

21/2023/GPW (50) May 29, 2023

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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Analyst: Sobiesław Pająk, CFA

Sector: IT – software & services
Bloomberg code: B24 PW
Price: PLN 33.70
12M EFV: PLN 37.2 (→)

Market Cap: USD 18 m
Av. daily turnover: USD 0.02 m
12M range: PLN 19.35-33.70
Free float: 42%

Brand24

Upcoming events

1. Release of selected KPIs for 2Q23: mid-July
2. Release of 2Q23 financial results: October 2
3. Release of selected KPIs for 3Q23: mid-October
4. Release of 3Q23 financial results: November 29
5. Completion of the (co-funded by EU) AI project (Abstrakcyjna sumaryzacja danych multimodalnych): by 2023-end
6. Completion of the strategic options review: by 2023-end

Catalysts

1. ARPU/ MRR growth ahead of expectations
2. More dynamic new clients acquisition
3. Commercial success of new products (e.g. Insights24)
4. Progression of financial results ahead of expectations
5. Stronger USD vs PLN
6. Agility in the AI field proves to be the right approach
7. Strategic options review effects boosting the Company's development on foreign markets
4. Product concentration
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 in the sector
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. Rising churn
14. Low share liquidity
15. Smaller than assumed further rise in ARPU/ MRR
16. Losing eligibility to use the IP BOX tax relief

Risk factors

1. Lower availability of Internet data, higher cost of their acquisition
2. IT infrastructure/software malfunction
3. Maintaining financial liquidity

We add Brand24's shares to the long side of our monthly portfolio. Brand24 is the company for which we prepare the reports for the Warsaw Stock Exchange SA within the framework of the Analytical Coverage Support Program 3.0.

Rationale: (i) 1Q23 good financial results (in consequence, the realization of our FY revenues and profits forecasts is higher than a year ago) imply *ceteris paribus* the upside risk for our current FY forecasts, (ii) investors' positive sentiment towards companies related to AI development/ implementation, and (iii) pending strategic options review.

Guide to adjusted profits

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

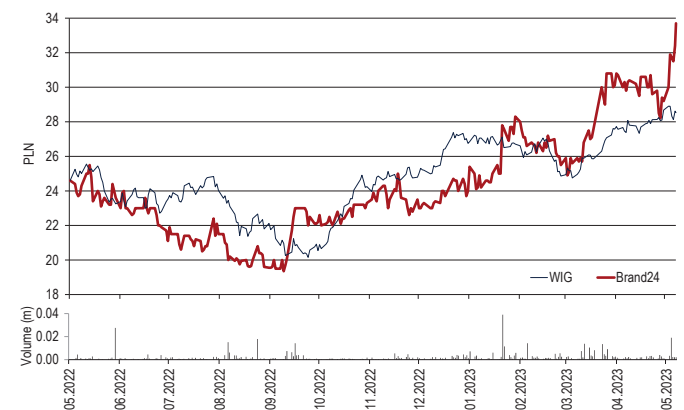
Key data

IFRS consolidated		2022	2023E	2024E	2025E
Sales	PLN m	22.2	26.7	31.2	35.1
EBITDA	PLN m	5.3	7.1	10.3	11.8
adj EBITDA	PLN m	6.0	7.2	9.5	11.0
EBIT	PLN m	2.8	4.4	6.7	7.8
adj EBIT	PLN m	3.5	4.6	5.9	7.0
NI	PLN m	1.5	3.9	6.2	7.2
adj NI	PLN m	2.3	4.1	5.3	6.4
EPS*	PLN	1.03	1.81	2.32	2.77
EPS yoy chg*	%	199	76	28	19
ND	PLN m	-0.6	-4.3	-10.8	-18.1
ND, excl. leases	PLN m	-1.8	-5.5	-11.9	-19.2
P/E*	x	32.8	18.6	14.5	12.2
P/CE*	x	15.6	11.2	8.7	7.5
EV/EBITDA*	x	12.3	9.9	7.0	5.4
EV/EBIT*	x	21.0	15.7	11.3	8.5
EV/S	x	3.3	2.7	2.1	1.7
EV/OCF	x	14.2	9.9	7.2	5.6
EV/FCFF	x	49.9	19.1	10.1	8.0
FCFF yield	%	2.0%	5.2%	9.9%	12.5%
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.

Stock performance



Source: Bloomberg

BASIC DEFINITIONS

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

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	38	33	8	9	0	2
Percentage	42%	37%	9%	10%	0%	2%

Distribution of DM BOŚ's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision	Not rated
Numbers	33	32	14	9	0	2
Percentage	37%	36%	16%	10%	0%	2%

Banks

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

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	6	6	1	1	0	2
Percentage	38%	38%	6%	6%	0%	13%

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	6	3	4	1	0	2
Percentage	38%	19%	25%	6%	0%	13%

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 ↓
Sobiestaw Pajak	-	-	-	07.10.2022	07.10.2022	23.00	28.20 →
Sobiestaw Pajak	-	-	-	28.10.2022	28.10.2022	22.00	28.20 →
Sobiestaw Pajak	-	-	-	04.12.2022	05.12.2022	23.50	31.60 ↑
Sobiestaw Pajak	-	-	-	13.01.2023	13.01.2023	24.00	31.60 →
Sobiestaw Pajak	-	-	-	03.02.2023	03.02.2023	25.00	31.60 →
Sobiestaw Pajak	-	-	-	10.03.2023	10.03.2023	26.90	31.60 →
Sobiestaw Pajak	-	-	-	30.03.2023	30.03.2023	25.70	37.20 ↑
Sobiestaw Pajak	-	-	-	29.05.2023	29.05.2023	33.70	37.20 →

* 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 May 29, 2023 at 6.40 p.m.
The report was distributed on May 29, 2023 at 6.50 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.

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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This report was prepared with due diligence and scrutiny. The information used in the report is based on all public sources such as press and branch publications, company's financial statements, current and periodic reports, as well as meetings and telephone conversations with company's representatives prior to the date of report's release. We believe the above mentioned sources of information to be reliable, however we do not guarantee their accuracy and completeness. All estimates and opinions included herein represent our judgment as of the date of the issue. All opinions, forecasts, calculations and estimates herein constitute the author's subjective assessment as of the date of the issue and can be modified at any time without prior notice. DM BOŚ SA informs that this report will be updated in the manner as referred to in the Agreement, at least once a year.

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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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