

35/2023/GPW (79) September 11, 2023

This report is prepared for the Warsaw Stock Exchange SA within the framework of the Analytical Coverage Support Program 4.0.

Cloud Technologies

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Analyst: Tomasz Rodak, CFA

Sector: TMT – IT software & services
Fundamental rating: Hold (-)
Market relative: Neutral (-)
Price: PLN 94.00
12M EFV: PLN 88.00 (-)

Market Cap: US\$ 105 m
Bloomberg code: CLD PW
Av. daily turnover: US\$ 0.03 m
12M range: PLN 26.20-106.00
Free float: 33%

Cloud Technologies

Cloud Technologies is a Warsaw-based data tech company operating on the Internet advertising market. The Company uses its proprietary technology called a Data Management Platform (DMP) for collecting and processing data about Internet users employing big data instruments, machine learning or AI. Cloud Technologies boasts of the unique on the WSE exposure to the fastest growing segment of the global ad industry (online advertising), in particular it operates in its biggest segment using the programmatic model which provides over 72% of global display advertising. According to different sources¹, the programmatic segment value should grow with 21%-31.9% CAGR in 2022-28. Data sold by the Company plays the crucial role in creating profiles of Internet users and targeting of advertising in the programmatic model, that is why we believe this market's growth will have directly positive impact on the Company's business.

Since Cloud Technologies' business model change (2019-21), the Company recorded dynamic growths of financial results (in 2021 and 2022 adj EBITDA grew 196% and 31% yoy, respectively). Given the optimistic outlook for the industry we assume a further strong improvement of the Company's total revenues in 2023/ 2024/ 2025 by 28%/18%/12% yoy translating into an increase of adj EBITDA by 34%/23%/16% yoy.

According to the Company's new strategy, the main goal for 2023-25 is a further business growth to be realized by the expansion of distribution networks,

¹ According to Programmatic Advertising Global Market Report 2023 issued by the Business Research Company, the global programmatic market will grow with 21.2% CAGR in 2023-27. According to Global Programmatic Advertising Market – Analysis By Auction Type, Display Type, By Region, By Country (2022 Edition): Market Insights and Forecast with Impact of COVID-19 (2022-2027) issued by Azoth Analytic, the global programmatic market will grow with 30.3% CAGR in 2022-27. According to Global Programmatic Display Advertising Market Size, Share & Industry Trends Analysis Report By Type, By Vertical, By Ad Format, By Regional Outlook and Forecast, 2022 – 2028 issued by KBV Research, the global programmatic market will grow with 31.9% CAGR in 2018-28.

Guide to adjusted profits

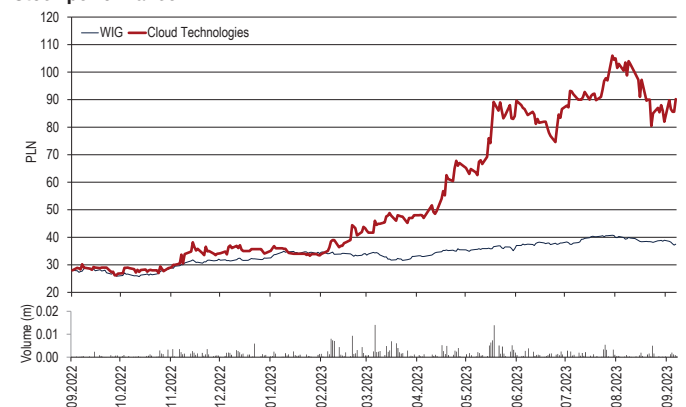
Adj profits (EBITDA, EBIT, NI) exclude costs of the incentive program valuation (c. PLN 0.6 million per quarter).

