

Verve Group SE*5a, 5b, 7, 11

Rating: BUY

Target price: € 6.60
(previously: € 6.00)

Current share price: 3.29
05/09/2024 / Xetra
(17:35)

Currency: EUR

Master data:

ISIN: SE0018538068
WKN: A3D3A1
Ticker symbol: VER / M8G
Number of shares³: 186.36
Market cap³: 613.12
Enterprise value³: 916.67
in million / in million EUR

Free float: 54.6%

Transparency level:
Nasdaq First North Premier

Market segment:
Freiverkehr
(Open Market)

Accounting:
IFRS

Financial year: 31/12/

Designated Sponsor:
Kepler Cheuvreux
mwb fairtrade
Wertpapierhandelsbank AG

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* Catalogue of possible conflicts of interest on page 9

Date (time) completion:
06/09/2024 (8:25)

Date (time) first transfer:
09/09/2024 (9:00)

Validity of the price target: until
max. 31 December 2025

Company profile

Industry: Ad-tech and mobile/online games

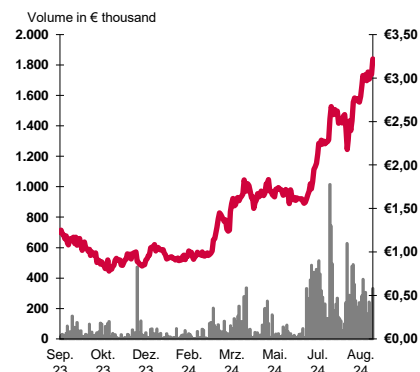
Focus: Software Application

Employees: >750

Foundation: 2011

Company headquarters: Stockholm (Sweden)

Management Board members: Remco Westermann (CEO), Paul Echt (CFO), Jens Knauber (COO), Alex Stil (COO), Sameer Sondhi (CRO)



Verve Group SE (Verve) operates a fast-growing, profitable advertising software platform that matches global advertiser demand with publishers' advertising supply and improves advertising results with the help of first-party data from its own online games and its own software development kit (SDK), which is integrated into over 20,000 apps. Verve operates primarily in North America and Europe. Through investments in organic growth and innovation as well as targeted acquisitions, Verve has built a one-stop shop for programmatic advertising, enabling companies to buy and sell advertising space across all fast-growing emerging media channels (mobile apps, web, connected TV and digital out of home) with the goal of making advertising better. Verve is registered as a Societas Europaea in Sweden (registration number 517100-0143) and its shares are listed on the Nasdaq First North Premier Growth Market in Stockholm and on the Scale segment of the Frankfurt Stock Exchange. The company has two collateralised bonds listed on Nasdaq Stockholm and on the Open Market of the Frankfurt Stock Exchange.

P&L in EUR million \ End of FY	31/12/2023	31/12/2024e	31/12/2025e	31/12/2026e
Revenues	321.98	401.24	502.11	596.79
Adjusted EBITDA (Adj. EBITDA)	95.20	125.89	162.94	197.88
EBITDA	128.46 ¹	119.29	156.84	191.58
Net result (after minority interests)	46.73 ¹	21.52	43.88	67.97

¹ *positively influenced by a special revaluation effect in the amount of € 62.76 million

Key figures in EUR

Earnings per share (EPS)	0.29	0.12	0.24	0.37
Dividend per share	0.00	0.00	0.00	0.00

Key figures

EV/Revenues	2.85	2.28	1.83	1.54
EV/Adj. EBITDA	9.63	7.28	5.63	4.63
EV/EBITDA	7.14	7.68	5.84	4.78
P/E ratio (after minorities)	13.12	28.49	13.97	9.02
P/B ratio	1.74			

Financial dates

28/11/2024: Quarterly report Q3 2024

**Latest research from GBC:

Date: Publication / Target price in EUR / Rating

24/06/2024: RS / 6.00 / BUY

04/03/2024: RS / 4.50 / BUY

07/12/2023: RS / 4.05 / BUY

11/09/2023: RS / 4.05 / BUY

** The research studies listed above can be viewed at www.gbc-ag.de or requested from GBC AG, Halderstr. 27, D86150 Augsburg, Germany

Note in accordance with MiFID II regulation for "minor non-monetary benefit" research: this research fulfils the requirements for classification as a "minor non-monetary benefit". Further information on this can be found in the disclosure under "I. Research under MiFID II"

HY1 2024: Dynamic sales development thanks to strong organic growth; disproportionately high earnings growth due to the onset of economies of scale and savings effects; GBC estimates and price target also raised following guidance increase

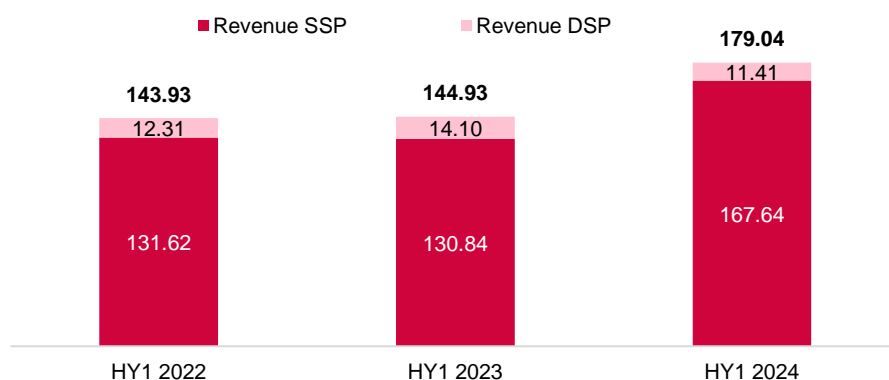
Business performance in the first half of 2024

