

58/2023/GPW (124) December 10, 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

Upcoming events	2
Catalysts	2
Risk factors	2
Key points	2
Disclaimer	4

58/2023/GPW (124) December 10, 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.

Analyst: Sobiesław Pająk, CFA

Sector: IT – software & services
Bloomberg code: B24 PW
Price: PLN 36.30
12M EFV: PLN 48.8 (→)

Market Cap: USD 10 m
Av. daily turnover: USD 0.04 m
12M range: PLN 22.60-38.00
Free float: 42%

Brand24

Upcoming events

1. Completion of the strategic options' review: by 2023-end
2. Setting the terms and publication of the motivation program for next three years (2024-2026): December'23-1Q24
3. Release of selected KPIs for 4Q23: mid-January 2024
4. Release of 4Q23 financial results: March 2024

Catalysts

1. MRR/ARPU growth ahead of expectations
2. Stronger net adds
3. Commercial success of new products (e.g., Insights24)
4. Progression of financial results ahead of expectations
5. Strong US\$ in relation to PLN
6. Success of the 'agile' approach towards AI
7. Strategic options review resulting in an acceleration of the Company's development
3. Hike in competition, competitors proving more agile than the Company towards AI
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 – weak US\$ in relation to PLN)
7. Rise in churn
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

Risk factors

1. Lower availability of Internet data, higher cost of their acquisition
2. Company failing to be 'agile' in its AI approach
13. Rise in churn
14. Low share liquidity
15. Smaller than assumed further rise in MRR/ARPU

Key points

- **Investment opinion.** Good KPIs and financial results combined with favorable market sentiment towards AI-related exposures¹ underlie the (deserved) good performance (both in absolute and relative terms to the market) of Brand24's shares in 2023. Brand24 is currently focusing on building an intelligent brand assistant based on AI. The Company is nearing completion of a review of strategic options to analyze the possibility of acquiring a partner who would accelerate its development on foreign markets (especially in the USA), increasing the efficiency of customer acquisition and allowing for a steep increase in the scale of operations². The Company believes that it still has 'large' room to increase prices: the

Guide to adjusted profits

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

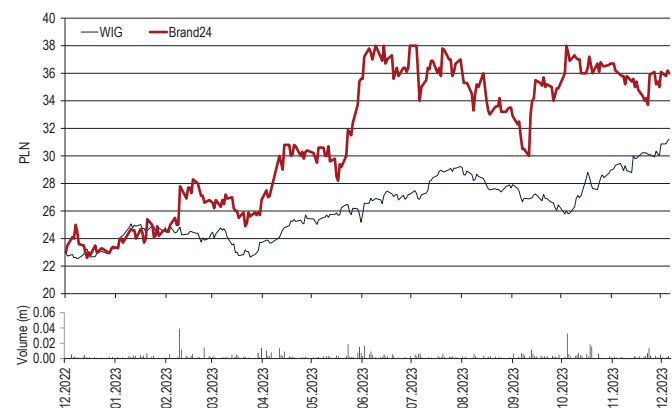
Key data

IFRS consolidated		2022	2023E	2024E	2025E
Sales	PLN m	22.2	27.3	31.9	35.9
EBITDA	PLN m	5.3	8.1	10.9	12.8
adj EBITDA	PLN m	6.0	7.8	10.1	12.0
EBIT	PLN m	2.8	4.9	7.2	8.7
adj EBIT	PLN m	3.5	4.6	6.4	7.9
NI	PLN m	1.5	4.7	6.6	8.0
adj NI	PLN m	2.3	4.4	5.8	7.2
EPS*	PLN	1.03	1.98	2.51	3.12
EPS yoy chg*	%	199%	92%	27%	24%
ND	PLN m	-0.6	-5.4	-12.4	-20.7
ND, excl. leases	PLN m	-1.8	-6.6	-13.6	-21.9
P/E*	x	35.3	18.4	14.5	11.6
P/CE*	x	16.8	10.7	8.8	7.4
EV/EBITDA*	x	13.2	9.8	7.1	5.3
EV/EBIT*	x	22.7	16.5	11.1	8.0
EV/S	x	3.6	2.8	2.2	1.8
EV/OCF	x	15.3	8.4	7.2	5.4
EV/FCFF	x	53.8	20.4	9.9	7.5
FCFF yield	%	1.9%	4.9%	10.1%	13.4%
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

1 From the perspective of internal operations, artificial intelligence supports the Company in its transformation from a company offering data into a company offering conclusions and recommendations.

2 The Company is looking for an entity with a large customer base compatible with its solutions, which can provide synergy and cross-selling opportunities.

