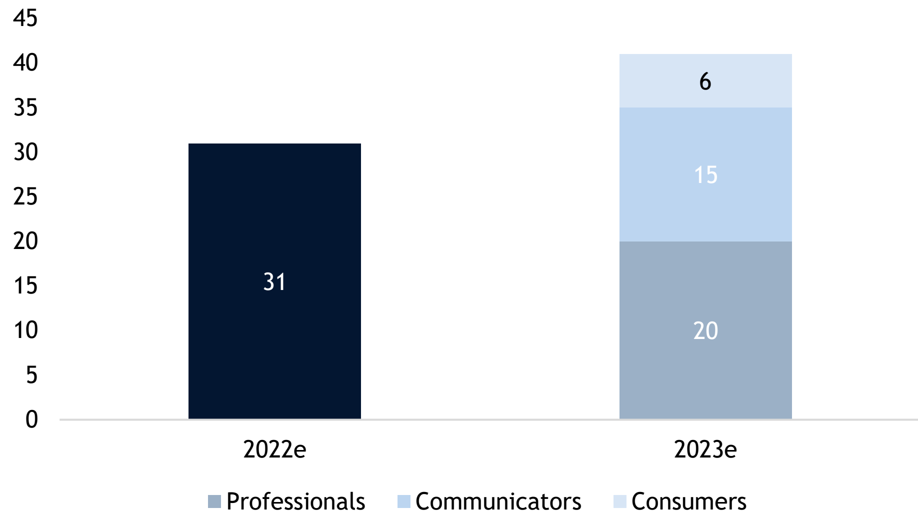
In the photo edition software market, inPixio is one of third-tier players, the leaders being Adobe Photoshop/Lightroom (US)[6] and Corel PaintShop Pro/Painter/Photo-Paint (Canada). Other second/third-tier players include Skylum Luminar/Aurora HDR (US/Ukraine), Inmagine Pixlr Editor (UK/Sweden), Canvas Photo Editor (UK), MOOII PhotoScape (Korea), ACDSee Photo Studio (US/Canada), Serif Affinity Photo (UK), Anthropics PortraitPro/LandscapePro (UK), DxO PhotoLab (France), Phase One Capture One (Denmark), Fotografix, Fotor (China/UK), ON1 Photo Raw (USA), Snappa (Canada), Zoner Photo Studio (US/Czech republic), Topaz Studio (USA), Photo POS Pro (US), Photopea (Czech republic), and open source software (GIMP, GIMPshop, Raw Therapee).

According to Adobe (December 2020), **creative software represents a total addressable market of USD31bn for 2022 and USD41bn for 2023**, of which USD20bn

[6] Adobe generated FY20 revenue of USD7.7bn with its Creative Cloud (which includes Photoshop and Lightroom), and its annual revenue run rate is now at USD9bn. In 2020, 97% of Adobe's Creative Cloud revenues were generated in the form of subscriptions (vs. 3% under perpetual and OEM licences).

for creative professionals, USD15bn for communicators, and USD6bn for consumers. In addition, according to ReportLinker, **the global photo editing software market accounted for USD819m in 2020 and is expected to reach USD1.2m in 2027** (5.4% CAGR)[7]. Still according to ReportLinker in the same report, growth in the Consumer segment (20% of the market, i.e. an est. USD160m) is expected to be 5.2% per year over the same period.

Fig. 39: Addressable market for photo edition software (2020-2023) (USDbn)



Source: Adobe (December 2020)

In the Consumer segment, the main growth catalysts are the following.

- **Advanced features**. Recent new advanced features are the introduction of AI in photo edition, and expanding 3D and immersive creation. The next stage of new features is likely to be AR (augmented reality) and VR (virtual reality).
- **Multi-surface systems**. Customer engagement and retention are driven by evolving applications into multi-surface cloud-powered systems, and extending creative capabilities on the web to make them more accessible and viral.
- **The increasing popularity of creativity**. With the explosion of creative intent expressed through search keywords such as “edit photo” or “make a flyer”, there is a significant opportunity for software vendors in the category to expand their customer base through new web capabilities.
- **Consumer creative mobile apps,** which can grow adoption and expand monetisation.
- **Interoperability of photo editing software with category-leading products.**

We forecast sustainable double-digit growth and double-digit EBITDA margin

Development and acquisition strategy

The shift towards a subscription-based model has temporarily restricted revenue growth and profitability, but has secured a future growth acceleration. In the future,

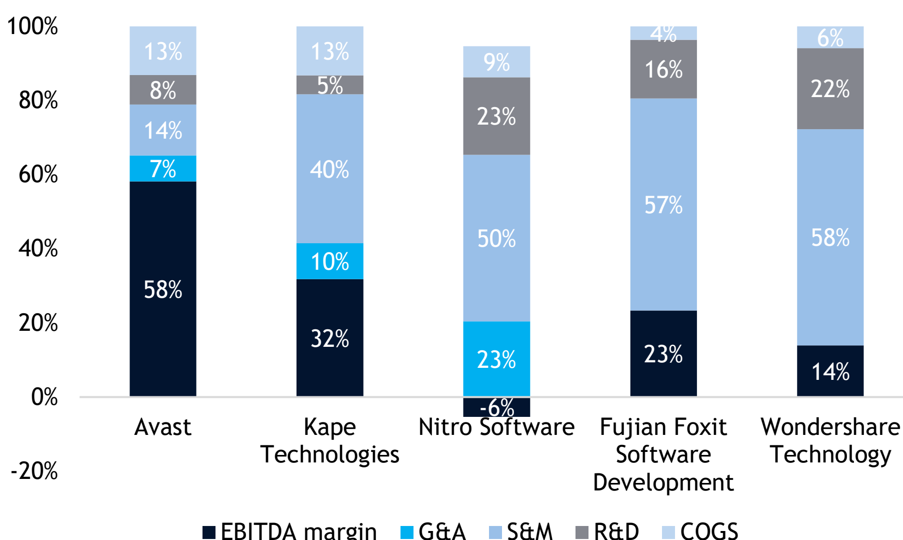
[7] ReportLinker, *Global Photo Editing Software Industry* (14th January 2021).

the **emphasis placed on increasing Avanquest's share of recurring revenues through subscription renewals, upgrades and add-ons is expected to generate leverage for the EBITDA margin as it requires little additional marketing investment**.

- **Constantly accelerating growth and market share gains**. We consider the conditions are met for the group to reach double-digit revenue growth as of FY22 with the switch to SaaS now complete, the traffic monetisation platform well in place and new customer acquisition and renewals set to fuel strong subscription and SaaS revenue growth. In addition, perpetual licences are seemingly close to the minimum while the legacy distribution and republishing business now represents approximately 25% of revenues and retail distribution (c. 10% of revenues) is destined to disappear.

- **Virtuous circle from the switch to subscriptions and SaaS to profitability**. In our view, Avanquest has the means to reach 20-30% EBITDA margin over time excluding the legacy business. While many competitors are primarily focused on customer lifetime value, Avanquest is focused on optimising both customer acquisition costs - in order to make any customer acquisition profitable from the first year - and subscription renewals. In addition, **FY22 EBITDA margin is set to benefit from the deconsolidation of loss-making LastCard**[8] (from 1st November 2021), in which the group now has a 36% stake after the purchase of Avanquest's minority interests.

Fig. 40: EBITDA margin breakdown for Avanquest's peers (2020)



Source: Avast, Kape, Nitro, Fujian Foxit, Wondershare.

- **Operating leverage**. A look at EBITDA margins delivered by peers (Nitro, Foxit, Avast, Wondershare, Kape) suggests there is significant operating leverage potential for Avanquest. As an industry benchmark, Avast posted 58% EBITDA margin in 2020 with sales and marketing costs, R&D and G&A costs accounting for only 14%, 8% and 7% of revenues, respectively, while gross margin stood at 87%. **We expect Avanquest's leverage to stem from gross margin** (decline in third-party products and physical distribution), **sales and marketing costs** (increasing subscription renewals, through the use of AI and communication with customers in order to understand their needs and test products), **and G&A costs** (revenue growth). In terms of R&D, the money spent is primarily set to

[8]Through Adaware, in 2019 Avanquest launched LastCard, a free payment service issuing a single-use credit card number for each transaction. In FY21, LastCard generated no significant revenues and was loss making. At the time of the purchase of Avanquest's 64% minority interests by Claranova, LastCard exited from the Avanquest consolidation scope, with Claranova now owning a 36% minority stake in the company.

be used for enhancing and extending existing products rather than developing new ones.

In addition, **Avanquest's M&A strategy** will take place in four directions:

- **Complementing the offering** (modules, products or technologies). This may be expanding the portfolio to adjacent markets and/or adding new technologies or features to existing products. This may also be companies offering additional offshore software development resources with specific knowledge.
- **Leveraging customer acquisition capabilities to foster the customer base of the acquired product**. This may be the acquisition of consumer software companies with a freeware or freemium business model in the same domains Avanquest is positioned but with strong potential to generate and monetise traffic. This also may be free software, app or online gaming download websites or targeted news or tips websites that are frequently used by potential users of Avanquest products. PDFescape, Gamulator and Kubadownload are the kind of acquisitions belonging to this category.
- **Cross-selling with Avanquest's software portfolio**.
- **Diversifying its customer base to the B2B market segment**, which requires more structured selling and marketing approaches.

