39/2021/GPW (129) December 5, 2021

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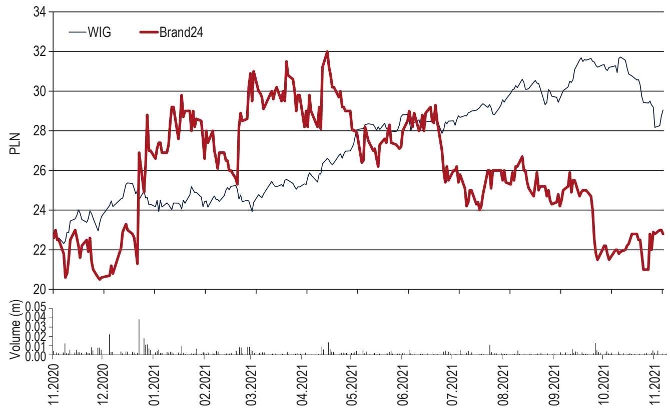
This report is prepared for the Warsaw Stock Exchange SA within the framework of the Analytical Coverage Support Program 3.0.
This is a translation of the Polish analytical report.

Brand24

Sector: IT – software & services
Bloomberg code: B24 PW
Price: PLN 21.90
12M EFV: PLN 31.3 (→)

Market Cap: USD 12 m
Av. daily turnover: USD 0.01 m
12M range: 20.50-32.00 PLN
Free float: 40%

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	15.9	20.4	24.7
EBITDA	*PLN m*	1.5	2.8	4.8	6.9
adj EBITDA	*PLN m*	2.3	3.4	4.8	6.9
EBIT	*PLN m*	-1.0	0.6	2.3	4.2
adj EBIT	*PLN m*	-0.2	1.2	2.3	4.2
NI	*PLN m*	-1.3	0.0	1.5	3.2
adj NI	*PLN m*	-0.5	0.6	1.5	3.2
EPS*	*PLN*	-0.23	0.29	0.69	1.42
EPS yoy chg*	*%*	n.m.	n.m.	138%	106%
ND	*PLN m*	2.9	2.7	1.8	-1.0
ND, excl. leases	*PLN m*	0.1	-0.1	-1.1	-3.8
P/E*	*x*	n.m.	76.0	31.9	15.5
P/CE*	*x*	23.6	16.9	12.3	8.4
EV/EBITDA*	*x*	21.6	15.0	10.6	7.0
EV/EBIT*	*x*	n.m.	43.0	21.8	11.5
EV/S	*x*	3.8	3.2	2.5	2.0
EV/OCF	*x*	24.4	14.4	10.0	7.1
EV/FCFF	*x*	34.5	85.4	37.7	16.6
FCFF yield	*%*	2.9%	1.2%	2.7%	6.0%
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	2.3

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

Key points

- **Investment opinion**. Brand24's 3Q21 results reflect the continuation of the process to rebuild the Company's position both business-wise (increased number of customers, further improvements in monthly recurring revenue, global version ARPU and customer churn) and financial-results-wise (improved, both yoy and qoq, revenues and EBITDA). Expecting the upcoming quarters to bring further growth in MRR (with slower than that, albeit faster than expected previously, increase of operating costs), we emphasize that the Company is currently in the midst of an important process of the (first in a decade) upward adjustment of the pricing list for its seasoned clients; its reception by the existing customer base will exert significant impact of the Company's financial well-being. In September the package prices were raised for customers who had been historically granted large discounts (the management is pleased with their response, expecting (minor) rise in MRR from the move). In mid-November the prices were raised for the newly joining clients from all geographical locations (a reliable assessment of the outcome of this move feasible in mid-December; we would expect it to bring in an increase in MRR of scale larger than in case of 'discount' customers). The

Upcoming events

1. Upward adjustment to Brand24's pricing list for existing clients: gradually (country-by-country) during the December 2021 – February 2022 period
2. Unification of local and global versions of Brand24: by the end of 3Q23
3. 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, larger than assumed rise in MRR as a result of price list adjustment for seasoned clients
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
15. Smaller than assumed rise in MRR as a result of price list adjustment for seasoned clients

third, most important, stage of the pricing list upward adjustment (pertaining to the existing client base) will be phased out in the December'21 – January'22 period (market-by-market, ending with the largest ones).

- **2021-23 motivation program.** The Company's November EGM approved the share-based motivation program for management and key employees for the 2021-23 period which provides for issuance (at PLN 0.1 per share price) of up to 107,892 shares (max. dilution = 4.9%), subject to meeting 'loyalty' (employment) and operating criteria (effectively revenues and one-offs-adjusted EBITDA post R&D outlays).

- **3Q21 KPIs and results**. On balance, we perceive the 3Q21 set of Brand24's KPIs slightly positively (positive side = further improvement in MRR (visible especially in global version), ARPU for the global version and customer churn as well as evaporation (in September) of (persisting for preceding five months) yoy declines in the number of trials; negative side = quarterly customer net add lower yoy and noticeably below the lower end of the band of management's quarterly target, flattening of the 'unseasoned' conversion ratio). The Company's 3Q21 revenues (PLN 4.0 million, 21%/5% up yoy/qoq) and EBITDA (PLN 0.9 million, 41%/4% up yoy/qoq) are fully in line with our expectations.

- **4Q21E financial results**. We tentatively forecast the Company's revenues/ adjusted EBITDA for the last quarter of 2021 at c. PLN 4.5 million (c. 29%/13% higher yoy/qoq)/PLN 1.0 million (c. 24%/12% higher yoy/qoq).

- **FY forecast update**. We update our FY projections for the Company for current year and beyond; the net impact of introduced changes is positive at the top line level, yet negative at the adjusted EBITDA level in near term (2021-22) – albeit marginally positive thereafter. Please note that we perceive the risk to our forecasts of Brand24's financial results to be above-average (both on the upside and on the downside).

- **12M EFV assessment**. Our 12M EFV for Brand24 stays intact at PLN 31.3 per share as the favourable impact from valuation horizon forward shift is offset by the adverse effect of further rise in the risk-free rate proxy (ytm of 10Y Polish government bonds) since our previous assessment.

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	-	-	-	31.08.2021	31.08.2021	25.90	32.10	→
Sobiesław Pająk	-	-	-	01.10.2021	01.10.2021	25.00	31.30	↓
Sobiesław Pająk	-	-	-	07.10.2021	07.10.2021	25.50	31.30	→
Sobiesław Pająk	-	-	-	04.11.2021	04.11.2021	21.80	31.30	→
Sobiesław Pająk	-	-	-	05.12.2021	06.12.2021	21.90	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 December 6, 2021 at 7.05 a.m.
The report was distributed on December 6, 2021 at 7.15 a.m.

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

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