



## SMALL CAPS FOCUS:

### DIGITAL PHOTO PRINTING LEADERS IN PERSPECTIVE:

#### CLARANOVA (CLA FP) vs. CEWE (CWC GR)

23<sup>rd</sup> July 2020

#### SUMMARY

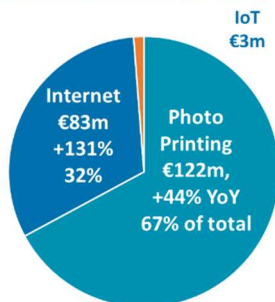
The shares of mobile-to-print photography leader CLARANOVA (CLA FP, €210m market cap) have been noticeably resilient all through the recent crisis – testimony of the secular growth of the group in digital, reversing a period of relative under-performance vs. German peer CEWE (CWC GR, €740m market cap). Indeed our Mini-Investor Perception Survey targeting German investors that are familiar with CEWE already shows there is considerable room for CLA to get more widely known by German institutions. As a Small Cap, CLA has already been showing remarkable pro-activeness beyond its domestic audience towards a wide Anglo-Saxon investor one (North America, UK, Australasia), so this could provide further investment interest and upside. The recently reinforced Board shows that CLA is as focused on Corporate Governance as on investor interaction: all positive signals for investors and for CLA to build share price momentum.

#### CLA & CWC IN BRIEF

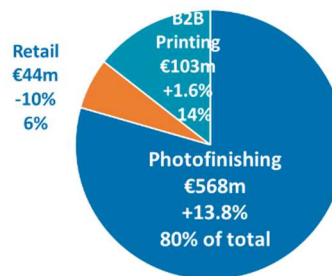
While a direct competitor to CWC in digital photo and photobook printing in Europe, CLA operates across a larger number of different businesses (internet software, IoT) and geographies (US, UK/Europe, India) than its German peer (predominantly focused on Germany and Europe). The two companies exhibit different profiles.



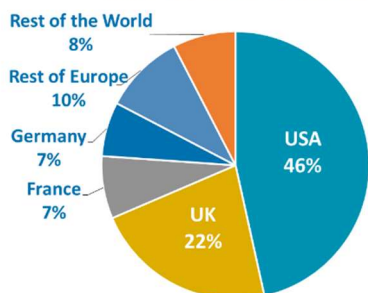
Sales 2019: €262M, +62% YoY



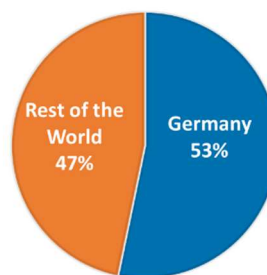
Sales 2019: €715M, +10% YoY



Sales per country (2019)

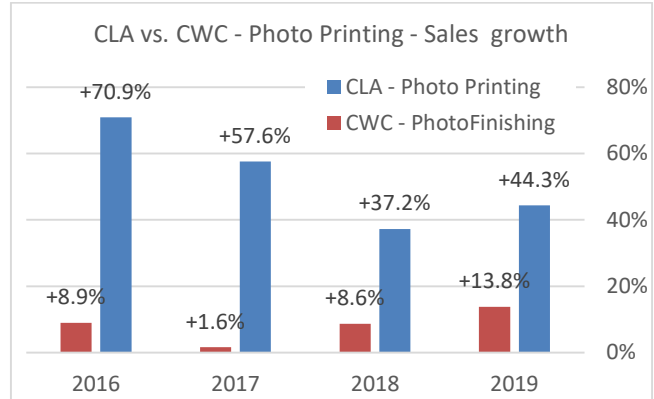
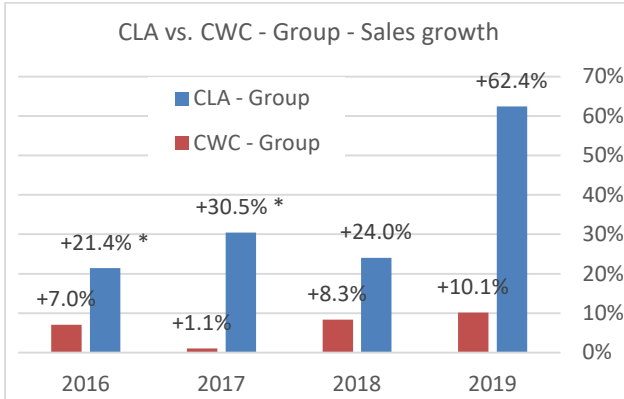