As indicated at the announcement of the purchase of Avanquest's minority interests by Claranova on 1st November 2021, **Avanquest had a net cash position of EUR12.4m on 30th June 2021** (excluding IFRS 16 impact on leases). This position means Avanquest can make some 'tuck-in' acquisitions matching its M&A strategy. For larger acquisitions, these would be financed by Claranova's cash.

Our forecasts

For FY21, after two years of growth, Avanquest reported flat sales on a lfl basis, at EUR87.9m. The slowdown was primarily related to the completion of Avanquest's business model transition to subscriptions (lower unit revenues), which now accounts for 78% of revenues generated by its main proprietary product lines (Soda PDF, Adaware and inPixio), and the reinternalisation of online sales made through affiliates. Soda PDF and inPixio were Avanquest's main growth engines in FY21 with 34% and 15% respective growth, while Adaware posted +28% in Q4. While the last two quarters were back to growth, **the release of new innovations[9] is likely to help Avanquest accelerate sales growth for the next few quarters**. In addition, **Adaware's customer acquisition strategy has been fully mutualised within Avanquest's SaaS portfolio**.

Avanquest's EBITDA margin recovery in FY21 is the positive outcome of the business model transition to subscriptions and the emphasis placed on recurring sales, driven by subscription renewals. In addition, Avanquest's software is no longer sold through affiliates (resellers), which has a positive impact to profitability although it had a negative impact on revenue growth throughout 2020.

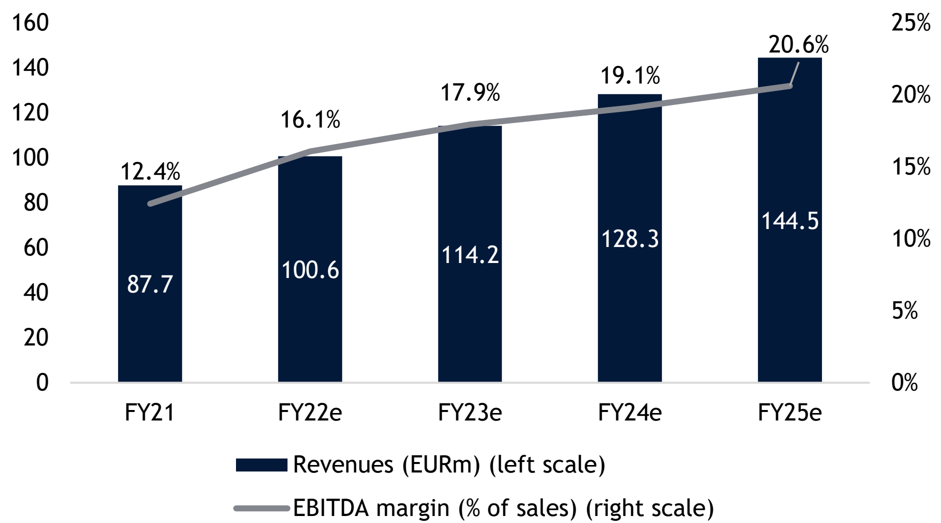
Our modelling assumptions for FY22-FY25 are the following:

- **Revenue growth in the low to mid-teens**. We **expect Avanquest to accelerate lfl revenue growth to +15% for FY22, +13% for FY23, +12% for FY24, and +13% for FY25**. We have assumed 20-30% growth for Soda PDF, c. 20% growth for Adaware, 15-20% growth for inPixio, and a strong double-digit decline in third-party products from FY23 (following a scenario of stability in FY22) as soon as retail sales fizzle out and as some distribution or republishing agreements may be renegotiated, terminated, or not renewed.
- **EBITDA margin heading to 20%**. We anticipate EBITDA margin will gradually increase, along with the share of recurring revenues through subscription

[9] SignPDF e-signature for Soda PDF, AI-based features for inPixio Studio Photo…

renewals, upgrades and add-ons, thanks to economies of scale generated by the traffic monetisation platform on sales and marketing and G&A costs. In addition, the de-emphasising of third-party products – although they remain profitable - will trigger a positive effect on the EBITDA margin mix over the years. Finally, we have assumed the deconsolidation of LastCard generates a one-off boost of EUR1.8m to EBITDA in FY22. **We have assumed EBITDA margin reaches 16.1% in FY22** (including +1.8ppt from the deconsolidation of LastCard from 1st November 2021**), 17.9% in FY23, 19.1% in FY24, and 20.6% in FY25**. However, the above-mentioned examples of Avast, Kape and Foxit demonstrate Avanquest's EBITDA margin may reach 25-30% over the long term provided that its strategy proves to be successful.

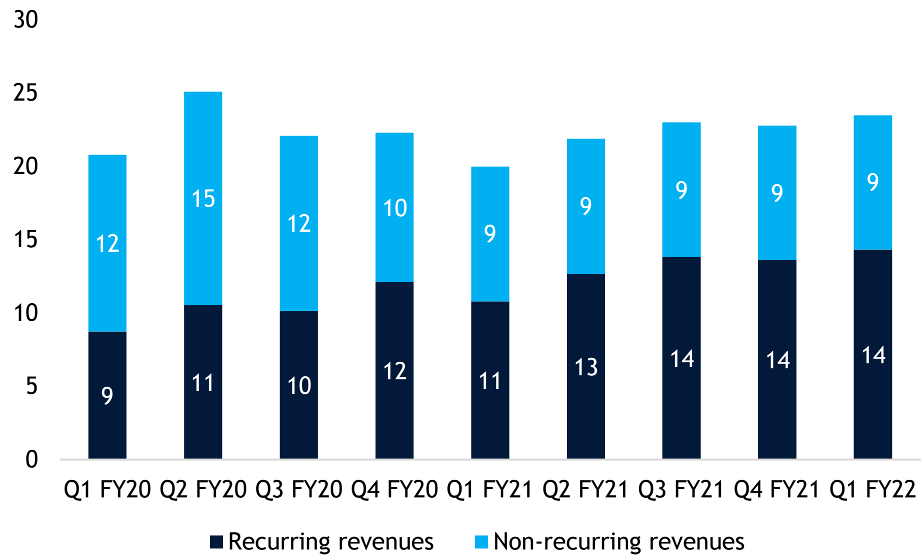
Fig. 41: Avanquest – our revenue and EBITDA projections (FY21-FY25)



Source: Company Data; Bryan, Garnier & Co ests.

Q1 FY22 revenues were very encouraging with 14% lfl growth to EUR23.5m, **supporting our 15% revenue growth scenario for the division for FY22** as Avanquest reported its first quarter of double-digit lfl revenue growth in two years (since Q1 FY20). **This increase was driven by robust momentum for Soda PDF and Adaware**, with double-digit growth posted by both business lines for the quarter. **Recurring revenues continued to grow** (est. +33% in the quarter) **and accounted for 61% of revenues in Q1 FY22**, up from 54% in Q1 FY21, while non-recurring revenues have been sequentially flat since Q1 FY21 (around EUR9m per quarter). We consider recurring revenues can reach 64% for FY22, based on an assumption of +26% for this line (vs. -1% for non-recurring revenues).

Fig. 42: Avanquest - Quarterly move to recurring revenues (FY20-FY22) (EURm)



Source: Company Data.

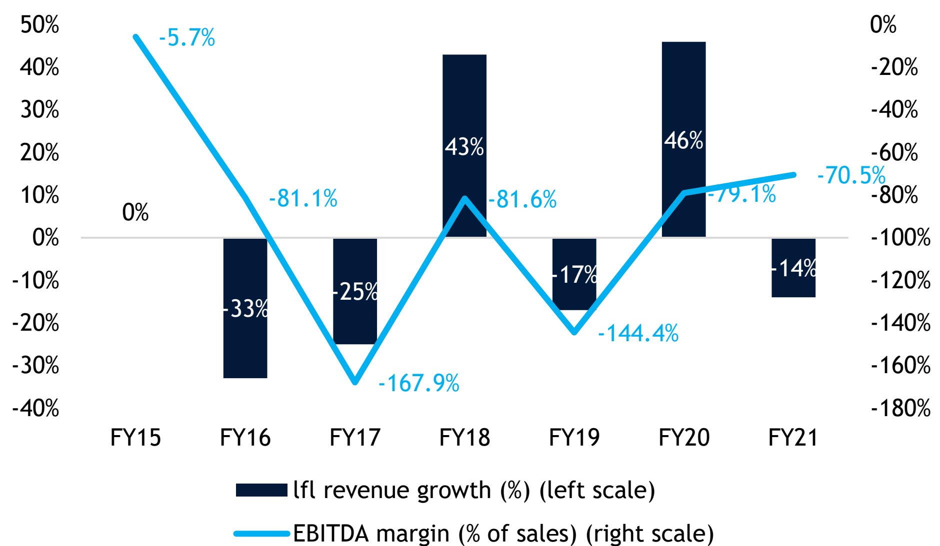
myDevices: still in its infancy, but promising

myDevices: still in its infancy, but promising

A six-year experience

The myDevices IoT business, launched in 2015 and in which Claranova has a 61% stake[10], **still generates modest revenues and is still loss-making. The open platform, the technological ecosystem, the relevant use cases, the packaged solutions, and white label distribution agreements are all there. The main barriers for a rapid expansion of IoT have been the high complexity of the ecosystem and the absence of universal standardisation**, due to the multiplicity of communication protocols (LoRaWAN, Sigfox, NB-IoT, Zigbee, Wi-Fi, Bluetooth, 2-3-4-5G), of stakeholders (telcos, networks, hardware manufacturers, software vendors, service providers) and of connected objects, and the complexity of integrating the various components. In addition, due to Covid-19 lockdowns, business closures, work-from-home mandates and travel restrictions, **many IoT projects that were in the pilot stage before March 2020 were put on hold and large-scale deployments have not taken place yet.** That said, recent works from industry and academic consortia for defining a reference architecture for improving interoperability and data management[11], and the lifting of the most economically impacting restrictions are now providing **better conditions for a rebound, followed by an expansion.**

Fig. 43: myDevices – lfl revenue growth and normalised EBITDA margin



Source: Company Data.