Fig. 1. Brand24; Change in FY forecasts of DM BOS

IFRS consolidated (PLN m)	2023E			2024E			2025E		
	current	previous	change	current	previous	change	current	previous	change
Sales	27,3	27,5	-1%	31,9	32,8	-3%	35,9	36,9	-3%
EBITDA	8,1	8,1	0%	10,9	11,4	-4%	12,8	13,0	-2%
Adj EBITDA	7,8	8,2	-5%	10,1	10,6	-5%	12,0	12,2	-2%
EBIT	4,9	5,5	-11%	7,2	7,8	-8%	8,7	9,0	-4%
Adj EBIT	4,6	5,6	-18%	6,4	7,0	-9%	7,9	8,2	-4%
NI	4,7	5,4	-13%	6,6	7,2	-8%	8,0	8,3	-4%
Adj NI	4,4	5,5	-20%	5,8	6,4	-9%	7,2	7,5	-4%
Net debt (cash)	-5,4	-5,5	-2%	-12,4	-13,0	-5%	-20,7	-21,5	-4%

Source: DM BOS SA estimates

goal for the next two years is to increase ARPU by several dozen percent³. The key headwind is weak US\$ in relation to PLN.

- **3Q23 KPIs and results.** We perceive the 3Q22 set of Brand24's KPIs clearly positively (growth of MRR, growth of ARPU, initial ARPU above overall ARPU). The 3Q23 financial results: (i) sales (PLN 7.0 million) up yoy/qq by 21%/5% (fully in line with our expectation), (ii) gross margin on sales at 51%, lower yoy and qq by c. 10pp due to faster rise of operating costs (data costs (it should, according to the management, result in higher revenues in subsequent quarters) and D&A (completion of R&D project and start of amortizing the resultant intangible fixed asset)), (iii) reported EBITDA (PLN 2.1 million; 26% higher yoy, flat qq) and adjusted EBITDA (PLN 1.9 million; higher yoy by 15%, yet -10% lower qq).
- **4Q23E financial results.** We (very tentatively) look for c. PLN 7.2 million revenues (c. 20% up yoy) and c. PLN 1.9 million adjusted EBITDA (c. 15% higher yoy).
- **FY forecast update.** We update our FY projections for the Company for current year
- **12M EFV assessment.** Our 12M EFV for Brand24 stays at PLN 48.8 per share.
- A modest-to-moderate decline in our forecasts of the Company's revenues and profits for 2023 and subsequent years is mainly a consequence of extrapolation to the following quarters of the current PLN/US\$ exchange rate, an increase in the cost of external services, earlier start of depreciation of the R&D project and considering the negative balance of financial income and costs for the last quarter. We would like to remind that the financial results of Brand24 for the last quarter of the year are typically burdened by (non-cash) costs of the share-based motivation program for the key staff (and so will be this year; last year they amounted to PLN -0.6 million; their value in 4Q23 have not been disclosed yet and is not included in our forecasts, yet this has no consequences for our assessment of the Company's EFV, as this is based on forecasts of adjusted (i.e., excluding the non-cash SOCs) profits).

³ The ambition over the next 3-5 years is to at least double ARPU.

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	46	23	9	9	0	4
Percentage	51%	25%	10%	10%	0%	4%

Distribution of DM BOŚ's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision	Not rated
Numbers	26	39	13	9	0	4
Percentage	29%	43%	14%	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	8	4	1	1	0	3
Percentage	47%	24%	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	5	6	2	1	0	3
Percentage	29%	35%	12%	6%	0%	18%

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 →
Sobiestaw Pajak	-	-	-	14.07.2023	14.07.2023	36.90	37.20 →
Sobiestaw Pajak	-	-	-	31.08.2023	31.08.2023	33.50	37.20 →
Sobiestaw Pajak	-	-	-	03.10.2023	03.10.2023	36.00	48.80 ↑
Sobiestaw Pajak	-	-	-	12.10.2023	12.10.2023	37.00	48.80 →
Sobiestaw Pajak	-	-	-	06.11.2023	06.11.2023	35.90	48.80 →
Sobiestaw Pajak	-	-	-	10.12.2023	11.12.2023	36.30	48.80 →

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

This report has been prepared by Dom Maklerski Banku Ochrony Środowiska SA registered in Warsaw (hereinafter referred to as DM BOŚ SA) and commissioned by the Warsaw Stock Exchange SA (hereinafter referred to as WSE SA) pursuant to the agreement on the research report preparation between DM BOŚ SA and WSE SA within the framework of the Analytical Coverage Support Program 4.0 described on the WSE SA website: <https://www.gpw.pl/gpwpa> (hereinafter referred to as the Agreement). DM BOŚ SA will receive a remuneration for the research report in accordance with the Agreement.