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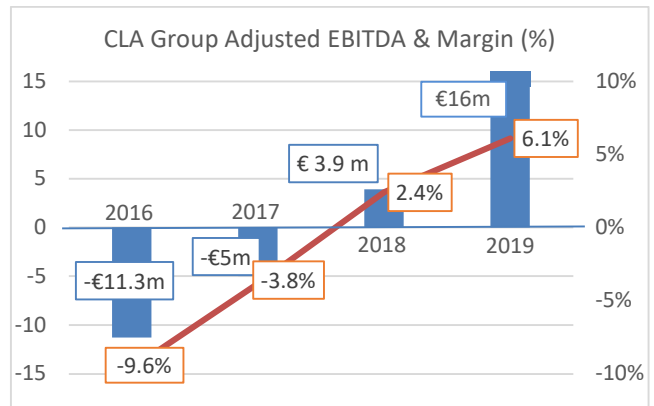
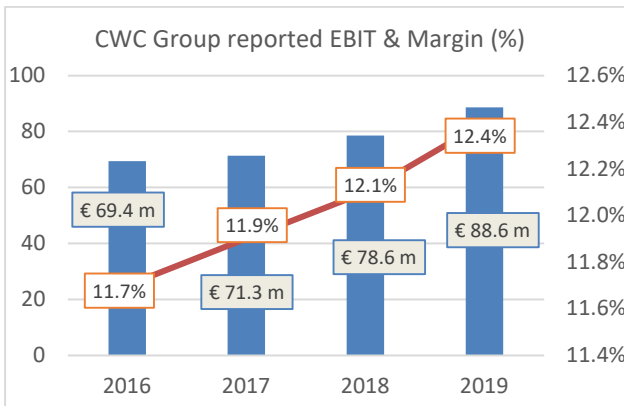
Source: annual reports, Inbound Capital

CLA is quintessentially a growth stock focusing on growing revenues fast and on building a strong customer base in new markets. In mobile-to-print photography, its FreePrints brand has grown market share through constant innovation and a disruptive approach. In contrast, incumbent CWC has shown a more defensive profile including a solid profitability and a growing dividend but delivering a more pedestrian (i.e. single-digit or +10% max) top line growth.



(\*) CLA 2015/2016 sales excluding business disposals

Source: annual reports, Inbound Capital



Source: annual reports, Inbound Capital

## GERMAN INSTITUTIONS: INVESTOR GREENFIELD FOR CLA ?

While CLA has been strongly pro-active for a company of its size reaching out to an international investor audience – in line with its global ambitions - it has so far been focusing on Anglo-Saxon investors (North America, UK, Australasia), and only recently started addressing German institutions.

**Inbound Capital conducted a Mini-Investor Perception survey with German Small & Midcap investors, which revealed the following:**

- **CLA is little known** by those same German investors who already know CWC well (and are often invested) – despite the fact that CLA's FreePrints and CWC's businesses are eminently comparable. Interestingly, there is some asymmetry between German and French Small & Mid cap investors: the latter who know CLA also have a relatively good grasp of CWC.
- **Neither Bloomberg nor Thomson-Reuters mentions CLA and CWC as natural peers to each other**, which is obviously unhelpful for investors. While CLA's diverse mix of digital activities may explain this (IoT and Internet account for c. 32% of total sales), mobile-to-print is the group's core business (67% of revenues). In contrast, CWC is more naturally classified within the "Photography Services" industry which gives it a better chance of being noticed by investors potentially interested and capable of investing in it.