We can sum up **myDevices' development** in three stages:

- **FY15-FY18: building the Cayenne user base, the "IoT in a Box" packages, and the partner ecosystem.** myDevices was formed from Claranova's legacy

[10] The other shareholders are Semtech (the US firm which owns the LoRa protocol) and Dr. Peng Group (a major Chinese media and telecom group).
[11] For instance, the OpenFog (founded by Cisco, ARM, Dell, Intel, Microsoft and the Princeton University) and Industrial Internet (founded by AT&T, Cisco, GE, IBM and Intel) consortia have set up a reference architecture aiming to facilitate interoperability, and to allow the optimal distribution of data and processing between objects and edge, "fog" and cloud computing.

OEM telecom software business[12], which accounted for almost 100% of myDevices' revenues in FY16 and was destined to disappear but which developed longstanding relationships with communication device manufacturers, telcos and distributors. During this period, myDevices was successful in setting up the largest IoT developer community around its Cayenne "low-code/no-code" IoT app development platform launched in 2016, elaborating use cases with pilot customers, packaging them with the launch of "IoT in a Box" solutions in 2018, and putting in place distribution partnerships with Ingram (for the US) and Alibaba (for China). However, from its inception to late 2017, myDevices' revenues halved as OEM telecom software sales were fizzling out whereas it had yet to generate sufficient IoT revenues.

- **FY18-FY19: taking off through Sprint**. myDevices extended its partner network with Sprint in the US, Dr. Peng in China, Microsoft Azure, and ARM[13], among others. The launch in May 2018 of the Sprint IoT Factory online marketplace, with myDevices' solutions sold through it, opened an addressable market of hundreds of millions of potential customers for vertical IoT solutions. Sprint was instrumental in myDevices' growth in FY18 (+43% cc to EUR3.8m), thanks to its significant contribution to the business - all over 2018 Sprint accounting for an est. 40% of revenues. FY19 was in decline again (-17% cc to EUR3.6m), due to tough comparison with Sprint-related one-off setup revenues billed in project mode. Finally, due to investments (opex before D&A surged 28% to EUR8.8m), the EBITDA loss peaked to EUR5.2m in FY19.

- **FY20-FY21: diversifying the customer base**. FY20 was solid with sales up 46% cc to EUR4.8m thanks to the ramp-up of temperature monitoring solutions and the successful launch of the "No Dead Zone" multi-network alert button technology aimed at hotel staff, which had been sold to 100+ hotels and installed in 10,000+ rooms and started to contribute to revenues in H2 FY20. In addition, Sodexo had 30 projects under rollout for monitoring the cold chain, waste, heating, CO_2, leak detection, water and electricity consumption, and Marriott had 30 hotels in deployment on the cold chain (temperature monitoring). However in FY21, revenues fell 14% (but grew 24% ex-Sprint) to EUR3.9m due to tough comps on one-off revenues from partners (T-Mobile was busy on the integration of Sprint and was not focused on myDevices), while some contracts were halted due to lockdowns, travel restrictions, work-from-home mandates or policies, and the closure of hotels, restaurants and offices. Despite the revenue decline, the EBITDA loss was reduced to EUR2.7m as myDevices cut its cost base before D&A by 23% to EUR6.6m.

myDevices' technical architecture, business model and competitive environment

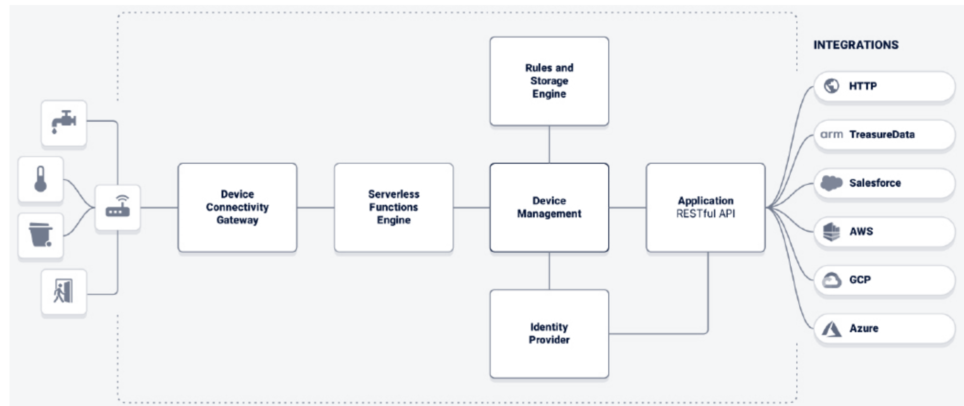
Technical architecture

myDevices is an open IoT management platform. It enables companies, telcos, IT services firms, resellers and developers to deploy IoT solutions in a short timeframe. **This multiplatform, multidevice and multiprotocol platform also includes Cayenne, a "low-code/no-code" app development and design tool** for IoT management projects, which uses a mobile app to remotely configure, monitor and control connected devices. **myDevices' strategy is based on a freemium model for Cayenne** in order to build the largest IoT developer community[14], **a subscription-based PaaS** (platform as a service) **business model** for large-scale platform deployment, **packaged solutions** based on industry use cases (IoT in a Box), **and an indirect selling model** involving telco carriers,

[12] This business was even Claranova's core business until the early 2000s.
[13] myDevices has been selected by ARM as an add-on to its Pelion IoT platform.
[14] Around 700,000 developers to date globally.

resellers, and IT and FM firms. Its architecture is based on APIs, web and mobile interfaces, data management and security, and business intelligence tools.

Fig. 44: myDevices' technical architecture



Source: Company Data.

myDevices' technical architecture is as follows:

- **The platform is technology-agnostic. It can be integrated into most customer systems, clouds and applications.** Sensors connect to an IoT gateway, and myDevices uses Azure IoT Hub, Google IoT Core or AWS Kinesis to manage data flows. Data then goes to myDevices Cloud, an IoT PaaS with a payload interpreter, a device management layer, and a data standardisation system. The solution can send the source data to AWS, Microsoft Azure or GCP for storage. Standardised data can be integrated via APIs into SAP S/4 HANA, Salesforce (including Tableau) or ARM Treasure Data in order to be analysed or to apply machine learning algorithms. myDevices Cloud sends messages directly to the iOS or Android mobile app or to the user's phone number.

- **The Cayenne app development tool** enables users to develop dashboards, manage rules, and configure triggers or any element in an IoT project.

- **myDevices offers a catalogue of more than 450 connected devices** (nano computers, modules, sensors, microcontrollers and gateways). Some have an Ethernet connection, others are certified for Bluetooth and LPWAN. More than 175 manufacturers offer their products on the myDevices marketplace.

- **IoT in a Box** is a set of packaged solutions that contain IoT connectivity and access to myDevices Cloud, the mobile app and connected devices, to meet a particular use case. Users can install sensors themselves by scanning the QR Code directly from the mobile app. Connection to the platform is automatic and customers can configure alerts from a web page or the mobile app.

- **26 pre-packaged solutions exist**, for counting people, monitoring temperature, air quality, air flow, gas, CO_2, HVAC, bins, mouse traps or soil moisture, tracking assets, measuring desk occupancy, metering electricity pulse, detecting leaks, or for smart metering, switch automation, panic alerting, nurse calling….

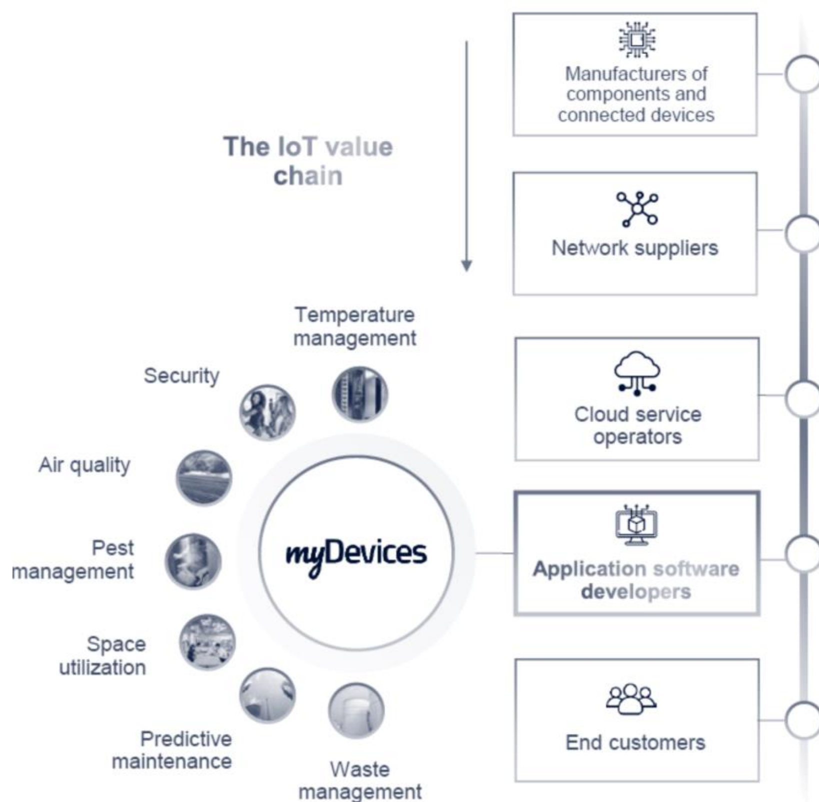
- **These solutions are also marketed through dedicated websites**: SimplySense.com for temperature compliance monitoring (cold chain, healthcare and food service), PushandProtect.com for the No Dead Zone panic button (hotel or hospital workers, students on campuses), PushandCall.com for nurse calling, LockdownAlert.com for post-intrusion door barricade triggering, Countario.com for occupancy and people counting, PredictAlert.com for smart machine monitoring, WaterSaveSensor.com for toilet monitoring...

