WSE Analytical Coverage Program

BOŚ DOM MAKLERSKI

39/2023/GPW (84) October 3, 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 4.0.

Brand24

Analyst:
Sobiesław Pająk, CFA

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Brand24

Sector: IT – software & services
Bloomberg code: B24 PW
Price: PLN 36.00
12M EFV: PLN 48.8 (↑)

Market Cap: USD 18 m
Av. daily turnover: USD 0.02 m
12M range: PLN 19.35-38.00
Free float: 42%

Upcoming events

1. Release of selected KPIs for 3Q23: mid-October
2. Release of 3Q23 financial results: November 29, 2023
3. Completion of the strategic options review: by 2023-end
4. Establishment and release of the incentive program goals for further 3 years (2024-26: 4Q23- 1Q24.

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

Risk factors

1. Weak USD vs PLN
2. Low agility in the AI field
3. Increasing competitive pressures in the sector, more agile competitors in the AI field
4. Inability to adapt promptly to changes in ways of presenting/ consuming content in the Internet
5. Product concentration
6. Inability to attract new clients and retain the existing ones
7. Rise in churn
8. Smaller than assumed rise in ARPU/ MRR
9. Losing eligibility to use the IP BOX tax relief
10. Deteriorating availability of Internet data, higher cost of their acquisition
11. IT infrastructure/ software malfunction
12. Adverse changes in search engines algorithms
13. Hike in R&D needs
14. Transfer pricing risk
15. RODO risk
16. Low share liquidity

Investment summary

This year's good performance of Brand24's shares stems from (i) good financial results (and KPIs), which resulted from changes in the price lists (further price upgrades for new clients in the beginning of 2023) and (ii) positive market sentiment for issues related with AI; extended implementation of AI algorithms (attempts to create own solutions which would replace the already existing more expensive ones, integration with the existing products where it is cost efficient (for example *ChatGPT/GPT3* in *Insights24*)) in optimization of existing products and creation of new ones confirms the transformation of Brand24 from a company providing data into a company offering solutions and recommendations. The Company continues its strategic options review[1] started with the intention to analyze a possibility to acquire a partner that would help speed up Brand24's expansion on the

1 announced on March 16 and will last no longer than till 2023-end.

Guide to adjusted profits

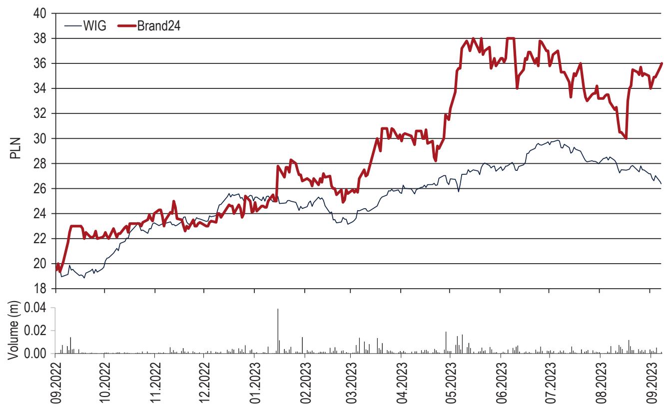
Adjusted EBITDA, EBIT, PBT and NI exclude the valuation of the share-based incentive program and balance of other operating income/ costs.

Key data

IFRS consolidated		2022	2023E	2024E	2025E
Sales	*PLN m*	22.2	27.5	32.8	36.9
EBITDA	*PLN m*	5.3	8.1	11.4	13.0
adj EBITDA	*PLN m*	6.0	8.2	10.6	12.2
EBIT	*PLN m*	2.8	5.5	7.8	9.0
adj EBIT	*PLN m*	3.5	5.6	7.0	8.2
NI	*PLN m*	1.5	5.4	7.2	8.3
adj NI	*PLN m*	2.3	5.5	6.4	7.5
EPS*	*PLN*	1.03	2.47	2.76	3.25
EPS yoy chg*	*%*	199%	140%	12%	18%
ND	*PLN m*	-0.6	-5.5	-13.0	-21.5
ND, excl. leases	*PLN m*	-1.8	-6.7	-14.2	-22.7
P/E*	*x*	35.0	14.6	13.0	11.1
P/CE*	*x*	16.7	9.9	8.3	7.2
EV/EBITDA*	*x*	13.1	9.2	6.6	5.0
EV/EBIT*	*x*	22.5	13.4	10.0	7.5
EV/S	*x*	3.6	2.7	2.1	1.7
EV/OCF	*x*	15.2	8.2	6.8	5.2
EV/FCFF	*x*	53.3	18.6	9.1	7.1
FCFF yield	*%*	1.9%	5.4%	11.0%	14.0%
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	2.3	2.3

