BOŚ DOM MAKLERSKI

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WSE Analytical Coverage Program

This report is prepared for the Warsaw Stock Exchange SA within the framework of the Analytical Coverage Support Program 3.0.
This is a translation of the Polish analytical report.

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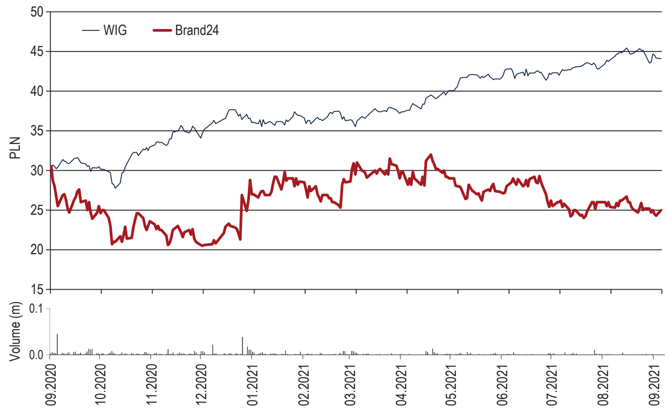
Brand24

Sector: IT – software & services
Bloomberg code: B24 PW
Price: PLN 25.0
12M EFV: PLN 31.3 (↓)

Market Cap: USD 14 m
Av. daily turnover: USD 0.01 m
12M range: 20.50-32.00 PLN
Free float: 39.6%

Stock performance



Source: Bloomberg

Guide to adjusted profits

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

Key data

IFRS consolidated		2020	2021E	2022E	2023E
Sales	*PLN m*	13.4	15.5	19.1	22.3
EBITDA	*PLN m*	1.5	3.6	5.3	6.7
adj EBITDA	*PLN m*	2.3	3.6	5.3	6.7
EBIT	*PLN m*	-1.0	0.8	2.5	3.8
adj EBIT	*PLN m*	-0.2	0.8	2.5	3.8
NI	*PLN m*	-1.3	0.5	1.8	2.9
adj NI	*PLN m*	-0.5	0.5	1.8	2.9
EPS*	*PLN*	-0.23	0.21	0.83	1.33
EPS yoy chg*	*%*	n.m.	n.m.	288	59
ND	*PLN m*	2.9	2.6	1.2	-1.1
ND, excl. leases	*PLN m*	0.1	-0.3	-1.6	-4.0
P/E*	*x*	n.m.	116.4	30.0	18.8
P/CE*	*x*	27.0	16.7	11.7	9.4
EV/EBITDA*	*x*	24.5	15.8	10.5	8.0
EV/EBIT*	*x*	n.m.	68.5	22.6	14.2
EV/S	*x*	4.3	3.7	2.9	2.4
EV/OCF	*x*	27.6	14.9	10.1	8.2
EV/FCFF	*x*	39.1	92.6	35.8	21.5
FCFF yield	*%*	2.6	1.1	2.8	4.7
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	2.2	2.2

* Calculated on the basis of adjusted profits and eop number of shares.
Source: Company, DM BOŚ SA estimates.

Investment opinion

- Brand24's 2Q21 results reflect the continuation of the process to rebuild the Company's position both business-wise (increased number of customers, further improvements in (i) 'unseasoned' conversion ratio, monthly recurring revenue and customer churn) and financial-results-wise (materially improved, both yoy and qoq, revenues and EBITDA).

- Expecting continuation of these tendencies in the upcoming quarters (the 1H21 financial results trigger no need to modify our full-year projections) we emphasize that the Company is currently in the midst of an important process of the upward adjustment of the pricing lists, including – for the first time in a decade – not only the prospects but also the existing clients.

- In September the package prices were raised for customers who had been historically granted large discounts (the management is pleased with their response, expecting net rise in MRR from the move). Upward price adjustment for new clients (in all geographical locations) is planned for October. Finally, after the Black Friday, in the December'21-February'22 period, the

Upcoming events

1. Upward adjustment to Brand24's pricing list for new clients: October 2021
2. Release of 3Q21 financial results: November 22, 2021
3. Upward adjustment to Brand24's pricing list for existing clients: gradually (country-by-country) during the December 2021 – February 2022 period
4. Unification of local and global versions of Brand24: by the end of 3Q23
5. Completion of the (co-funded by EU) AI project (*'Abstrakcyjna sumaryzacja danych multimodalnych'*): by 2023-end

Catalysts

1. User net adds and/or ARPU growth ahead of expectations
2. Commercial success of new products (e.g., *Custom Reports*)
3. Progression of financial results ahead of expectations

Risk factors

1. Lower availability of Internet data, higher cost of their acquisition
2. IT infrastructure/ software malfunction
3. Financial liquidity/ solvency issues
4. Product concentration
5. Inability to adapt promptly to changes in ways of presenting/ consuming content in the Internet
6. FX risk (revenue-OPEX currency mismatch)
7. Rise in competitive pressures
8. Adverse changes in search engines algorithms
9. Hike in R&D needs
10. Transfer pricing risk
11. RODO risk
12. Inability to attract new clients and retain the existing ones
13. Rise in churn
14. Low share liquidity

package prices are to be increased for existing clients (gradually, market by marked, starting with the least important – from the Company's perspective – geographical locations and ending with the most important ones).

- Minor (c. 2%) decline in our assessment of the Company's 12M EFV is of purely technical character; it constitutes entirely the consequence of the increase in market yield to maturity of Polish 10-year government bonds (risk-free rate proxy in our DCF model) that has taken place since our initiating report in mid-August.

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.

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 coverrage 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.

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

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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	46	23	6	10	0	1
Percentage	53%	27%	7%	12%	0%	1%

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	4	0	1	0	1
Percentage	60%	27%	0%	7%	0%	7%

Distribution of DM BOŚ's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision	Not rated
Numbers	36	28	11	10	0	1
Percentage	42%	33%	13%	12%	0%	1%

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	5	7	1	1	0	1
Percentage	33%	47%	7%	7%	0%	7%

Recommendation tracker

Analityk	Fundamental Recommendation	Relative Recommendation	Report date	Reiteration date	Distribution date	Price at issue/ reiteration*	EFV (12 months)	
Brand24								
Sobiesław Pająk	Not rated	Not rated	15.08.2021	-	16.08.2021	24.80	32.10	–
Sobiesław Pająk	Not rated	Not rated	1.10.2021	-	1.10.2021	25.00	31.30	↓

** 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 October 1, 2021 at 5.50 p.m.
The report was distributed on October 1, 2021 at 6.00 p.m.

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

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