A PaaS business model

myDevices primarily uses a PaaS business model, as it usually does not sell the solution to the final user but through partners (telcos, IT services firms, business services or FM companies…). The partner distributes the solution by itself or through its own partners. **myDevices charges the solution monthly according to a fixed price model per active deployed connected device** (per sensor + per base + per data extraction per month, or per sensor + per network access + per monthly report) **with a declining scale per number of devices**. When sold through an online marketplace, development of this marketplace is made by the partner, then revenues are shared between the partner and myDevices.

In cases whereby myDevices sells directly to the final user, it provides an end-to-end solution and manages support, billing and training, according to an SaaS model. In this case, 50-60% of the final user's bill goes to myDevices, 15-20% goes to the reseller, 10% goes to the wholesaler, and 15-20% goes to infrastructure providers (cloud, IoT network, hardware).

Fig. 45: myDevices in the IoT value chain

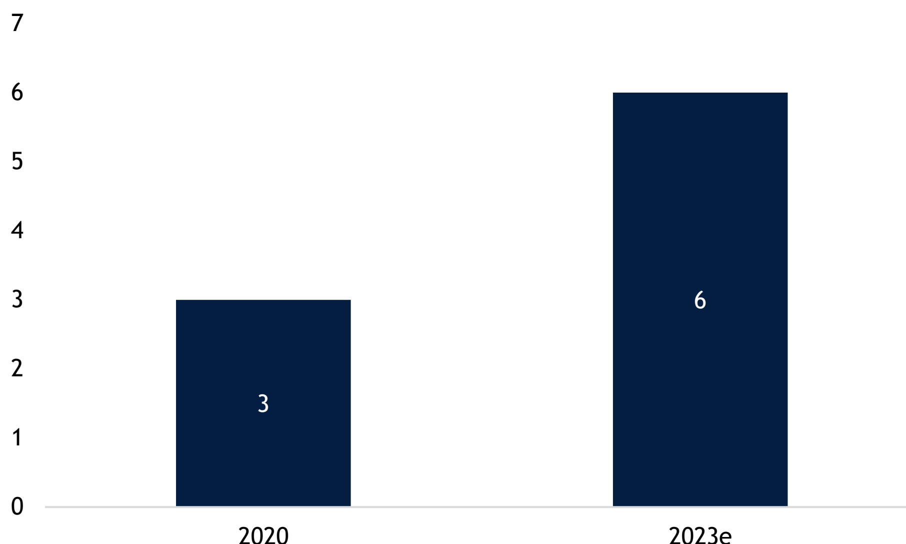


Source: Company Data.

Huge addressable market and very fragmented competitive environment

According to PTC, th**e addressable market in IoT management platforms amounted to USD3bn in 2020 and is expected to double to USD6bn in 2023**. PTC is the global leader in this domain, with an est. USD120m in revenues, which is only 4% of the addressable market. As such, **the market remains very fragmented, and there is plenty of room for growth for the multitude of players in place**, especially since the market is only in its infancy. In addition, the vertical nature of the solutions provided by the different players, based on use cases, is likely to maintain a strong level of fragmentation.

Fig. 46: Addressable market for IoT management solutions (2020-2023) (USDbn)



Source: PTC.

The latest market report from industry analysis firm Gartner[15] demonstrates how the IoT market is fragmented (here only on the industrial side). **myDevices' differentiation resides in its open platform that is able to integrate a multitude of devices** – a recurring demand from IT or business services firms – and its ability to be deployed for any industry. In addition, due to its architecture and its positioning, **myDevices is more suitable for the needs of buildings, hotels and restaurants** than for the factory shop floors.

- **The leaders in this market are PTC** (ThingWorx, mainly selling to manufacturing industries and OEMs for asset monitoring and predictive maintenance), **Microsoft** (Azure IoT, which has a horizontal strategy), **Hitachi** (Lumada), **Software AG** (Cumulocity IoT, mainly selling to manufacturing, transportation and logistics industries), and **Siemens** (MindSphere).

- **There are many niche players** such as RootCloud (RootCloud Platform/Edge)[16], QiO Technologies (Foresight Platform)[17], Braincube[18] (for process and discrete manufacturing), Altizon Systems[19] (Datonis, primarily for manufacturing, resources and utilities), Litmus Automation (Litmus Edge, with a primary focus on manufacturing)[20], Flutura[21] (Cerebra), Davra[22], Eurotech[23] (Everyware), Exosite (Murano/ExoSense, primarily selling to OEMs), Envision Digital (EnOS), Knowledge Lens (iLens), Digi Haxiot (X-ON IoT Platform)… **Tencent has invested in RootCloud, Mitsubishi in Litmus Automation, and Hitachi in Flutura**.

- **Several IT, cloud, telecom and industry powerhouses have presence is this market, but remain niche players**: Amazon (AWS IoT services, with a general IoT approach), Samsung SDS (Brightics IoT, primarily targeting manufacturing companies), ABB (Ability Genix), GE Digital (Predix, sliding to IoT applications

[15] Gartner, *Magic Quadrant for Industrial IoT Platforms*, published 18/10/2021.
[16] RootCloud (China) has raised CNY1.3bn in PE in 2018, 2019 and 2020.
[17] QiO Technologies (UK) has raised GBP13.1m in PE in 2017, 2018 and 2020.
[18] Braincube (France) has raised EUR12m in a VC round in 2018.
[19] Altizon Systems (India) has raised USD11m in 2016 and 2019.
[20] Litmus Automation (USA) has raised USD10.7m in 2016, 2018 and 2019.
[21] Flutura (USA) has raised USD8.5m in PE/VC rounds in 2017-2018.
[22] Davra (USA) has raised USD3.6m in 2015-2016.
[23] Eurotech (Italy, listed on Borsa Italiana), which is primarily a component, system, device and sensor vendor, posted for 2020 sales of EUR69.3m (-32%) and EBITDA margin of 9.6% (-10.5ppt).

from PaaS), IBM (Watson IoT, focused on manufacturing and transportation), Oracle (IoT Cloud service, focused on use-case-based solutions)…

We forecast a growth acceleration from FY22

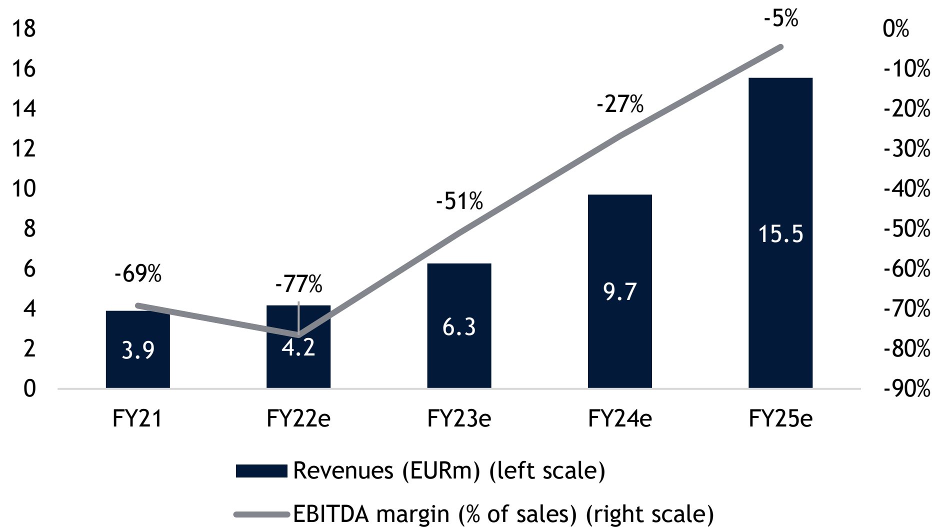
myDevices' future growth is set to stem from three levers: an increase in the number of customers, growth in the number of IoT solutions per customer and the number of sites and connected objects deployed on each site. As such, **we expect revenue growth to accelerate again from FY22** thanks to three catalysts:

- **The rise in the number of business cases**, which should help myDevices enhance its revenue diversification.
- **The partnership with Sprint has been expanded to the whole T-Mobile group** (deal completed in April 2020, whereas it was announced in April 2018). Management is very optimistic on the outcome of this merger, since myDevices now benefits from a doubled sales team.
- **These positive sales prospects are likely to be accentuated by the easing of Covid-related restrictions,** which could be beneficial to the ramp-up of some contracts that have been halted, with clients like Engie, Sodexo and Marriott.