Key data

IFRS consolidated		2022	2023E	2024E	2025E
Sales	PLN m	50.4	64.7	76.4	85.7
EBITDA	PLN m	22.1	29.0	36.1	42.1
Adj EBITDA	PLN m	23.3	31.3	38.4	44.4
EBIT	PLN m	13.2	16.8	23.6	30.0
Adj EBIT	PLN m	14.4	19.1	26.0	32.4
Net income	PLN m	12.8	12.8	21.3	27.0
Adj net income	PLN m	14.0	15.2	23.7	29.3
Adj EPS	PLN	2.80	3.04	4.74	5.87
Adj EPS yoy chg	%	54	8	56	24
Net debt	PLN m	-40.8	-26.9	-47.5	-70.8
EV/Sales	x	8.5	6.8	5.5	4.7
Adj P/E	x	33.5	30.9	19.8	16.0
EV/Adj EBITDA	x	18.4	14.2	11.0	9.0
EV/Adj EBIT	x	29.8	23.2	16.3	12.3
Gross dividend yield	%	0.0	1.1	1.5	1.8
DPS	PLN	0.00	1.00	1.37	1.68
Number of shares (eop)	m	5.0	5.0	5.0	5.0

Source: Company, DM BOŚ SA estimates

Stock performance



Source: Bloomberg

Recent events

1. Estimated sales to key clients in June: August 21, 2023
2. Estimated sales to key clients in May: July 24, 2023
3. Estimated sales to key clients in April: June 26, 2023
4. 1Q23 financial results release: May 29, 2023
5. Release of FY22 financial results: April 17, 2023

Upcoming events

1. Release of 1H23 financial results: September 25, 2023
2. 3Q23 financial results release: November 27, 2023

quality and depth improvement, and search for new applications for the data collected. To achieve this, Cloud Technologies intends, among other things, to spend up to PLN 60 million on acquisitions. Within the framework of the new strategy the Company also plans to conduct a buyback for the needs of the incentive program (up to PLN 30 million) and to earmark 20% of its adj EBITDA for a dividend payout.

Our 12M EFV for Cloud Technologies constituting a 50%–50% mix of the DCF FCFF method and peer-relative valuation, stands at PLN 88.0 per share. Since February the Company’s market share price

has almost tripled and now is close to our assessment of the fair value, therefore, we initiate the Company’s coverage with LT fundamental Hold recommendation and ST market-relative Neutral rating.

We see some downside risks to our forecasts and among the most serious ones we include the risk related to the privacy laws, risk of the economic slowdown coupled with rising costs of data acquisition. There are upside risks as well, among which we list the risk of a faster than expected growth pace of the revenues from data sales and lower than we assumed cost of data acquisition.

Catalysts

1. The prevailing trend to transfer marketing budgets to Internet from traditional advertising such as the press, radio, TV, outdoors.
2. Dynamic growth of the programmatic segment (21%-31.9% CAGR expected in 2022-28) being the main model in the Internet advertising industry.
3. More and more frequent implementation of AI for more precise users profiling with the use of AI algorithms. New AI-based instruments may inspire new applications for the data offered by the Company – structured data may be employed in learning how to use the AI algorithm-based instruments.
4. Active dividend policy.
5. High level of cash generation: in 2021 and 2022 OCFs accounted for 94% and 108% of adj EBITDA, respectively.
6. Dynamic growth of financial results in 2021-22 coupled with our optimistic forecasts for 2023E-25E.
7. Faster than expected growth pace of the data sales segment’s revenues.
8. Positive impact of potential acquisitions.

