573/2021/AR

Company	LT fundamental recommendation	12M EFV (PLN)	ST market-relative bias	Analyst
Brand24	**Not rated**	**31.3**	**Not rated**	Sobiesław Pająk, CFA +48 22 504 32 72

Event: The Company's 2021-23 incentive program

On October 29 (after the market close) Brand24 stated their intention to recommend the incentive program for 2021-23 to be approved by the EGM planned in November. The said program will constitute a continuation of the mechanisms that are already followed by Brand24 to motivate key managerial staff to implement the long-term business strategy.

The Company's management will recommend that the employees to be included in the program and entitled to acquire the shares should fulfil the **operating condition** for the specific reference period along with the **loyalty condition** meaning the program participant should be the current employee of Brand24.

According to the management, the operating condition fulfillment will be based on two parameters:

(i) Consolidated sales and

(ii) 'consolidated result' defined as **EBITDA** (EBIT + D&A) reduced by the **costs of development works** in the reference period adjusted for **exceptional occurrences and one-offs** and costs of the incentive program (this parameter actually indicates adj EBITDA reduced by the costs of development works)[1].

The Table below contains the operating conditions proposed by the management for particular years ('split' among 'the components' assumed by the management which build a given operating condition in the case of the condition II) compared with DM BOŚ SA current forecast of a given parameter in particular years.

Brand24; The incentive program for 2021-23 – proposed parameters for the assessment of the operating conditions criterion

(PLN m)	2021	2022	2023
The incentive program proposed for 2021-23			
Consolidated sales (operating condition I)	15,857	20,343	26,847
Consolidated 'result' (operating condition II)	1,288	0,901	3,873
Adj EBITDA – component of the operating condition II	3,358	4,534	7,387
Development works costs - component of the operating condition II	2,070	3,634	3,514
DM BOŚ SA forecasts			
Consolidated sales (operating condition I)	15,535	19,098	22,345
Consolidated 'result' (operating condition II)	1,475	1,528	2,890
Adj EBITDA – component of the operating condition II	3,647	5,342	6,703
Development works costs - component of the operating condition II	2,172	3,814	3,814
Difference between the criteria of the incentive program and DM BOŚ forecasts (incentive program/ DM BOŚ) - 1, %)			
Consolidated sales (operating condition I)	2%	7%	20%
Consolidated 'result' (operating condition II)	-13%	-41%	34%
Adj EBITDA – component of the operating condition II	-8%	-15%	10%
Development works costs - component of the operating condition II	-5%	-5%	-8%
Adj EBITDA margin- as implied by the proposed criteria of the incentive program	21,2%	22,3%	27,5%
Adj EBITDA margin - DM BOŚ forecasts	23,5%	28,0%	30,0%

Source: the Company, DM BOŚ SA estimates

The Company proposes that within the incentive program its participants will be entitled to acquire not more than 107,892 ordinary bearer shares (a maximum dilution at 4.9%) most likely priced at PLN 0.1 per share (basing on the previous incentive program). At the current market price of PLN 21.50, the value of the shares to be offered to the beneficiaries of the said program stands at PLN 2.32 million.

We would like to note, that in the years 2018-20 the previous incentive program based on the shares for the key employees/partners was in force. Granting the rights to purchase shares (maximum amount at 102,143) was dependent on the fulfillment of (i) 'the loyalty criterion' and (ii) operating conditions (a number of clients + revenues + net income); additionally, the previous program assumed **the possibility to grant up to a half package per participant based upon the single loyalty criterion** (**with unfulfilled operating conditions**). The operating conditions (i) for FY18, assuming a number of clients at 2,935, revenues at PLN 10.76 million, and NI at PLN 1.09 million, were fulfilled, (ii) for FY19, assuming a number of clients at 4,364, revenues at PLN 15.97 million, and NI at PLN 0.633 million, were not fulfilled, and (iii) for FY20, assuming

[1] The Company stresses that the indicators forecasted for the incentive program are the projections only necessary for the business goals for 2021-23 to be realized and, therefore, by no means they should and can be treated as the forecasts of the Company's financial results.

a number of clients at 6,213, revenues at PLN 23.746 million, and NI at PLN 4.67 million, were not fulfilled. Within the framework of the previous incentive program its beneficiaries have been granted 20,542 shares (and by the end of this year the Company intends to grant a subsequent batch of shares, namely 38,000 shares). The non-cash costs of the program revaluation (booked in full in the last quarter of the year) reached PLN 360,000 in FY19 and PLN 800,000 in FY20 (the last tranche of the cost of the program revaluation will burden the reported 4Q21 financial results and its amount has not been revealed yet). We would like to remind you that adj EBITDA excludes any impact of this non-cash item.

Our commentary:

(i) The proposal of a new incentive program for 2021-23, its scale and the principles it is based on should not constitute any surprise.

(ii) The proposed value of the condition I (**consolidated sales**) **exceeds our current expectations;** the difference for FY21 is marginal (2%), but when it comes to FY22 (7%), it is noticeable and as for FY23 (20%), it is huge, which probably stems from the Company's higher (than we adopted) assumptions of (a) ARPU growth (pending price list updating) and/or (b) client net additions, and/or (c) contribution from Custom Reports.

(iii) The proposed value of the condition II (consolidated 'result') is lower than our current financial forecasts for 2021-23 (significantly lower for FY22, over 40%), but materially higher (over 30%) than our current FY23 forecast which stems from the difference in the adj EBITDA component (the other component, i.e. development works costs, does not diverge much from our current forecasts – just 5-8% depending on the year). In particular, **the proposed adj EBITDA component adopted on behalf of the incentive program is moderately lower with respect to FY21 and FY22 (8% and 15%, respectively) than our forecasts, which**, given the sales higher than expected by us, **implies higher operating costs (probably, of HR and sales costs) than our forecasts**, but **for FY23 this component is 10% higher than our current FY23 forecasts.**

(iv) **Differences** between the values of the operating conditions (sales and adj EBITDA) adopted in the incentive program proposal and our current forecasts (in short, revenues higher than we forecast while short-term and mid-term profit lower than our expectations) can be interpreted in two different ways; the first one which is typical of American investors assumes that when the company is able to grow fast on revenues (which is the case with Brand24 as corroborated by the upward difference against our forecasts), then it should focus on this and pay less attention to profits in the short term (they will become the priority when possibilities of further growth of revenues become curbed). This kind of an investor will react positively seeing such a difference. However, the other investor who is more sensitive to mid-term profits will react to such a difference negatively.

Finally, we would like to note that over the last month Brand24's market price stayed under pressure (not that we spotted some reason for this behavior) and fell 17% from PLN 25.9 (as of October 5) to PLN 21.5 (as of October 29).