

34/2022/GPW (95) September 28, 2022

This is an excerpt from the Polish version of DM BOŚ SA's research report prepared for the Warsaw Stock Exchange SA within the framework of the Analytical Coverage Support Program 3.0.

Brand24

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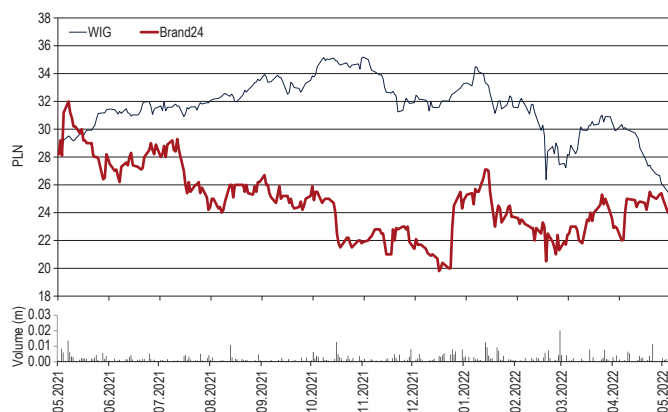
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Brand24

Sector: IT – software & services
Bloomberg code: B24 PW
Price: PLN 19.35
12M EFV: PLN 28.2 (↓)

Market Cap: USD 9 m
Av. daily turnover: USD 0.01 m
12M range: PLN 19.35-27.10
Free float: 40%

Stock performance



Source: Bloomberg

Investment summary

The process of upward prices adjustment (first for new clients, then for the seasoned ones) and the rebuilding of the pricing list was successful and has brought a material increase in the MRR, ARPU (including the Initial ARPU which is evidently above the ARPU for all clients) significantly improving the visibility and level of revenues for the upcoming quarters and, consequently, lowering the risk related to the Company's current operations. Nonetheless, from the Company's fundamental value assessment perspective, the above mentioned positive developments seem to be more than offset by a further growth of the required rate of return and ongoing decline of forward multiples of the peers from the *SaaS* segment. A new product *Insights24* launched last year (previously named *Custom Reports*) with a dozen times higher ARPU than *Brand24* tool has been generating hundreds of thousands of PLN in revenues.

Guide to adjusted profits

Adjusted EBITDA, EBIT, PBT and NI exclude valuation of share-based motivation program and balance of other operating income/ costs.

Key data

IFRS consolidated		2021	2022E	2023E	2024E
Sales	PLN m	15,8	22,1	26,0	30,1
EBITDA	PLN m	3,0	5,1	7,1	10,3
adj EBITDA	PLN m	3,4	5,2	7,2	9,5
EBIT	PLN m	0,8	2,7	4,5	6,6
adj EBIT	PLN m	1,3	2,8	4,5	5,8
NI	PLN m	0,3	1,7	3,4	5,3
adj NI	PLN m	0,8	1,8	3,5	4,5
EPS*	PLN	0,34	0,80	1,52	1,96
EPS yoy chg*	%	n.m.	132%	90%	29%
ND	PLN m	1,3	-0,2	-3,4	-9,2
ND, excl. leases	PLN m	-0,7	-2,3	-5,4	-11,2
P/E*	x	56,2	24,2	12,7	9,9
P/CE*	x	14,4	10,3	7,2	5,4
EV/EBITDA*	x	12,7	8,3	5,6	3,7
EV/EBIT*	x	35,0	15,5	8,9	6,1
EV/S	x	2,8	1,9	1,6	1,2
EV/OCF	x	12,9	8,2	5,9	4,0
EV/FCFF	x	40,7	20,1	11,7	5,9
FCFF yield	%	2,5%	5,0%	8,5%	16,9%
Gross dividend yield	%	0,0%	0,0%	0,0%	0,0%
DPS	PLN	0,0	0,0	0,0	0,0
No. of shares (eop)	m	2,2	2,2	2,3	2,3

* Multiples based on adjusted profits and eop number of shares.

Source: Company, DM BOŚ SA estimates.