### Listed peers of Claranova as classified by Bloomberg and Thomson-Reuters

Bloomberg	Ticker	Market Cap	Thomson-Reuters	Ticker	Market Cap
Microsoft	MSFT US	€1,343bn	Esker	ALESK FP	€785m
Sap	SAP GR	€168bn	Netcompany Group	NETC DK	€3,110m
Salesforce.Com	CRM US	€148bn	Teamviewer	TMV GR	€9,428m
Tencent	700 HK	€562bn	Axway Software	AXW FP	€406m
Sony	6758 JP	€85bn	Quickbit	QBIT SS	€59m
Adobe	ADBE US	€181bn	SDL	SDL LN	€505m
Vstecs Systems	VST MK	€65bn	Lectra	LSS FP	€548m
Netease	9999 HK	€55bn			
Intuit	INTU US	€181bn			
Activision Blizzard	ATVI US	€53bn			

*Source: Bloomberg, Thomson-Reuters, Inbound Capital. Note: all market caps converted in € as of 22th July 2020*

### Listed peers of CEWE as classified by Bloomberg and Thomson-Reuters

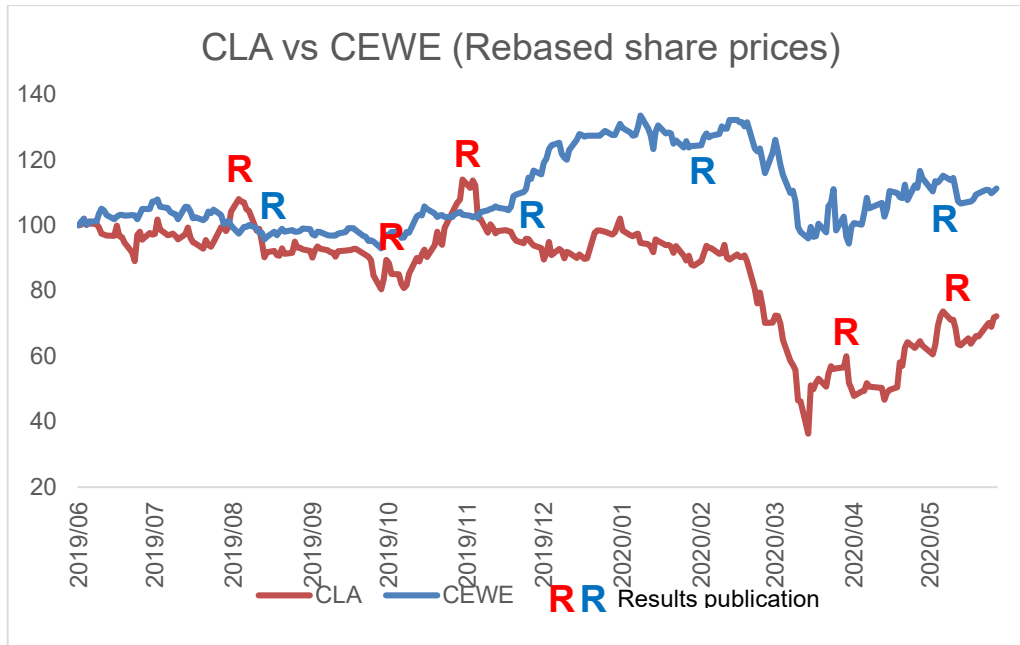
Bloomberg	Ticker	Market Cap	Thomson-Reuters	Ticker	Market Cap
Studio Alice	2305 JP	€206m	CTS Eventim AG	EVD GR	€3,249m
Plaza Create Honsha	7502 JP	€38m	Fielmann AG	FIE GR	€5,599m
Asukanet Co	2438 JP	€215m	Zoomplus AG	ZO1 GR	€1,180m
China Hong-Kong					
Photo	1123 HK	€17m	Zalando	ZAL GR	€16,396m
Top Culture	7640 JP	€36m	Ceconomy	CEC GR	€1,320m
Modern International	-	€21m	Metro	B4B GR	€3,189m
Max Sight Group	8483 HK	€5.7m	Clipper Logistics	CLG LN	€358m
Da Lue International	4804 TT	€12m			
Aigan	9854 JP	€38m			
TV2U	-	-			