* Multiples based on adjusted profits and eop number of shares.
Source: Company, DM BOŚ SA estimates.

Stock performance



Source: Bloomberg

foreign markets (especially in US) improving the efficiency of client acquisition and allowing for a 'leap' of a scale of the Company's operations[2]. There are opinions that Brand24's products are still (too) cheap fundamentally, so the Company believes that there is still "huge" space for price upgrades (in the medium (next 2 years) Brand24 plans to increase its ARPU by a dozen or so percent and in the long (3-5 years) term at least to double ARPU).

2Q23 financial results review

On September 28 (after the market close) the Company released its financial results for 1H23 and 2Q23 as well.

We would like to note that **selected 2Q23 operating figures** were published on July 14 (right before the market close) and below we highlight the most important points while on September 12 (during the market session) the Company revealed selected preliminary 1H23 figures (revenues + EBITDA + EBIT), and, in consequence, **selected preliminary 2Q23 results** as well. **Final 2Q23 financial results are in line with the preliminary figures** which slightly beat our expectations (by PLN 0.2 million on the level of revenues and by PLN 0.1 million on the EBITDA level).

At the end of 2Q23 monthly recurring revenues (**MRR**) stood at PLN 2.113 million which implies an increase by c. PLN 381,000 (up 22%) yoy and by PLN 8,000 (up 0.4%) qoq. We would like to remind you that in 1Q23 MRR grew materially, up 14% qoq. Additionally, US$ depreciation (down c. 4% on average) in 2Q23 had a materially adverse impact on a dynamic of PLN-denominated MRR. In US$ terms (as the global version users who generate the bulk of revenues pay prices in US$) MRR at the 2Q23 end reached US$ 493,000 which implies a 3% qoq growth pace (up US$ 14,000 qoq) vs a 15% growth pace at the end of 1Q23; that's why 2Q23 improvement against this high base should be satisfactory, we believe, however, in PLN terms the bulk of this growth was exhausted by US$ depreciation vs PLN.

At the end of 2Q23 ARPU (average revenue per user) reached PLN 550 (US$ 128) which implies a qoq increase by PLN 9/ US$ 5 (up 12%/4%) (we remind you that in the previous quarter an ARPU growth was high and reached 12% and 14% qoq in PLN and US$ terms, respectively). Similarly, as for MRR, the US$ depreciation vs PLN hit a qoq growth of PLN-denominated ARPU (against the high base) while a qoq growth of US$-denominated ARPU seemed satisfactory.

The Company also informed that average ARPU per a new subscriber (acquired in 2Q23) (so called **Initial ARPU**) stood at PLN 658 (US$ 154) which is (i) considerably above (20%) the overall ARPU (for another consecutive quarter) and (ii) up 3% qoq in PLN terms and up 5% qoq in US$ terms.

A slightly lower qoq growth dynamic (by c. 1 pp) of MRR vs an ARPU qoq growth pace implies that **a number of subscribers** was slightly down in 2Q23[3].

We consider the set of 2Q23 KPIs as **neutral**.

Sales. The Group's 2Q23 consolidated revenues reached PLN 6.7 million (up 25% yoy and up 5% qoq) which is somewhat ahead of our expectations at PLN 6.5 million. The revenues growth stems directly from higher MRR and ARPU coupled with sales of the Group's new products (*Insights24* and *Media Monitoring* application for *Semrush Marketplac*e platform). As we know 1H23 revenues, then one would conclude that our FY23 revenues forecast looks too conservative (FY forecast realization after 1H23 reaches 48% vs 46% last year); however, we remind you of a risk related to a PLN appreciation vs US$ in 2H23 by c. 8-10% vs 2H22 (assuming that a PLN/US$ rate will stay close to the current level) which *ceteris paribus* will have a negative impact on the Company's results in PLN and their yoy dynamic.