Our modelling assumptions for FY22-FY25 are the following:

- **An acceleration in revenue growth. We consider 50-60% lfl revenue growth a reasonable assumption for myDevices** in normal economic conditions and excluding 'one-off' projects. As such, **we expect myDevices to accelerate lfl growth to +7% for FY22** (+45% excluding the 'one-offs' recognised in FY21)**, +50% for FY23, +55% for FY24, and +60% for FY25**. We have assumed the business exceeds the EUR15m revenue threshold in FY25, but cannot rule out this being reached earlier depending on partner performances.
- **Investment is necessary to reach critical size.** We expect myDevices to remain loss-making until FY25, as the market for IoT management solutions has not reached maturity yet, and as staying in the race is likely to require significant efforts in sales and marketing investments in order to enlarge the partner ecosystem. In addition, **the reduction in the EBITDA loss by one third in FY21 stemmed from a 23% reduction in opex** due to the crisis and a lack of demand and is not sustainable in our view. As such, **we anticipate the EBITDA loss will widen in FY22, then stabilise in FY23, then be reduced over FY24-FY25**. **We have assumed opex increases by 12% for FY22, 28% for FY23, 30% for FY24 and 32% for FY25.**
- **Over the longer term, EBITDA margin is likely to continuously improve as volumes grow**: 1) gross margin is pretty much constant as revenues are primarily volume-based; 2) from an R&D standpoint, the platform will reach more maturity and will require less investment (e.g. integration with front and back office systems such as SAP or Salesforce and public clouds); 3) an increasing share of the sales and marketing spend will be made by the partners. **We estimate that EBITDA breakeven should be attained in H2 FY25 when the EUR15m revenue threshold is exceeded.**

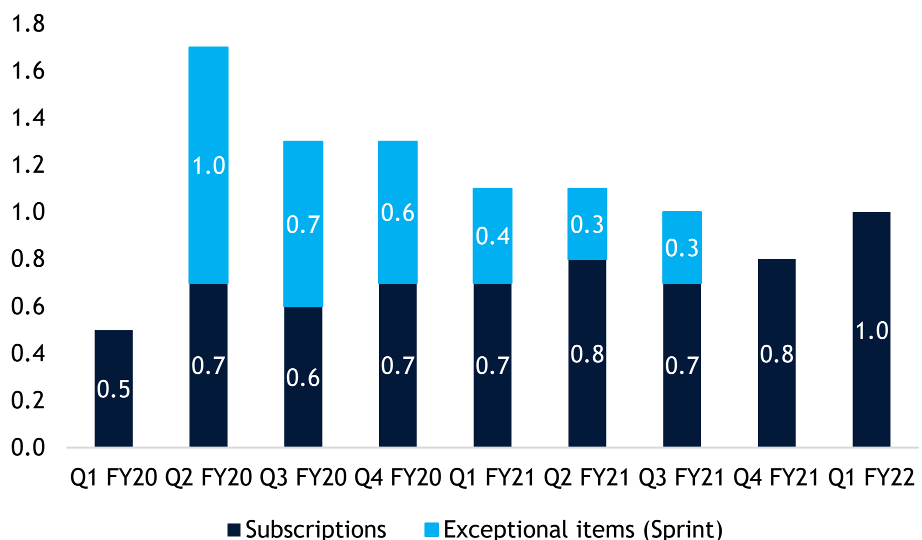
Fig. 47: myDevices – our revenue and EBITDA forecasts (FY21-FY25)



Source: Company Data; Bryan, Garnier & Co ests.

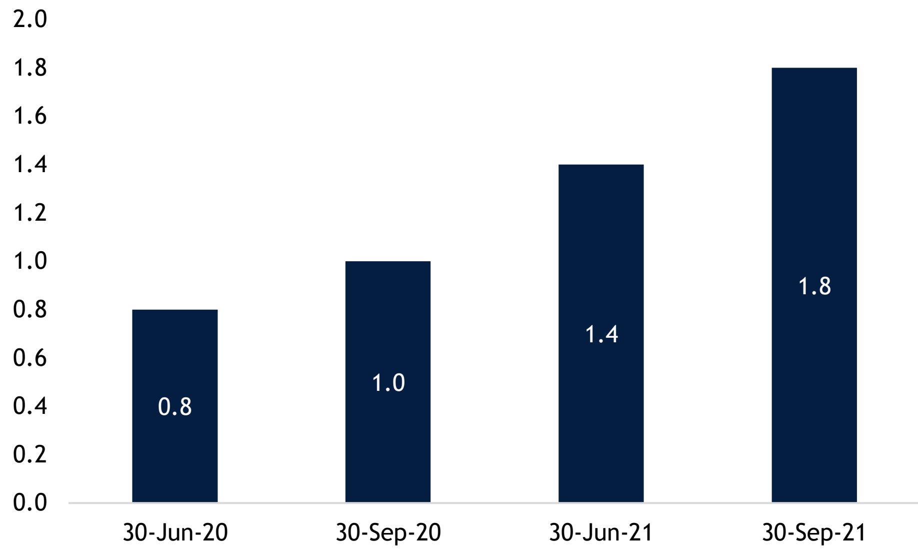
Q1 FY22 revenue restated for non-recurring items was encouraging for myDevices. Reported revenue fell 7% lfl to EUR1m, but adjusted for exceptional items related to Sprint (est. EUR0.4m reported in Q1 FY21), growth was 44%. **This performance reflected the acceleration in commercial roll-outs and the easing of restrictions in the industries primarily addressed by myDevices.** The development was fuelled by the **increase in subscription revenues**: as of 30th September 2021, myDevices' ARR (annual recurring revenue) surged 85% lfl year-on-year to EUR1.8m. As of 30th June, ARR was up 78% lfl to EUR1.4m. **We see an acceleration in sequential ARR growth**, which increased EUR0.4m in just one quarter (Q1 FY22), whereas it took three quarters (from Q1 FY21 to Q4 FY21) to gain the previous EUR0.4m.

Fig. 48: myDevices – Quarterly revenue split (FY20-FY22) (EURm)



Source: Company Data; Bryan, Garnier & Co ests.

Fig. 49: myDevices – Subscriptions ARR (FY20-FY22) (EURm)



Source: Company Data.

Our forecasts

Our consolidated forecasts

Heading for EUR710m in organic sales and 11.6% EBITDA margin by 2025

On a consolidated basis, we expect Claranova to generate an 10.7% sales CAGR over 2021-25 to amount to EUR710m. The weight of PlanetArt is set to decrease slightly from 81% to 77% of total sales with Avanquest and myDevices outpacing in terms of growth.

Regarding EBITDA, we forecast a 24.6% CAGR over 2021-25 to reach EUR83m with a 11.6% margin. Among the businesses, PlanetArt and Avanquest should contribute equally to the EBITDA improvement in absolute value terms and more than offset the increasing losses of myDevices.

However, for 2023, the time horizon for Claranova's guidance, we are currently slightly below the targets with:

- EUR596m in sales at the group level (vs. target of EUR700m) since we have deliberately not priced in any additional M&A over coming years for each of the three divisions while taking a cautious stance on our organic expectations given poor macroeconomic visibility at present.
- An EBITDA margin of 9.7% (vs. target of above 10%), notably resulting from smaller critical mass and lower operating leverage than if we priced in EUR700m in sales.

Fig. 50: 2022-25e sales by business

EURm	2020	2021	2022e	2023e	2024e	2025e
Sales	**409.0**	**472.0**	**515.1**	**596.3**	**652.0**	**710.0**
% reported growth	56%	15%	9%	16%	9%	9%
PlanetArt	314.0	380.0	410.2	475.9	514.0	549.9
% reported growth	78%	21%	8%	16%	8%	7%
Avanquest	90.0	88.0	100.6	114.2	128.3	144.5
% reported growth	8%	(2%)	14%	13%	12%	13%
myDevice	5.0	4.0	4.2	6.3	9.7	15.5
% reported growth	**56%**	**(20%)**	**4%**	**50%**	**55%**	**60%**

Source: Bryan, Garnier & Co ests.

Fig. 51: 2022-25e adj EBITDA by business

EURm	2020	2021	2022e	2023e	2024e	2025e
Adjusted EBITDA	**17.4**	**34.3**	**43.0**	**57.9**	**69.3**	**82.6**
Adjusted EBITDA margin	4.3%	7.3%	8.4%	9.7%	10.6%	11.6%
PlanetArt	14.1	26.0	30.1	40.6	47.4	53.5
margin	4.5%	6.8%	6.8%	8.5%	9.2%	9.7%
Avanquest	7.1	10.9	16.2	20.5	24.5	29.8
margin	7.9%	12.4%	16.1%	17.9%	19.1%	20.6%
myDevice	(3.8)	(2.7)	(3.2)	(3.2)	(2.6)	(0.7)
margin	(79.2%)	(69.2%)	(76.6%)	(51.0%)	(26.8%)	(4.5%)

Source: Bryan, Garnier & Co ests.

Consolidated forecasts

Fig. 52: 2022-25e P&L

EURm	2020	2021	2022e	2023e	2024e	2025e
Sales	**314.0**	**380.0**	**515.1**	**596.3**	**652.0**	**710.0**
% reported growth	78.3%	21.0%	9.1%	15.8%	9.3%	8.9%
Gross profit	282.8	322.4	351.8	407.3	445.3	485.0
Gross margin	69.1%	68.3%	68.3%	68.3%	68.3%	68.3%
Adjusted EBITDA	**17.4**	**34.3**	**43.0**	**57.9**	**69.3**	**82.6**
Adjusted EBITDA margin	4.3%	7.3%	8.4%	9.7%	10.6%	11.6%
Adjusted EBIT	13.3	29.3	37.3	51.2	62.4	75.4
Adjusted EBIT margin	3.3%	6.2%	7.2%	8.6%	9.6%	10.6%
EBIT	7.7	24.9	32.9	46.8	58.0	71.0
EBIT margin	1.9%	5.3%	6.4%	7.8%	8.9%	10.0%
Financial results	(4.5)	(6.8)	(6.8)	(6.8)	(6.8)	(6.8)
Tax	(2.1)	(3.8)	-5.5	-8.4	-10.7	-13.5
Tax rate	66%	21%	21%	21%	21%	21%
Minority interests	0.7	3.7	5.3	8.2	10.5	13.1
Reported net profit, group share	**0.4**	**10.6**	**15.3**	**23.4**	**30.0**	**37.6**

Source: Bryan, Garnier & Co ests.