Upcoming events

1. Release of 3Q22 financial results: November 28
2. Unification of local and global versions of Brand24: gradually, by the end of 3Q23
3. Completion of the (co-funded by EU) AI project (Abstrakcyjna sumaryzacja danych multimodalnych): by 2023-end

Catalysts

1. ARPU/ MRR growth ahead of expectations
2. Commercial success of new products (e.g. Insight24)
3. Progression of financial results ahead of expectations
4. Stronger USD vs PLN

5. Inability to adapt promptly to changes in ways of presenting/ consuming content in the Internet
6. FX risk (USD weakening vs PLN))
7. Adverse changes in search engines algorithms
8. Rise in competitive pressures
9. Hike in R&D needs
10. Transfer pricing risk
11. GDPR risk

Risk factors

1. Lower availability of Internet data, higher cost of their acquisition
2. IT infrastructure/ software malfunction
3. Maintaining financial liquidity
4. Product concentration
5. Inability to attract new clients and retain the existing ones
6. Rise in churn
7. Low share liquidity
8. Smaller than assumed rise in ARPU/ MRR

BASIC DEFINITIONS

A/R turnover (in days) = 365/(sales/average A/R))
Inventory turnover (in days) = 365/(COGS/average inventory))
A/P turnover (in days) = 365/(COGS/average A/P))
Current ratio = ((current assets – ST deferred assets)/current liabilities)
Quick ratio = ((current assets – ST deferred assets – inventory)/current liabilities)
Interest coverage = (pre-tax profit before extraordinary items + interest payable/interest payable)
Gross margin = gross profit on sales/sales
EBITDA margin = EBITDA/sales
EBIT margin = EBIT/sales
Pre-tax margin = pre-tax profit/sales
Net margin = net profit/sales
ROE = net profit/average equity
ROA = (net income + interest payable)/average assets
EV = market capitalization + interest bearing debt – cash and equivalents
EPS = net profit/ no. of shares outstanding
CE = net profit + depreciation
Dividend yield (gross) = pre-tax DPS/stock market price
Cash sales = accrual sales corrected for the change in A/R
Cash operating expenses = accrual operating expenses corrected for the changes in inventories and A/P, depreciation, cash taxes and changes in the deferred taxes

DM BOŚ S.A. generally values the covered non bank companies via two methods: comparative method and DCF method (discounted cash flows). The advantage of the former is the fact that it incorporates the current market assessment of the value of the company's peers. The weakness of the comparative method is the risk that the valuation benchmark may be mispriced. The advantage of the DCF method is its independence from the current market valuation of the comparable companies. The weakness of this method is its high sensitivity to undertaken assumptions, especially those related to the residual value calculation. Please note that we also resort to other valuation techniques (e.g. NAV-, DDM- or SOTP-based), should it prove appropriate in a given case.

KEY TO INVESTMENT RANKINGS

This is a guide to expected price performance in absolute terms over the next 12 months:

Buy – fundamentally undervalued (upside to 12M EFV in excess of the cost of equity) + catalysts which should close the valuation gap identified;
Hold – either (i) fairly priced, or (ii) fundamentally undervalued/overvalued but lacks catalysts which could close the valuation gap;
Sell – fundamentally overvalued (12M EFV < current share price + 1-year cost of equity) + catalysts which should close the valuation gap identified.

This is a guide to expected relative price performance:

Overweight – expected to perform better than the benchmark (WIG) over the next quarter in relative terms
Neutral – expected to perform in line with the benchmark (WIG) over the next quarter in relative terms
Underweight – expected to perform worse than the benchmark (WIG) over the next quarter in relative terms

The recommendation tracker presents the performance of DM BOŚ S.A.'s recommendations. A recommendation expires on the day it is altered or on the day 12 months after its issuance, whichever comes first.

Relative performance compares the rate of return on a given recommended stock in the period of the recommendation's validity (i.e. from the date of issuance to the date of alteration or – in case of maintained recommendations – from the date of issuance to the current date) in a relation to the rate of return on the benchmark in this time period. The WIG index constitutes the benchmark. For recommendations that expire by an alteration or are maintained, the ending values used to calculate their absolute and relative performance are: the stock closing price on the day the recommendation expires/ is maintained and the closing value of the benchmark on that date. For recommendations that expire via a passage of time, the ending values used to calculate their absolute and relative performance are: the average of the stock closing prices for the day the recommendation elapses and four directly preceding sessions and the average of the benchmark's closing values for the day the recommendation expires and four directly preceding sessions.

Distribution of DM BOŚ's current recommendations

	Buy	Hold	Sell	Suspended	Under revision	Not rated
Numbers	43	30	4	9	0	2
Percentage	49%	34%	5%	10%	0%	2%

Distribution of DM BOŚ's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision	Not rated
Numbers	38	30	9	9	0	2
Percentage	43%	34%	10%	10%	0%	2%

Banks

Net Interest Margin (NIM) = net interest income/average assets
Non interest income = fees&commissions + result on financial operations (trading gains) + FX gains
Interest Spread = (interest income/average interest earning assets)/ (interest cost/average interest bearing liabilities)
Cost/Income = (general costs + depreciation)/ (profit on banking activity + other net operating income)
ROE = net profit/average equity
ROA = net income/average assets
Non performing loans (NPL) = loans in 'basket 3' category
NPL coverage ratio = loan loss provisions/NPL
Net provision charge = provisions created – provisions released