*Source: Bloomberg, Thomson-Reuters, Inbound Capital. Note: all market caps converted in € as of 22th July 2020*

- **CLA is treated as Micro cap (<€500m market cap) by German institutions** while CWC is now in the Small/Midcap league (>€500-€5bn market cap): a reversal to mean of CLA's relative share price performance vs. CWC should increasingly attract the German pool of Small/Mid cap investors.

## UPSIDE POTENTIAL ON MANAGING EXPECTATIONS

Unlike CLA, CWC provides short term guidance. CWC has also proven apt at consistently beating analysts' expectations sticking to the unwritten stockmarket rule of "under-promise/over-deliver". More often than not, this has led to a positive share price reaction immediately after results – as shown by the chart below:



Source: Yahoo finance, CLA and CEWE IR websites, Inbound Capital

CWC provides FY guidance for revenues - at group level and by division, EBIT and net profit. It also provides internal quarterly targets to help investors and analysts follow the company. 2020 will be the exception as COVID-19 forced CWC to drop its guidance for the year due to lack of visibility.

### CWC Guidance : Full Year and Quarterly Targets

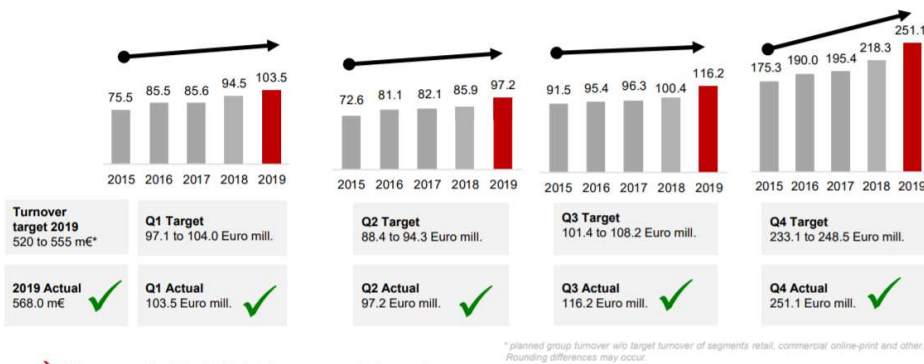
#### CEWE Group Targets 2020

Targets		PY 2019	Target 2020 w/o Corona	Impact of Corona
Photos <sup>1</sup>	billion photos	2.40	2.4 to 2.5	expected negative
CEWE PHOTO BOOK	millions	6.62	6.7 to 6.9	expected negative
Investments <sup>2</sup>	Euro millions	39.3	57	not clear
<b>Revenue</b>	<b>Euro millions</b>	<b>714.9</b>	<b>725 to 755</b>	<b>expected negative</b>
<b>EBIT</b>	<b>Euro millions</b>	<b>57.8</b>	<b>58 to 64</b>	<b>expected negative</b>
EBT <sup>3</sup>	Euro millions	54.3	56.5 to 62.5	expected negative
Earnings after tax <sup>4</sup>	Euro millions	31.8	38 to 43	expected negative
Earnings per share	Euro	4.41	5.34 to 5.90	expected negative

Source: CEWE IR presentations

## Photofinishing-Turnover by Quarter

Seasonal distribution: CEWE 2015 to 2019 – Share in turnover by quarter as a million



➤ Turnover in Photofinishing exceeds target



28

Source: CEWE IR presentations

Last year, CLA started to provide four-year financial targets (and more recently a €1 bn revenue ambition), which is definitely a step in the right direction for investors and analysts.

