

9/2024/GPW (20) April 9, 2024

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

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Sector: IT – software & services
Bloomberg code: B24 PW
Price: PLN 48.80
12M EFV: PLN 56.2 (↑)

Market Cap: USD 28 m
Av. daily turnover: USD 0.06 m
12M range: PLN 25.70-48.80
Free float: 42%

Brand24

Upcoming events

1. Strategic option review ending: delayed vs earlier assumptions – ‘talks underway’
2. Release of selected KPIs for 1Q24: mid-April
3. Release of 1Q24 financial results: May 31, 2024
4. Release of selected KPIs for 2Q24: mid-July
5. Release of 2Q24 financial results: September 30, 2024
6. Release of selected KPIs for 3Q24: mid-October
7. Release of 3Q24 financial results: November 29, 2024
8. Establishment and release of the management incentive program terms (share-based on cash-based) and goals for next 3 years (2024-26): works still pending

Catalysts

1. ARPU/ MRR growth ahead of expectations
2. More dynamic new clients acquisition
3. Commercial success of new products (e.g. Insights24, AI Brand Assistant)
4. Progression of financial results ahead of expectations
5. Stronger USD vs PLN
6. Agility in the AI field proved to be the right approach
7. Strategic options review effects boosting the Company's development on foreign markets
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. Lower availability of Internet data, higher cost of their acquisition
11. IT infrastructure/ software malfunction

Risk factors

1. Weak USD vs PLN
2. Low agility in the AI field
3. Increasing competitive pressures in the sector, competitors more agile in the AI field
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

2023 was prosperous for Brand24 in all respects; despite the adverse impact of weakening US\$ the Company's revenues/ adj EBITDA/ OCF grew 25%/31%/39% yoy, new products (*Insights 24* and *Brand Monitoring* – an application from the Semrush platform) generated revenues at PLN 1.5 million in total while the CLTC/ CAC ratio¹ materially improved which was reflected in Brand24's very good market share price performance last year and in 1Q24. The Company's financial results were *inter alia* supported by the product development and key processes improvement initiatives such as the introduction of other than English and Polish language versions, marketing automation of new notifications, more interesting webinars, more data

Guide to adjusted profits

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

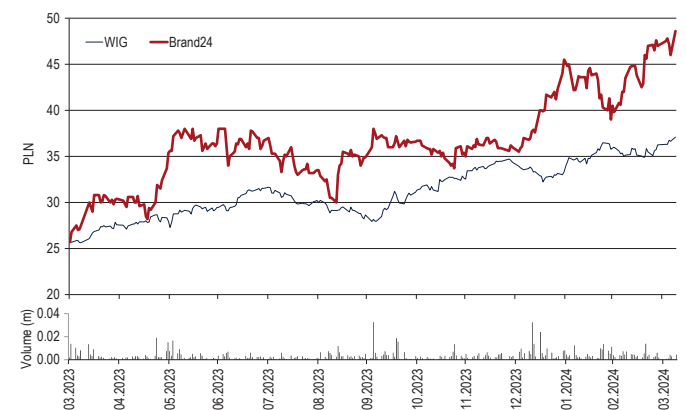
Key data

IFRS consolidated		2023	2024E	2025E	2026E
Sales	PLN m	27.7	33.0	37.2	40.9
EBITDA	PLN m	7.7	10.6	12.8	14.9
adj EBITDA	PLN m	7.9	10.2	12.4	14.5
EBIT	PLN m	4.5	6.5	8.4	9.8
adj EBIT	PLN m	4.6	6.1	8.0	9.4
NI	PLN m	3.5	5.9	7.6	9.0
adj NI	PLN m	3.7	5.5	7.3	8.6
EPS*	PLN	1.64	2.37	3.15	3.72
EPS yoy chg*	%	60	44	33	18
ND	PLN m	-1.1	-9.3	-19.2	-25.3
ND, excl. leases	PLN m	-6.4	-13.3	-21.8	-31.1
P/E*	x	29.7	20.6	15.5	13.1
P/CE*	x	15.7	11.8	9.6	8.3
EV/EBITDA*	x	13.7	10.1	7.5	6.0
EV/EBIT*	x	23.4	16.8	11.7	9.2
EV/S	x	3.9	3.1	2.5	2.1
EV/OCF	x	14.9	10.1	7.6	6.2
EV/FCFF	x	16.8	14.1	10.7	9.1
FCFF yield	%	6.0	7.1	9.4	11.0
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	2.3	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 The Customer Lifetime Value to Customer Acquisition Cost ratio

sources etc. The crucial role in these changes belong to the AI-related implementations (for example, AI is employed to improve the customer service offering immediate summaries of talks with users, helps create the new blog content that constitutes the main channel of Brand24's customer acquisition, improves the meeting effectiveness via tools creating automatic transcripts and summaries) which however brings about mostly product changes; in 2023 Brand24 launched *AI Wnioski* (a functionality which implements AI to analyze data and provide the user with ready-made basic conclusions), AI anomaly detection function, AI topic analysis and more.

The crucial project the Company has been working on is the *AI Brand Assistant* – a virtual consultant which can be questioned about anything connected to the brand (with an access to all the metrics and data, able to make graphs and slides for the presentation); a Beta version has been already tested by Brand24's select clients.

Apart from the product issues (and the related pricing policy²), currently the Company is faced with crucial decisions regarding the way of (i) using the accumulated net cash (over PLN 6 million at 2023

end, excluding leasing; would it be the distribution to shareholders, acquisitions or something else?) and (ii) strategic option review ending (started at mid-March last year, for the purpose of an analysis of possibilities to find a business partner that would help accelerate the Company's development abroad (especially in the US) and thus increase the effectiveness of Brand24's client acquisition which would allow for a quantum leap of a scale of operations³) – according to the Company's management last announcements, the talks are still under way.

Valuation

Our 12M EFV for Brand24 constituting a 90%/ 10% mix of the outcomes of DCF and peer-relative valuation approaches (no change in weights) stands at PLN 56.2 per share (previously PLN 48.8 per share). Our 12M EFV falls under the positive impact of the valuation horizon forward shift in time, basing of the peer relative approach on 2024 multiples (instead of 2023) and a decision to lower (following footsteps of A. Damodaran's estimates) the ERP assumption for Poland to 5.9% (from 6.3% previously).

² Brand24 believes that a room for the price upgrades is still huge (and targets the ARPU growth for next 2 years at a dozen or so percent with the ambition to at least double the ARPU in a 5-year perspective).

³ Brand24'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.

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	43	24	11	9	0	4
Percentage	47%	26%	12%	10%	0%	4%

Distribution of DM BOŚ's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision	Not rated
Numbers	27	36	15	9	0	4
Percentage	30%	40%	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	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 →
Sobiestaw Pajak	-	-	-	09.01.2024	09.01.2024	36.90	48.80 →
Sobiestaw Pajak	-	-	-	01.02.2024	01.02.2024	44.80	48.80 →
Sobiestaw Pajak	-	-	-	29.02.2024	29.02.2024	40.50	48.80 →
Sobiestaw Pajak	-	-	-	04.04.2024	04.04.2024	47.20	48.80 →
Sobiestaw Pajak	-	-	-	09.04.2024	09.04.2024	48.80	56.20 ↑

* 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 April 9, 2024 at 5.50 p.m.
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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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