DM BOŚ S.A. generally values the covered banks via two methods: comparative method and fundamental target fair P/E and target fair P/BV multiples method. The advantage of the former is the fact that it incorporates the current market assessment of the value of the company's peers. The weakness of the comparative method is the risk that the valuation benchmark may be mispriced. The advantage of the fundamental target fair P/E and target fair P/BV multiples method is its independence of the current market valuation of the comparable companies. The weakness of this method is its high sensitivity to undertaken assumptions, especially those related to the residual value calculation. Assumptions used in valuation can change, influencing thereby the level of the valuation. Among the most important assumptions are: GDP growth, forecasted level of inflation, changes in interest rates and currency prices, employment level and change in wages, demand on the analysed company products, raw material prices, competition, standing of the main customers and suppliers, legislation changes, etc. Changes in the environment of the analysed company are monitored by analysts involved in the preparation of the recommendation, estimated, incorporated in valuation and published in the recommendation whenever needed.

Distribution of DM BOŚ's current recommendations for the companies which DM BOŚ has supplied with material investment services within the last 12 months

	Buy	Hold	Sell	Suspended	Under revision	Not rated
Numbers	9	5	0	1	0	2
Percentage	53%	29%	0%	6%	0%	12%

Distribution of DM BOŚ's current market relative recommended weightings for the companies which DM BOŚ has supplied with material investment services within the last 12 months

	Overweight	Neutral	Underweight	Suspended	Under revision	Not rated
Numbers	9	3	2	1	0	2
Percentage	53%	18%	12%	6%	0%	12%

Recommendation tracker

Analityk	Fundamental Recommendation	Relative Recommendation	Report date	Reiteration date	Distribution date	Price at issue/reiteration*	EFV (12 months)
Brand24							
Sobiestaw Pajak	Not rated	Not rated	15.08.2021	-	16.08.2021	24.80	32.10 -
Sobiestaw Pajak	-	-	-	31.08.2021	31.08.2021	25.90	32.10 →
Sobiestaw Pajak	-	-	-	01.10.2021	01.10.2021	25.00	31.30 ↓
Sobiestaw Pajak	-	-	-	07.10.2021	07.10.2021	25.50	31.30 →
Sobiestaw Pajak	-	-	-	04.11.2021	04.11.2021	21.80	31.30 →
Sobiestaw Pajak	-	-	-	05.12.2021	06.12.2021	21.90	31.30 →
Sobiestaw Pajak	-	-	-	16.01.2022	17.01.2022	25.50	31.30 →
Sobiestaw Pajak	-	-	-	07.02.2022	07.02.2022	23.60	31.30 →
Sobiestaw Pajak	-	-	-	28.02.2022	28.02.2022	21.90	31.30 →
Sobiestaw Pajak	-	-	-	14.04.2022	14.04.2022	25.00	31.30 →
Sobiestaw Pajak	-	-	-	10.05.2022	10.05.2022	24.20	30.50 ↓
Sobiestaw Pajak	-	-	-	26.05.2022	26.05.2022	23.80	30.50 →
Sobiestaw Pajak	-	-	-	15.07.2022	15.07.2022	21.90	30.50 →
Sobiestaw Pajak	-	-	-	16.08.2022	16.08.2022	22.40	30.50 →
Sobiestaw Pajak	-	-	-	02.09.2022	02.09.2022	19.95	30.50 →
Sobiestaw Pajak	-	-	-	28.09.2022	29.09.2022	19.35	28.20 ↓

* prices at issue/reiteration are the closing prices at the report or reiteration date

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The production of the report was completed on September 28, 2022 at 11.55 p.m.
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The report is an investment research within the meaning of Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organizational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive.

This report constitutes a recommendation within the meaning of Commission Delegated Regulation (EU) 2016/958 of 9 March 2016 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the technical arrangements for objective presentation of investment recommendations or other information recommending or suggesting an investment strategy and for disclosure of particular interests or indications of conflicts of interest. This report is for information purposes only.

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DM BOŚ SA has not held any long or short position net exceeding 0.5% of the issuer's basic capital in total with respect to the company/companies indicated.

DM BOŚ SA is the market maker and liquidity provider with respect to financial instruments for the stock of Brand24.

During the last 12 months DM BOŚ SA rendered investment services on behalf of Brand24 pursuant to the agreement signed and received a remuneration by virtue of this.

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The report was not shown to the analyzed company before the distribution of the report.

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