

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

321/2023/AR

May 22, 2023

Company	LT fundamental recommendation	12M EFV (PLN)	ST market-relative bias	Analyst
Brand24	Not rated	37.2	Not rated	Sobieslaw Pająk, CFA +48 22 504 32 72

Event: 1Q23 financial results.

On May 22 (after the market close) Brand24 released 1Q23 financial results.

We would like to note that on April 14 the Company published selected 1Q23 operating figures (whose impact we perceived as positive¹) - our detailed commentary was issued on the same day in the afternoon (cf. 199/2023/AR). Below we highlight the most important issues.

- **MRR.** At the end of 1Q23 monthly recurring revenues (MRR) stood at PLN 2.105 million which implies an increase by PLN 439,000 (up 26%) yoy and by PLN 251,000 (up 14%) qoq. This implies a material acceleration of the Company's qoq growth pace (which oscillated around 3-4% in the previous 3 quarters). In US\$ terms (as the global version users who generate the bulk of revenues pay prices in US\$) MRR at the 1Q23 end reached US\$ 479,000 (up 15.5% and US\$ 63,000 qoq); this implies a material acceleration of a qoq growth pace (which in the previous 3 quarters oscillated around 0.5-1.5%). Brand24 improved revenue generation from new subscribers and limited the loss of revenues from outgoing clients.
- **ARPU.** At the end of 1Q23 ARPU (average revenue per user) reached PLN 541/ US\$ 123 which implies a qoq increase by PLN 58 (+12%)/ US\$ 15 (+14%) indicating a material acceleration of a qoq growth pace as in the previous 3 quarters it oscillated around 2-5%/ 0-2%. At the same time the ARPU per a new subscriber (acquired in 1Q23) (so called Initial ARPU) stood at PLN 641 (US\$ 146) which is (i) considerably above (+18%) the ARPU for all the users (and it should be remembered that 4Q22 Initial ARPU was affected by a scale and scope of Black Friday discounts while in 1Q23 the impact came from price upgrades for new clients introduced in January).
- **Net additions.** A material (+20% yoy) increase in a number of trials coupled with a slightly lower (c.-10% yoy) percent conversion and minimally lower than a year ago churn rate (at 5.3% vs 5.5%) implies that a quarterly net clients addition was visibly positive (at last).

Sales. The Group's 1Q23 consolidated revenues reached PLN 6.4 million (up 29% yoy and up 5% qoq) which is close to our expectations at PLN 6.3 million. As we have 1Q23 revenues, then we can infer that there is no downside risk for our FY23 revenue forecast at PLN 26.7 million (maintained in this report) (FY forecast realization after 1Q23 reaches 24% vs 22% last year); on the contrary, it looks even slightly conservative.

The gross margin on sales reached 60.0% in 1Q23 vs 60.8% in 1Q22 and 60.1% in 4Q22. The flat yoy gross margin on sales is in line with our expectations and, in result, a percentage growth of gross profit on sales is very close to a growth dynamic of revenues. 1Q23 financial results make us assume that our current FY23 gross profit on sales forecast (maintained in this report) is fully realistic (FY forecast realization after 1Q23 reaches 23% vs 22% last year).

OPEX. The OPEX base rose 20% yoy which is slightly behind the revenue growth pace; the external services costs grew most (+25% yoy) while salary costs rose just 6% yoy.

EBITDA/ EBIT/ NI at PLN 1.9 million/1.2 million/1.0 million were considerably/ moderately higher yoy/ qoq (NI growth was supported by a low effective tax rate in 1Q23, at 10% vs 19% in 1Q22, thanks to the IP BOX tax relief)². After 1Q23 we believe there is no downside risk for our FY23 EBITDA, EBIT, and NI forecasts (as FY forecast realizations after 1Q23 stay in the range 24-27% vs 19-21% last year); on the contrary, one might ponder over the upside risk.

1Q23 CFO grew 93% yoy (PLN 2.8 million vs PLN 1.4 million), mainly due to materially higher yoy NI and D&A, rising commercial liabilities, and a surge of obligations to provide services (which effectively means rising prepayments from clients).

The main drivers of the Company's 1Q23 operating figures and financial results were: (i) price upgrades for new clients (introduced at this year's start), (ii) price upgrades for some 'seasoned' clients, (iii) the subscribers portfolio leaning towards bigger brands, (iv) material growth of a number of trials (with a relatively stable churn level and conversion rate), and (v) new products sales (*Insights24, Media Monitoring on Semrush Marketplace*³).

¹ Positive: material acceleration of the Company's qoq growth pace of MRR and ARPU with (likely) quarterly positive net addition.

² This result is fully in line with our expectations on the NI level and higher on the EBIT and EBITDA level by PLN 0.1 million and PLN 0.2 million, respectively.

³ In 1Q23 the Group generated PLN 178,000 of revenues from *Insights24* and PLN 118,000 Of revenues from the application on *Semrush Marketplace*.

Brand24; 1Q23 financial results

IFRS cons. (PLN million)	1Q23	1Q22	yoy chg	4Q22	qoq chg
Revenues	6.4	5.0	29%	6.1	5%
Gross profit on sales	3.8	3.0	27%	3.6	5%
EBITDA (adj)	1.9	1.2	56%	1.6	18%
EBIT (adj)	1.2	0.7	88%	1.0	27%
NI (adj)	1.0	0.5	112%	0.9	17%
Gross margin on sales	60.0%	60.8%	-	60.1%	-
EBITDA margin (adj)	30.2%	25.0%	-	27.1%	-
EBIT margin (adj)	19.3%	13.3%	-	16.1%	-

Source: Company.

All in all, we perceive the Company's 1Q23 financial results as **slightly positive**; our current FY forecasts are free from the downside risk while higher levels of FY forecast realization after 1Q23 may even point out their conservative skew. Currently, the biggest **exogenous risk factor** seems to be US\$ weakening vs PLN.

The report is not 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 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.