The gross margin on sales reached 60.3% in 2Q23 vs 61.7% in 2Q22 and 60.0% in 1Q23. The almost 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. Since 1H23 results are known, we believe our current FY23 gross profit on sales

2 Brand24 doesn't need funding and it does not look for it either, instead the Company's aim is to find a partner with a large client base that is compatible with the Company's solutions and able to provide synergies and cross-selling opportunities.

3 The Company continues not to reveal a number of clients at the quarter end.

forecast is realistic, though not necessarily 'very conservative' despite slightly yoy higher FY forecast realization after 2 quarters (48% this year vs 47% a year ago) resulting from probably yoy weaker US$ vs PLN expected in 2H23.

OPEX. The OPEX base rose 15% yoy[4] (10 pp behind the revenue growth pace) rising most on the external services cost level (up 14% yoy)[5] and salary costs as well (up 23% yoy and 9% qoq).

EBITDA (at PLN 2.1 million) and **EBIT** (at PLN 1.5 million) were significantly higher yoy and slightly higher qoq; though the realization of our FY forecasts after 1H (at 49% with respect to both, EBITDA and EBIT) is materially higher than a year ago: 43% on the EBITDA and 49% on the EBIT level, we believe it doesn't imply an excessive conservative bias of our FY financial forecasts given changes of PLN/US$ rates in 2H23 (in the medium term i.e. in 2H23, US$ is likely to be weaker yoy vs PLN).

2Q23 net financial revenues (at PLN 0.2 million) were driven mainly by the valuation of US$ forward contracts set to somewhat hedge the US$-denominated revenues.

2Q23 NI (at PLN 1.8 million) – 4x higher yoy and almost double qoq (its dynamic supported by the 'negative' effective tax rate[6] (vs 26% in 2Q22) due to the impact of the IP BOX tax relief and the above mentioned financial gains on the valuation of hedging forward contracts. Though the NI forecast realization after 1H23 is significantly higher than a year ago: 51% vs 40%, one should bear in mind the discussed above FX rates movements (PLN vs US$) and the possibility that in 2H23 the effective tax rate may be higher than in 1H23.

1H23 net operating cash flows grew over 50% yoy (PLN 4.2 million vs PLN 2.8 million)[7], mainly due to materially higher yoy NI (by c. PLN 2 million) and a surge of obligations to provide services (i.e. deferred revenues from sales of subscriptions for periods exceeding one month and funding for R&D projects) partially offset by rising commercial receivables. Net operating cash flows for 2Q23 reached PLN 1.4 million vs PLN 1.3 million in 2Q22.

The main **drivers** behind the Company's 2Q23 financial results (and operating figures) were: (i) price upgrades for new clients (introduced at this year's beginning), (ii) price upgrades for some 'seasoned' clients, (iii) the portfolio of subscribers leaning towards bigger brands, (iv) new functionalities of *Brand24* application, and (v) US$ weakening vs PLN.

Ultimately, we perceive the Company's 2Q23 financial results as **neutral** (as they basically do not differ from preliminary figures published earlier which we perceived as **slightly positive** because they were somewhat above our expectations).

FY forecasts update

We update our FY projections for the Company for the current year and onwards incorporating, *inter alia*, actual 1H23 financial results of Brand24 and PLN/US$ changes vs the end of March (when we updated our FY projections for the Company).

A slight/ moderate increase of our revenues/ EBITDA forecasts for this year (and then for the upcoming years as well) stems mainly from slightly better 2Q23 figures than we expected coupled with September weakening of PLN vs US$ and the management belief about 'a huge space' for further price upgrades.

Our FY23 NI forecast rises materially as the net financial gains on FX forward hedging (after this year a change of NI forecast is similar to a change of forecast EBIT (due to a lack of fine tuning FX forward contracts on this year's (unattractive) conditions (last FX forward contracts at c. 4.5 are due in 1Q24)).