Over the past two years, consensus expectations for 2020 EBITDA (red line) have been revised down for CLA – left chart – while they have been steadily revised up for CWC - right chart, until CWC dropped 2020 guidance in May.

## Consensus 2020 EBITDA expectations for CLA and CWC



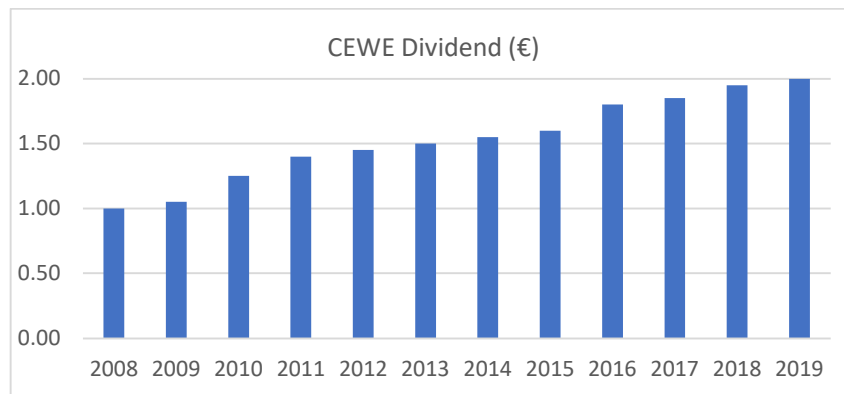
Source: Bloomberg

Compared to CWC, CLA is not yet as well covered by sell-side research and most importantly by independent research; hence there was arguably no real need until now to provide detailed guidance. As CLA keeps performing and is getting increasingly noticed by leading equity franchisees – notably due to its own proactive efforts - this is likely to change.

## GROWTH OPPORTUNITIES vs. DIVIDENDS

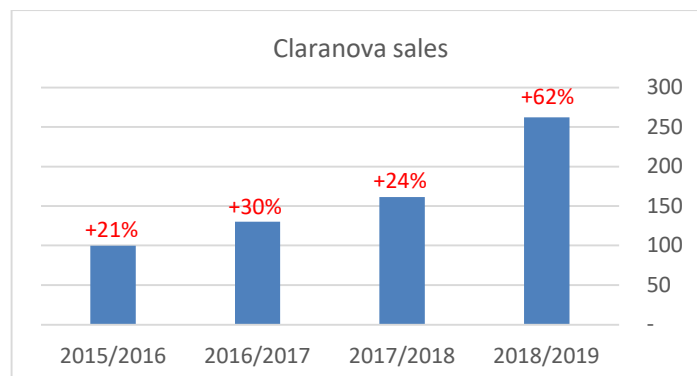
On top of having different business models and strategies, CLA and CWC are at very different stage of their respective developments.

As the incumbent, CWC has focused on profitability, stable cash flow generation and favoured paying a dividend, which has been regularly increasing over the past 10 years (the 2019 dividend due in 2020 was maintained despite the COVID-19 crisis). CWC's resilient dividend policy has regularly sent a confidence signal to investors and helped it earn a defensive status.



(\*)Sources: Annual report, Inbound Capital

CLA is a global, fast-growing and multi-faceted digital group - from mobile-to-print to Internet of Things (IoT) and internet monetisation a la IAC/Interactive Corp (IAC US) - which has been re-investing its cash flows into further growth and new business opportunities. Even if CLA is not planning to pay a dividend at this stage, shareholders' friendliness has been a strong focus - including ticking boxes at the corporate governance level.