The production of the report was completed on December 10, 2023 at 7.25 p.m.
The report was distributed on December 10, 2023 at 7.35 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.

This report constitutes neither investment advice nor provides investment service as referred to in Article 76 of the Act on Financial Instruments Trading as of 29 July 2005 (Journal of Laws, 2018, Item 2286 as amended), hereinafter referred to as the Act on Trading; it does not constitute any legal or tax advice, neither does it constitute an indication whether an investment is suitable or appropriate in an individual situation of an investor. In particular this report is not a personal recommendation based on any individual needs or situation of any investor. DM BOŚ SA informs that the investment advice services exclusively consist in the preparation of a personal recommendation based on individual needs and situation of a given client and transferring it to them. To receive this type of a recommendation an agreement on providing investment advice services must be signed with an investments company offering these services.

Neither the information nor the opinions expressed in the report constitute a solicitation or an offer to buy or sell any securities referred herein. The opinions expressed in the report reflect independent, current judgment of DM BOŚ SA.

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.

DM BOŚ SA is an investment firm within the meaning of the Act on Financial Instruments Trading. The legal entity supervising DM BOŚ SA is Polish Financial Supervision Authority in Warsaw (Komisja Nadzoru Finansowego, KNF in Polish abbreviation).

DM BOŚ SA, its management and supervisory bodies and employees do not take any responsibility for decisions taken on the basis of this report and opinions stated herein. Investors bear all responsibility for investment decisions taken on the basis of the contents of this report. The report is intended solely for private use of investors.

Copyrights to this report belong to the WSE. The rules for use of this report have been specified in the Agreement. This report mustn't be redistributed, reproduced or conveyed in any manner or form conflicting with the rules defined in the Agreement.

This report is made available on the day of its issue in the public domain on the website <https://bossa.pl/analizy/wsparcie-pokrycia-analitycznego-gpw#brand24>.

DM BOŚ SA is entitled to conveying or translation of the report into foreign languages on behalf of their clients and this shall not be sooner than making the report available on its website <https://bossa.pl/analizy/wsparcie-pokrycia-analitycznego-gpw#brand24>.

DM BOŚ SA follows internal regulations for handling of conflicts of interest which include in particular internal organizational and administration arrangements as well as information barriers established for prevention and avoidance of conflicts of interest related to recommendations. A special organizational arrangement that constitutes an information barrier is so called Chinese walls prohibiting an uncontrolled flow of information among particular organizational units or employees of DM BOŚ SA. Where justified, DM BOŚ SA can create Chinese walls upon the realization of a particular project. Potential conflicts of interests referring to a specific recommendation which is made available to the public or to a wide range of persons are disclosed either in the recommendation or in the document attached. The person(s) preparing this report receive(s) variable compensation indirectly based upon the financial results of DM BOŚ SA which in turn depend – among other factors – on the result on the brokerage activity.

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.

Apart from the mentioned above cases, there are neither ties of any kind between DM BOŚ SA, the analyst/ analysts involved in the preparation of the report and the issuer(s) of securities as referred to in the report nor circumstances that can justifiably be expected to have a negative impact on objectivity of the recommendation with regard to interests or conflicts of interests on their part or on the part of any natural person or legal entity which pertains to the financial instrument or the issuer.

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

The history of all recommendations issued by DM BOŚ in the last 12 months can be found at the following link: <https://bossa.pl/analizy/rekomendacje>

Stockbrokers

Piotr Kalbarczyk
tel.: +48 (22) 504 32 43
p.kalbarczyk@bossa.pl

Research

Sobiesław Pająk, CFA
(Equity strategy, TMT)

Sylvia Jaśkiewicz, CFA
(Construction materials,
Consumer discretionary,
Health care & biotechnology)

Tomasz Rodak, CFA
(Consumer discretionary, Video games)

Łukasz Prokopiuk, CFA
(Chemicals, Mining, Oil & gas)

Michał Sobolewski, CFA, FRM
(Financials)

Jakub Viscardi
(Telco, Consumer staples & discretionary,
IT – hardware distribution, Utilities)

Maciej Wewiórski
(Residential construction,
Construction, Real estate)

Mikołaj Stepien
Junior Analyst

Michał Zamel
Associate

Copyright © 2023 by DM BOŚ S.A.

**Dom Maklerski Banku Ochrony
Środowiska Spółka Akcyjna**
ul. Marszałkowska 78/80
00-517 Warszawa
www.bossa.pl
Information: (+48) 0 801 104 104