We would like to remind you that the Company's 4Q reported profits are burdened by (non-cash) costs of the valuation of the share-based incentive program costs (which reached PLN -0,6 million in 4Q22 and their estimates for 2023 and (possibly) onwards have not been revealed and is not incorporated in our forecasts, but this doesn't affect our valuation based on adjusted profits (leaving aside non-cash costs related to the incentive program valuation)).

4 0% qoq dynamic.
5 No change vs 1Q23.
6 i.e. after-tax profit is higher than pre-tax profit.
7 Mainly thanks to 1Q.

Valuation

Our 12M EFV for Brand24 constituting a 90%--10% mix of the outcomes of DCF and peer-relative valuation approaches (the weights stay intact) stands at PLN 48.8 per share (previously PLN 37.2 per share). 12M EFV falls under the positive impact of the valuation horizon forward shift (by 6 months; the previous update was done at the end of March), slight increase of the SaaS peers multiples median, minor drop (to 5.9% from 6.1% at the end of March) of 10Y POLGB yields (which is a proxy for our risk free rate for the definite forecast period which is next 10Y), lowering of the capital market risk premium (to 6.3%[8] from 7.0% previously) in Poland, and upward adjustment of our financial FY forecasts (discussed above). We would like to note that our 12M EFV includes a possibility to use the IP BOX tax relief by Brand24 in the definite forecast period, but not in the residual period[9].

8 After A. Damodaran https://www.stern.nyu.edu/~adamodar/pc/datasets/ctrypremJuly23.xlsx.

9 If we assumed that the Company is eligible to use the IPO BOX tax relief in the residual period as well (which means after 2032), then our DCF valuation would be (*ceteris paribus*) higher by PLN 2.5 per share.

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

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 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

	Overweight	Neutral	Underweight	Suspended	Under revision	Not rated
Numbers	32	33	14	9	0	4
Percentage	35%	36%	15%	10%	0%	4%

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%

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	→
Sobiesław Pająk	-	-		16.01.2022	17.01.2022	25.50	31.30	→
Sobiesław Pająk	-	-		07.02.2022	07.02.2022	23.60	31.30	→
Sobiesław Pająk	-	-		28.02.2022	28.02.2022	21.90	31.30	→
Sobiesław Pająk	-	-		14.04.2022	14.04.2022	25.00	31.30	→
Sobiesław Pająk	-	-		10.05.2022	10.05.2022	24.20	30.50	↓
Sobiesław Pająk	-	-		26.05.2022	26.05.2022	23.80	30.50	→
Sobiesław Pająk	-	-		15.07.2022	15.07.2022	21.90	30.50	→
Sobiesław Pająk	-	-		16.08.2022	16.08.2022	22.40	30.50	→
Sobiesław Pająk	-	-		02.09.2022	02.09.2022	19.95	30.50	→
Sobiesław Pająk	-	-		28.09.2022	29.09.2022	19.35	28.20	↓
Sobiesław Pająk	-	-		07.10.2022	07.10.2022	23.00	28.20	→
Sobiesław Pająk	-	-		28.10.2022	28.10.2022	22.00	28.20	→
Sobiesław Pająk	-	-		04.12.2022	05.12.2022	23.50	31.60	↑
Sobiesław Pająk	-	-		13.01.2023	13.01.2023	24.00	31.60	→
Sobiesław Pająk	-	-		03.02.2023	03.02.2023	25.00	31.60	→
Sobiesław Pająk	-	-		10.03.2023	10.03.2023	26.90	31.60	→
Sobiesław Pająk	-	-		30.03.2023	30.03.2023	25.70	37.20	↑
Sobiesław Pająk	-	-		29.05.2023	29.05.2023	33.70	37.20	→
Sobiesław Pająk	-	-		14.07.2023	14.07.2023	36.90	37.20	→
Sobiesław Pająk	-	-		31.08.2023	31.08.2023	33.50	37.20	→
Sobiesław Pająk	-	-		03.10.2023	03.10.2023	36.00	48.80	↑

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

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

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