(\*) CLA sales excluding business disposals – sources: Annual report, Inbound Capital

## FOCUS ON CORPORATE GOVERNANCE BOX-TICKING

CWC has built a good reputation in terms of Corporate Governance by complying to the German Corporate Governance Code as shown by their dedicated Corporate Governance page:

<https://ir.cewe.de/websites/cewe/English/6000/corporate-governance.html>

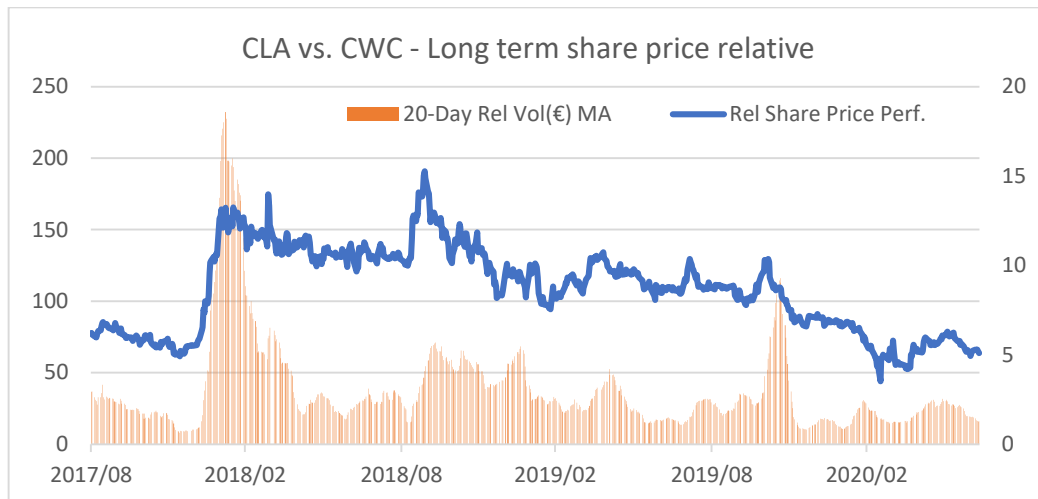
It should be noted that there is a “domestic bias” at Board level, which is essentially made up of German Directors:

<https://company.cewe.de/en/about-us/cewe-group.html>

Meanwhile CLA has strongly reinforced the diversity and internationalisation of its Board with the recent appointments – all consistent with the growing international breadth of the group: <https://www.claranova.com/le-groupe/gouvernance/equipe/>

## RELATIVE SHARE PRICE PERFORMANCE: REVERSAL TO THE MEAN?

CLA's relative underperformance vs. CWC in 2018/19 needs to be set against the context of a very strong performance of its share price in the preceding two years (2016/18), as the restructuring and business repositioning implemented by new management started to fully bear fruit. The under-performance bottomed out in March this year and CLA has steadily regained the upper hand relatively on CWC. Interestingly, CLA is c.2.5x more liquid on average than CWC (calculated on 20-day moving average in € over the last 2 and a half year).



Source: Yahoo finance

As per the table below, CLA has indeed outperformed CWC over the last three months, a reflection of its capacity to deliver resilient growth in digital despite the global crisis and the effect of an efficient communication highlighting positive newsflow (e.g. new FreePrints users, success of Soda and inPixio) – all conspiring to satisfy investors' appetite for attractive digital themes, of which CLA's equity story is a strong example.

	3M	4M	6M	12M	YTD	2Y	3Y	5Y
CLA	31%	14%	-32%	-31%	-35%	-32%	33%	394%
CWC	13%	8%	-8%	14%	-9%	24%	33%	91%

Source: Yahoo finance

Last but not least, CLA's rebound since mid-March relative to CWC is happening with higher volumes: a positive signal in our view in regard to investor sentiment.

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## IMPORTANT NOTICE

This report has been compiled using publicly available information only except Inbound Capital's proprietary Investor Perception Survey.

As a leading and regulated corporate advisor for Small & Mid Caps specialising on investor services, Inbound Capital focuses on amplifying its clients' investor audience through investor education and investor interaction.

Like the White Papers it publishes, the current Small Cap Study is a reflection of Inbound Capital's strength to provide Investor Education.

The proprietary feedback from German institutions is an illustration of Inbound Capital's Investor Perception expertise and of the strength of its international network.

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