Fig. 53: 2019-25e cash flow statement

EURm	2020	2021	2022e	2023e	2024e	2025e
Operating cash flow	**7.4**	**23.9**	**38.5**	**53.2**	**64.7**	**77.8**
Change in WCR	22.5	(4.4)	1.4	-2.7	-0.7	-1.1
CAPEX	(1.2)	(3.8)	-5.2	-6.0	-6.5	-7.1
Free cash flow	**28.7**	**15.7**	**34.7**	**44.6**	**57.4**	**69.7**
Cash position	**82.8**	**90.4**	**68.8**	**113.4**	**170.8**	**240.5**

Source: Bryan, Garnier & Co ests.

Fig. 54: 2019-25e balance sheet

EURm	2020	2021	2022e	2023e	2024e	2025e
Tangible fixed assets	5.9	5.2	5.0	4.8	4.6	4.4
Intangible fixed assets & goodwill	70.5	77.5	73.48	69.39	65.53	62.01
Right-of-use and other assets	50.9	51.7	45.3	50.6	55.4	60.1
Cash & cash equivalents	82.8	90.4	68.8	113.4	170.8	240.5
Total assets	**210.1**	**224.8**	**199.6**	**245.2**	**303.3**	**374.0**
Shareholders' funds	50.6	66.9	39.0	75.8	127.5	191.3
Long & short-term debt	79.1	72.7	73.5	74.3	75.2	76.2
Other liabilities	80.3	85.2	87.1	95.1	100.6	106.4
Total liabilities	**210.1**	**224.8**	**196.8**	**234.4**	**278.6**	**329.4**

Source: Bryan, Garnier & Co ests

Valuation

Valuation: Buy rating with 159% upside

Buy recommendation

We are initiating coverage of Claranova with a Buy recommendation and a TP of EUR12/share, pointing to massive upside of 159%. Note that our TP is based on relatively conservative forecasts that are below Claranova's 2023 targets, and obviously do not take into account future M&A transactions that could enable the group to achieve its 2023 sales and EBITDA guidance. As an illustration, Claranova's current market cap of EUR210m does not even match our stand-alone valuation of PlanetArt (EUR370m), or Avanquest (EUR328m)!

Our assessment of the situation is quite clear. Besides the "tech fatigue" that has been pressurising the entire Consumer Tech sector since the summer, Claranova's current valuation is suffering from its "conglomerate holding" status, with a shareholding structure highly skewed towards individual investors which are struggling to accurately value each of its three businesses.

We believe the current share price levels are very attractive entry points with two catalysts in sight able to engage a re-rating of the stock:

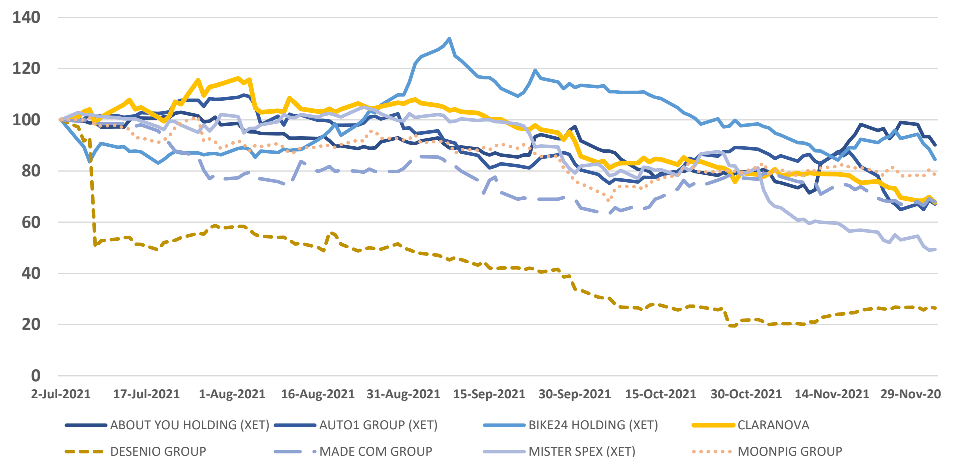
1. **The growing presence of reference shareholders.**
2. **Upcoming asset monetisation.**

European Consumer Tech negatively impacted by post-Covid arbitrage

The easing of lockdowns throughout the summer triggered some arbitrage moves at the expense of Consumer Tech stocks that benefited from the temporary closure of physical stores as consumers had no other alternative options than to buy online. Unfortunately, many of these tech companies went into IPO this summer, which coincided with the first phase of arbitrage and exacerbated the correction, shown in Fig. 55: below.

Consequently, the 36% fall in the Claranova share price should be seen in the context of industry-wide arbitrage. Desenio was the hardest hit with a 74% drop over 6M.

Fig. 55: 6M performances of main Consumer Tech stocks (base 100 = 02/07/2021)



Source: Datastream, Bryan, Garnier & Co.

We are convinced that this arbitrage phase is temporary. In the near term, many tech companies could regain some traction over coming weeks as the emergence of the Delta/Omicron Covid variants force some European countries to implement partial/full lockdowns.

From a longer-term perspective, lockdowns have accelerated the digital transformation of the economy and have structurally changed consumer behaviour, especially with regard to online shopping. Hence, Claranova and the other Consumer Tech players can count on this structural catalyst.

Growing presence of cornerstone shareholders

38.6%
Record quorum achieved during the last AGM on 1st Dec (vs. 16.9% in Dec 2019), highlighting the first positive results of that ownership concentration.

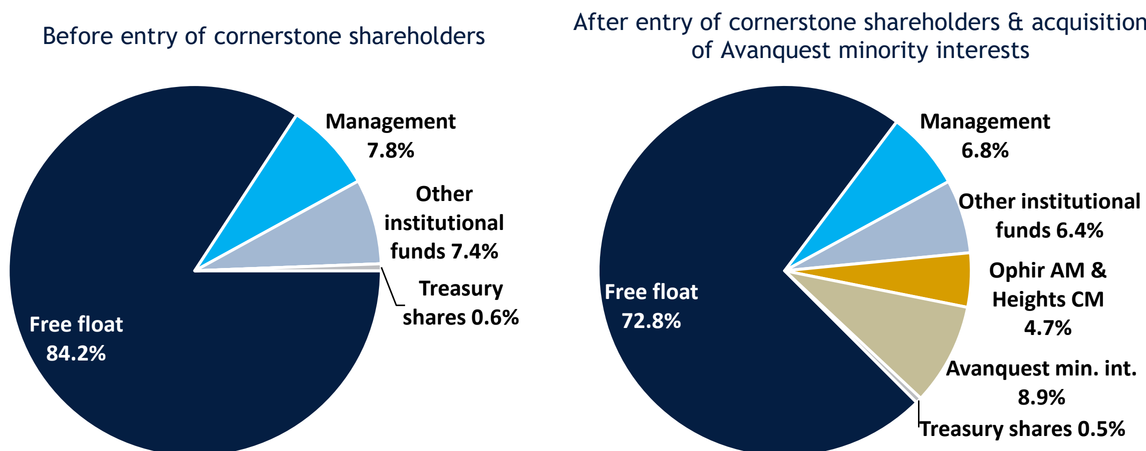
The left-hand chart in Fig. 56: below shows that Claranova's shareholding structure was highly fragmented, with limited presence of institutional investors (~7%) and an over-proportionate weight of retail/individual shareholders that accounted for the vast majority of its free float (~82%). This high fragmentation has two main drawbacks: **(i) low shareholder mobilisation** at the AGM to vote in resolutions and support the group's strategic decisions, and **(ii)** a **structural discount** given the absence of anchor investors to accurately value the group's fundamentals.

As such, the arrival of investment funds, Heights Capital Management of the US and Ophir AM from Australia, in August was clearly a positive sign, confirming management's strategic decision to stabilise its capital structure. This first simplification move was carried out in two stages:

1. **A EUR65m investment from Heights CM and Ophir AM (August 2021),** which combined a reserved capital increase of EUR15m (o/w EUR10m for Ophir and EUR5m for Heights), as well as "OCEANE" convertible bonds of EUR50m fully subscribed by Heights, with an 86% conversion premium.
2. **~EUR100m paid to acquire Avanquest's minority interests (November 2021):** financing of this transaction is structured as follows: **1/** EUR47m in cash, **2/** EUR29m through the issuance of 4.1m new shares, and **3/** promissory notes totalling EUR24m. Although the structure of Avanquest's minority interests buyout may seem quite complex at first sight, it allows a limited dilutive impact given the modest capital increase, on top of flexible financing (no covenant).

Institutional shareholders now represent approx. 11% of Claranova's shareholding structure. Obviously, we believe this strategic investment was a first step as management seeks to further increase the weight of reference/anchor investors.