Risk factors

1. **Economic slowdown risk.** The advertising market where Cloud Technologies operates is sensitive to the macroeconomic environment changes in the most important for the Company geographical regions (mainly EU and US). The economic slowdown, capex lowering, tax rises or interest rates hikes may exert especially adverse impact on this market.
2. **Competition risk.** Cloud Technologies provides services for entities operating in the Internet advertising industry that falls under the influence of global tycoons like Google, Apple, Facebook, Amazon or Microsoft which to date have not undertaken activities related to data processing and analysis of Internet users’ behavior for their further resale, thus they are not the Company’s competitors. However, should they enter this market, this would tremendously increase the competition level for Cloud Technologies given their resources, ranges, and capital strength.
3. **Privacy regulations risk.** The Company’s operations are connected to the collection, analysis, and processing of data about Internet users’ behaviors which in some jurisdictions may be regarded as personal data. Due to unfavorable changes in the appropriate law the Company may face difficulties or even lose the possibility to conduct business.
4. **IT systems malfunction risk.** The Company’s business activities are based on IT systems (proprietary Data Management Platform and servers leased from external suppliers). Thus, there is the risk related to IT systems malfunctions, disturbances, damages or stoppages which may hamper the Company’s efforts to fulfill agreements with clients leading to their discontent.
5. **Key data source loss risk.**
6. **Key data distributor loss risk.**
7. **Internet advertising business model change risk.** The Company is sensitive to the risk of consumers’ preferences change; consumers may prefer paid subscriptions requiring no consent for data processing and having advertisements removed which may result in falling volumes of the data on Internet users and more difficult data acquisition, albeit at the moment the consumers do not tend to prefer pay services. The Company has to be able to adjust its business model (including technology) to fast and dynamic changes of the Internet advertising market in a fast and effective way. There is the risk that some capitally stronger entities may be able to act faster and start offering technologically more advanced or more cost-effective services. This risk materialized in the years 2018-19 when the Company had to change its business model and its results temporarily deteriorated.

8. **Currency risk.** Cloud Technologies generates the majority of revenues in foreign currencies, especially in US\$, whereas the Company's costs are incurred mainly in PLN (some in US\$). A weak/strong PLN in relation to US\$ is favorable/unfavorable for the Company's financial results. The Company does not use hedging against the currency risk.
9. **Risk regarding the shareholder structure and control over the Company.** The main shareholders own over 57% of the votes at the Company's AGM. Their interests and actions may sometimes vary from the interests of the minority shareholders.
10. **Slower than expected growth pace of the data sales segment's revenues.**
11. **Negative impact of potential acquisitions.**
12. **Low liquidity on the WSE.** Average daily turnover reaching c. PLN 100,000.

Competitive advantages

1. **Technology.** Cloud Technologies owns the proprietary Data Management Platform for data integration and management. Instruments from big data field, machine learning and AI are used for data processing. The DMP has been under development for over 10 years which constitutes the competitive advantage over newcomers to the market.
2. **Market experience.** The Company has been dealing with the acquisition, processing, and distribution of data about Internet users for over 10 years and managed to develop a vast network of business contacts with both, the suppliers and clients.
3. **Volume and data quality.** Cloud Technologies processes c. 100 billion profiles of PC users and mobile devices users which makes the Company one of the biggest data warehouses in the world. Data comes from more than 200 countries. The Data Management Platform analyzes c. 5 billion activities per day.

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	32	9	9	0	4
Percentage	41%	35%	10%	10%	0%	4%

Distribution of DM BOŚ's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision	Not rated
Numbers	33	31	15	9	0	4
Percentage	36%	34%	16%	10%	0%	4%

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	5	7	1	1	0	3
Percentage	29%	41%	6%	6%	0%	18%

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	7	3	3	1	0	3
Percentage	41%	18%	18%	6%	0%	18%

LT fundamental recommendation tracker

Analyst	Recommendation	Report date	Reiteration date	Distribution date	Expiry date	Performance	Relative performance	Price at issue/ reiteration*	EFV (12 months)	
Cloud										
Tomasz Rodak	Hold	–	11.09.2023	-	11.09.2023	Not later than 11.09.2024	-	-	94.00	88.00 –

* prices at issue/reiteration are the closing prices at the report or reiteration date

Market-relative recommendation tracker

Analyst	Relative Recommendation	Report date	Reiteration date	Distribution date	Expiry date	Price at issue/ reiteration*	Relative performance
Cloud							
Tomasz Rodak	Neutral	–	11.09.2023	-	11.09.2023	Not later than 11.09.2024	94.00

* prices at issue/reiteration are the closing prices at the report or reiteration date

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

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