Fig. 56: Ongoing simplification of Claranova's shareholding structure



Source: Company Data

Upcoming asset monetisation

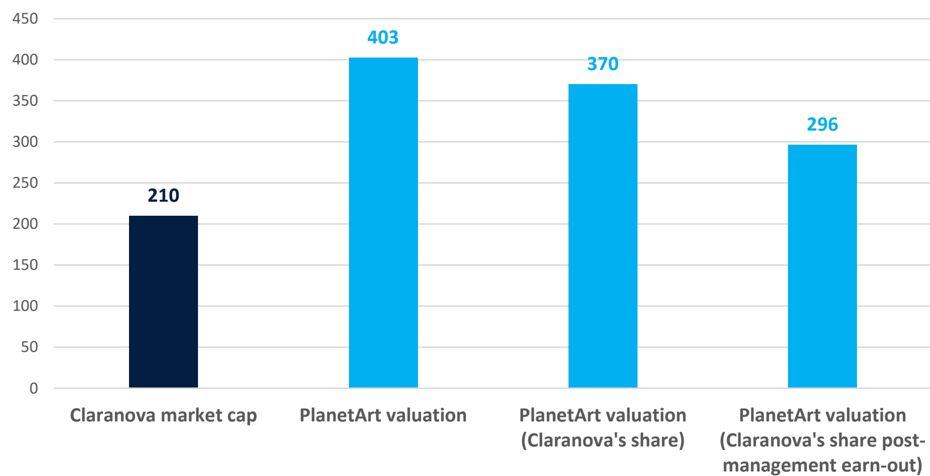
As a diversified group aiming to build global technology companies and ultimately to monetise them in one way or another, Claranova is now in a position to go one step further with its asset PlanetArt, given its size, international footprint and profitability.

This monetisation could take the form of a sale to financial or strategic bidders or even an IPO, which may not be the easiest option since it would first require a more rebalanced shareholding structure at Claranova with more institutional funds, although it could also be an opportunity to provide PlanetArt with further cash to accelerate its development and strengthening its leadership.

Whether a total sale or a spin-off through an IPO, an operation would have the merit of moving from a book value to a market value that would better crystallise the true value of PlanetArt. As detailed in the following section:

- We value the whole PlanetArt asset at EUR403m.
- With Claranova owning 92% of the business, its stake is valued at EUR370m.
- PlanetArt's two top managers Roger Bloxberg and Todd Helfstein have conversion options in the event of a potential liquidity event granting 10% of PlanetArt shares to each of them. Post-conversion options, the final value of Claranova's share in PlanetArt would still amount to c.EUR300m.

Fig. 57: The sole value of PlanetArt massively exceeds the entire market cap of Claranova (EURm)



Source: Datastream, Bryan, Garnier & Co ests.

At c.EUR300m, the net value of PlanetArt in the event of liquidity is clearly not yet priced in by the market with Claranova's entire market cap only amounting to EUR210m. Hence, we see PlanetArt as a free option to hope for additional M&A and/or shareholder returns since any proceeds would be returned through share buybacks or reinvested in existing/new businesses.

SOTP approach leading to a TP of EUR12

As Claranova is a diversified technology group running three different businesses, we have used a sum-of-the-parts approach to value the group at EUR575m after applying a 20% holding discount. This implies a TP of EUR12 with a 159% upside.

In detail:

- **We value PlanetArt at EUR370m**, based on a DCF and peer multiples.
- **We value Avanquest at EUR328m**, based on a DCF, peer multiples and transaction multiples as well.
- **We value myDevices at EUR31m**, solely based on transaction multiples.

Fig. 58: Claranova's sum-of-the-parts valuation approach

EURm	Sales 22e	EBITDA 22e	Valuation approach	Ownership	Implied valuation
PlanetArt	410	30	50% DCF / 50% peer multiples	92%	370
Avanquest	101	16	50% DCF / 25% peer multiples / 25% transaction multiples	100%	328
myDevices	4	(4)	Transaction multiples	51%	31
Total enterprise value					**729**
Net debt inc. IFRS 16					(5)
Provisions & others					(2)
Equity value pre-discount					**722**
Holding company discount					(20%)
Equity value post-discount					**578**
Number shares (m)					46.5
Target price					**12**
Upside / (downside)					159%

Source: Bryan, Garnier & Co estimates

Arguably a holding company discount is not necessarily merited considering that the vast majority of Claranova's cost structure is already allocated across the three divisions (hence no central costs). However, in accordance with our cautious stance, we have deliberately retained a discount of 20%, which nevertheless leaves huge upside potential, as shown in Fig. 58: .

While we believe the holding discount is a market practice that is difficult to conceal when it comes to diversified groups running different businesses, we recognise that its extent is open to debate. This is why we have drawn up the sensibility table below to show how our Target Price could evolve with a holding discount ranging from 0% to 30%, whereas we have taken 20% as our core assumption.

Fig. 59: Sensibility of our TP to holding discount

Holding discount	Implied Target Price	Implied upside
0%	16	246%
5%	15	224%
10%	14	202%
15%	13	181%
20%	**12**	**159%**
25%	12	149%
30%	11	138%

Source: Bryan, Garnier & Co estimates

We estimate PlanetArt's intrinsic value at EUR403m

Fig. 60: below sums up the intrinsic valuation we obtain for PlanetArt. The weighted average of two methods we have used (50% DCF, 50% peer comparison) leads to a theoretical valuation of EUR403m, or a 2022e EV/sales multiple of 1.0x and a 2022e EV/EBITDA multiple of 13.4x. Claranova's 92% stake would thus be valued at EUR370m.

Fig. 60: Summary of our valuation methods for PlanetArt

Method	Weight	EV (EURm)	FY22e EV/sales	FY22e EV/EBITDA
Peer comparison	50%	375	0.9x	12.5x
DCF	50%	430	1.0x	14.3x
Weighted average	**100%**	**403**	**1.0x**	**13.4x**

Source: Bryan, Garnier & Co estimates

DCF model: EUR430m

For our DCF valuation approach for PlanetArt, we have assumed a 11.2% WACC, including a risk-free rate of 0.6%, an equity risk premium of 7.9%, and a beta of 1.3. In addition, **we have assumed a tax rate of 25%** as for the group as a whole. **Our medium-term assumptions (2026e-2031e) include LfL revenue growth gradually decelerating to land at 2%** - which is our common assumption for e-commerce - **and an operating margin of 9.6%** (EBITDA margin of 10% + D&A representing 0.4% of sales).

These assumptions lead to a theoretical valuation of EUR430m for PlanetArt. Claranova's 92% stake would thus be valued at EUR396m.

Fig. 61: PlanetArt - DCF model

EURm	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e
Sales	**410**	**476**	**514**	**550**	**583**	**614**	**640**	**662**	**679**	**692**
% change	7.8%	16.0%	8.0%	7.0%	6.1%	5.2%	4.3%	3.4%	2.5%	2.0%
Adj. EBITDA	30.1	40.6	47.4	53.5	57.4	60.9	64.2	66.4	68.1	69.4
Margin	7.3%	8.5%	9.2%	9.7%	9.8%	9.9%	10.0%	10.0%	10.0%	10.0%
Adj. EBIT	28.6	39.1	45.9	52.0	55.6	59.0	62.1	64.0	65.5	66.6
Margin	7.0%	8.2%	8.9%	9.5%	9.5%	9.6%	9.7%	9.7%	9.7%	9.6%
- Income taxes	-7.1	-9.8	-11.5	-13.0	-13.9	-14.8	-15.5	-16.0	-16.4	-16.7
Normative tax rate	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
NOPAT	**21.4**	**29.3**	**34.5**	**39.0**	**41.7**	**44.3**	**46.5**	**48.0**	**49.1**	**50.0**
+ D&A	1.5	1.5	1.5	1.5	1.7	1.9	2.2	2.4	2.6	2.8
as % of sales	0.4%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.4%	0.4%	0.4%
+ WCR variation	1.2	1.4	1.5	1.6	1.8	1.8	1.9	2.0	2.0	2.1
- CAPEX	-1.5	-1.5	-1.5	-1.5	-1.7	-1.9	-2.2	-2.4	-2.6	-2.8
as % of sales	0.4%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.4%	0.4%	0.4%
Operating cash flow	22.7	30.7	36.0	40.7	43.5	46.1	48.5	50.0	51.1	52.1

Sum of discounted CF	200
+ Terminal value	230
Enterprise value	430
Minorities	(34)
Enterprise value (Claranova share)	**396**

Source: Bryan, Garnier & Co estimates

Peer comparison: EUR375m

Our listed peer group for PlanetArt consists of Moonpig, Desenio and Cewe, which, on average, are trading at est. EV/sales multiples of 2.8x for 2022, and est. EV/EBITDA multiples of 12.5x for 2022.

By retaining the 2022e EV/EBITDA multiple (i.e. 12.5x)**, we come up with a theoretical EV of EUR375m for PlanetArt. As a consequence, Claranova's 92% stake is worth EUR345m.**

Fig. 62: Valuation multiples for PlanetArt comparable companies

EURm	Market cap	EV/Sales 21e	EV/Sales 22e	EV/EBITDA 21e	EV/EBITDA 22e
Moonpig	1,310	4.7x	4.3x	20.1x	17.7x
Desenio	325	3.2x	2.8x	21.9x	12.8x
Cewe	880	1.4x	1.3x	7.4x	6.9x
Average	**-**	**3.1x**	**2.8x**	**16.5x**	**12.5x**
BG ests on PlanetArt (EURm)	-	381	410	26	30
PlanetArt's implied EV					**375**
Minorities					(30)
PlanetArt EV (Claranova share)					**345**

Source: Bryan, Garnier & Co estimates

We estimate Avanquest's intrinsic value at EUR328m

Fig. 63: below sums up the intrinsic valuation we obtain for Avanquest. **The weighted average of three methods we have used** (25% peer comparison, 25% transaction multiples, 50% DCF) **leads to a theoretical valuation of EUR328m, or FY22e EV/sales multiple of 3.3x and FY22e EV/EBITDA multiple of 20.3x.**

Fig. 63: Summary of our valuation methods for Avanquest

Method	Weight	EV (EURm)	FY22e EV/sales	FY22e EV/EBITDA
Peer comparison	25%	373	3.7x	23.1x
Transaction multiples	25%	307	3.1x	19.0x
DCF	50%	315	3.1x	19.5x
Weighted average		**328**	**3.3x**	**20.3x**

Source: Bryan, Garnier & Co estimates

In comparison, **Claranova's October 2021 acquisition of the remaining 64% stake in Avanquest went ahead at EUR98m (USD115m), thus valuing 100% of Avanquest at EUR153m (USD180m) excluding the LastCard business**. The acquisition was paid for EUR47m in cash, EUR29m in 4.1m Claranova shares at EUR7/share, and EUR23m in promissory notes with maturities ranging from 1 to 10 years.

The rationale behind this transaction was to simplify Claranova's capital structure, reintegrate 100% of Avanquest's net income, strengthen Claranova's debt capacity by securing access to 100% of Avanquest's future cash flows, and benefit from the last two years' strategic redeployment efforts to proprietary consumer subscription-based software. **Based on our estimates for FY22, this acquisition valued Avanquest at 1.4x EV/sales and 8.7x EV/EBITDA.** As such, **we consider the transaction went ahead at a price that was 57% below our vision of Avanquest's intrinsic value**.

Peer comparison: EUR373m

Our listed peer group for Avanquest consists of competitors Avast, Kape Technologies, Nitro Software, Fujian Foxit Software Development and Wondershare Technology, which, on average, are trading at est. EV/sales multiples of 8.4x for 2021 and 6.0x for 2022, and est. EV/EBITDA multiples of 33.9x for 2021 and 23.1x for 2022.

The table below also implies a valuation for Avanquest on the basis of these multiples, of between EUR605m and EUR740m based on EV/sales, and between EUR370m and EUR373m based on EV/EBITDA. **If we retain only the est. FY22 EV/EBITDA multiple (23.1x), Avanquest would be worth EUR373m.**

Fig. 64: Valuation multiples for Avanquest comparable companies

Stock (10/12/2021)	Currency	Market cap (€m)	EV/sales 2020	EV/sales 2021e	EV/sales 2022e	EV/EBITDA 2020	EV/EBITDA 2021e	EV/EBITDA 2022e
Avast	GBP/p	6,354	10.2	9.4	8.6	18.4	16.8	15.5
Kape Technologies	GBP/p	1,217	13.1	7.6	2.6	41.2	20.3	9.5
Nitro Software	AUD	629	10.2	8.4	5.7	NM	NM	NM
Fujian Foxit Software Development	CNY	7,165	9.2	12.1	9.3	26.8	41.9	31.6
Wondershare Technology Group	CNY	5,612	5.7	4.8	3.9	50.1	56.7	35.7
Comp average			**9.7**	**8.4**	**6.0**	**34.1**	**33.9**	**23.1**
Avanquest sales and EBITDA (m)	EUR			87.7	100.6		10.9	16.2
Enterprise Value (m)	**EUR**			**740**	**605**		**370**	**373**

Source: Company Data, Refinitiv

Transaction multiples: EUR307m

For the domains addressed by Avanquest, we have identified three major M&A deals for the last few years: the acquisition of **AVG Technologies for USD1.3bn** (2016) and **Piriform Software for USD127m** (2017) by Avast, and that of **Avira Operations for USD360m** (2021) by NortonLifeLock – all in the cyber safety segment. Piriform was the software vendor behind the CCleaner utility software used to clean potentially unwanted files and the Windows registry, and Avira is mainly known for its antivirus software Avira Free Security. Both AVG and Piriform were very profitable, as they generated EBITDA margins of respectively 34.3% and 39% the year of their acquisition. Smaller acquisitions have taken place in other segments: Nitro Software is in the process of acquiring Connective (in e-signature) for c. USD81m or 11.4x est. 2021 sales, while Foxit acquired eSign Genie (e-signature, 2021).

The average of the AVG, Piriform and Avira transactions would value Avanquest at EUR307m, based on the average of EV/sales and EV/EBITDA multiples applied to our FY22 sales and EBIT estimates for Avanquest.

Fig. 65: Transaction multiples for Avanquest

Date	Target	Acquirer	Country	Sales (USDm)	EBITDA (USDm)	Acq. price (USDm)	EV/sales	EV/EBITDA
Feb-21	Avira Operations	NortonLifeLock	Germany	100	n/a	360	3.6x	n/a
Jul-17	Piriform Software	Avast	UK	21.7	8.6	127.4	5.9x	14.8x
Sep-16	AVG Technologies	Avast	Czech rep.	418.6	143.6	1299.3	3.1x	9.0x
	Average						**4.2x**	**11.9x**
	Avanquest FY22e (EURm)			**~101**	**16**		**4.2x**	**11.9x**
	Enterprise Value (EURm)			**~422**	**193**			
	Average (EURm)			**~307**				

Source: Company Data; Bryan, Garnier & Co estimates

DCF model: EUR315m

For our DCF valuation approach for Avanquest, we have assumed the same WACC as for Claranova as a whole and PlanetArt, i.e. 10.1%, including a risk-free rate of 0.6%, an equity risk premium of 7.9%, and a beta of 1.2. In addition, **we have assumed a tax rate of 25%** as for the group as a whole. **Our medium-term assumptions (2026e-2032e) include lfl revenue growth of 8%** - which is basically the growth rate of mature consumer software markets - **and an operating margin of 20%** (EBITDA margin of 21% + D&A representing 1% of sales).

These assumptions lead to a theoretical valuation of EUR315m for Avanquest.

Fig. 66: Avanquest - DCF model

EURm	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e
Sales	**101**	**114**	**128**	**145**	**156**	**169**	**182**	**197**	**212**	**229**
% change	*14.8%*	*13.4%*	*12.4%*	*12.6%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*
Operating profit	15	19	23	28	31	34	36	39	42	46
as a % of sales	15.1%	16.9%	18.1%	19.6%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Theoretical tax rate	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Theoretical tax	(4)	(5)	(6)	(7)	(8)	(8)	(9)	(10)	(11)	(11)
NOPAT	**11**	**14**	**17**	**21**	**23**	**25**	**27**	**29**	**32**	**34**
Depreciation	1	1	1	1	2	2	2	2	2	2
as a % of sales	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Capex	1	1	1	1	2	2	2	2	2	2
as a % of sales	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Change in WCR	0	0	0	0	0	0	0	0	0	0
Operating cash flow	**11**	**14**	**17**	**21**	**23**	**25**	**27**	**29**	**32**	**34**
Sum of discounted CF	139									
+ Terminal value	176									
Enterprise value	**315**									

Source: Bryan, Garnier & Co estimates

We estimate myDevices' intrinsic value at EUR50m

During its financing rounds in 2017 with Semtech and Dr. Peng, myDevices had a post-money valuation of USD31.3m. Assuming the net cash position was insignificant, **this was the equivalent of an EV/sales multiple of 6.9x for FY18. Brought to FY21 revenues, this EV/sales multiple would have been 6.7x**.

There has been no M&A transaction for a public IoT software company so far as there has been no IPO of a pure player in that domain. Nonetheless, we have flagged three M&A deals for private companies made by listed companies:

- **Haxiot**, which posted USD5.9m revenues in 2020 (source: Owler), was **acquired by Digi International** in March 2021 for USD13m (7.1 in cash on completion and 5.9 contingent consideration), or an EV/Sales of 2.2x.
- **Cumulocity**, which posted EUR4.3m revenues in 2016, was **acquired by Software AG** in 2017 for EUR49.4m or EV/sales of 11.5x.
- **ThingWorx**, which posted est. revenues of USD5-7m in 2013, was **acquired by PTC** in 2013 for USD130m (112 in cash on completion and 18 contingent consideration) or EV/sales of 18-26x.

Applying these multiples to our FY22 revenue forecast, we estimate myDevices would be valued between EUR9m and EUR92m – bearing in mind the low-end of the range is due to Haxiot, which sold solutions including hardware. **The weighted average EV/sales multiple for these three transactions is 11.9x. Applying this average multiple to myDevices' FY21 revenues would lead to an intrinsic value of EUR50m, implying a valuation for Claranova's 62% stake of EUR31m.**

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CONVICTION BUY

The highest possible rating, based on a very strong conviction in the mid/long-term outlook and strategic choices made by a company, and should therefore be reflected in the extent of upside in the associated target price. There is no reason to limit the number of CONVICTION BUY ratings, however they must also reflect some kind of preference in relative terms within a sector.

BUY

Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

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Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

SELL

Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

CONVICTION SELL

This is the lowest possible rating reflecting a strong disagreement with the main strategic choices made by a company, pointing to the risk of de-rating and value destruction and which is obviously also reflected in downside potential between the share price and the target price.

DISTRIBUTION OF STOCK RATINGS

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BUY ratings	53.7%
NEUTRAL ratings	20.4%
SELL ratings	17.7%
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