P&L (in € million)	HY1 2022	HY1 2023	HY1 2024
Revenues	143.93	144.93	179.04
EBITDA (EBITDA <i>margin</i>)	36.91 (25.6%)	37.41 (25.8%)	48.27 (27.0%)
Adjusted EBITDA (Adj. EBITDA <i>margin</i>)	38.60 (26.8%)	40.40 (27.9%)	51.10 (28.5%)
Profit for the period (after minority interests)	5.59	2.57	6.86

Sources: Verve Group SE; GBC AG

Verve Group SE (Verve) published its Q2 and half-year figures for the current financial year 2024 on 30 August 2024. In the first six months of the year, the ad-tech platform group continued its growth strategy at a high growth rate in the context of a further recovery in the advertising industry and was able to grow significantly faster than the industry as a whole. Group digital revenue increased dynamically by 23.5% year-on-year to € 179.04 million (HY1 2023: € 144.93 million).

Development of Group and segment revenue in a half-year comparison (in € million)

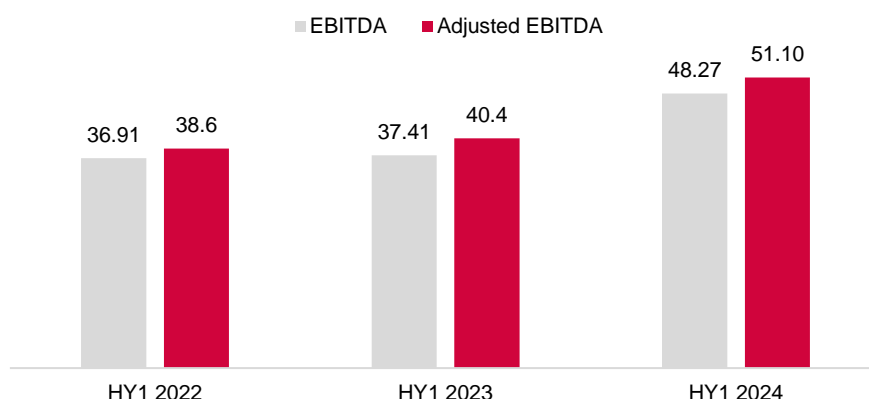


Sources: Verve Group SE; GBC AG

The positive Group sales performance was primarily driven by the high-volume Supply Side Platform business unit with a significant increase in segment sales of 28.1% to € 167.64 million (HY1 2023: € 130.84 million). By contrast, revenue in the essentially smaller DSP business area, which was significantly strengthened and expanded by this year's Jun acquisition (takeover in June 2024), fell to € 11.41 million (HY1: € 14.10 million).

In line with their dynamic sales development, EBITDA increased disproportionately by 29.0% to € 48.27 million (HY1 2023: € 37.41 million) compared to the same period of the previous year due to economies of scale and cost optimisation effects (resulting from the cost-cutting programme introduced in 2023). Adjusted for one-off costs and special effects (e.g. M&A or consulting costs), adjusted EBITDA (Adj. EBITDA) for the first half of 2024 totalled € 51.10 million (HY1 2023: € 40.40 million), an increase of 26.5% compared to the same period of the previous year. At the same time, the adjusted EBITDA margin increased slightly to 28.5% (HY1 2023: 27.9%).

Development of EBITDA and adjusted EBITDA on a half-year basis (in € million)



Sources: Verve Group SE; GBC AG

Earnings growth also continued at net level (consolidated earnings after minority interests) with a jump in earnings to € 6.86 million (HY1 2023: € 2.57 million).

Business performance in Q2 2024

P&L (in € million)	Q2 2022	Q2 2023	Q2 2024
Revenues	78.06	76.18	96.57
EBITDA (EBITDA margin)	20.04 (25.7%)	19.99 (26.2%)	28.08 (29.1%)
Adjusted EBITDA (Adj. EBITDA margin)	21.10 (27.0%)	21.30 (28.0%)	29.10 (30.1%)
Profit for the period (after minority interests)	3.05	1.74	6.26

Sources: Verve Group SE; GBC AG

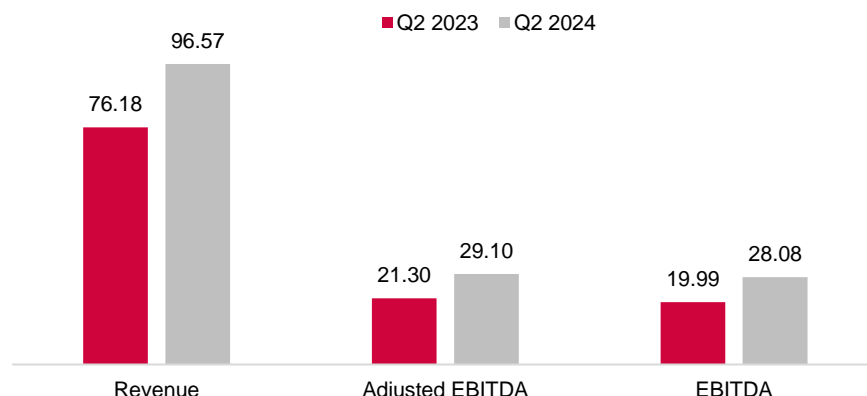
Due to their accelerated (internal) growth momentum over the past quarters, a high growth rate was recorded in the second quarter in particular. In Q2, Group sales increased significantly by 26.8% to € 96.57 million compared to the same quarter of the previous year (Q2 2023: € 76.18 million). Adjusted for currency effects, organic growth of 26.0% was achieved.

The main growth drivers here proved to be the strong customer demand for privacy-first targeting solutions from new customers and the expansion of (digital) advertising budgets (net dollar expansion rate Q2 2023: 82% vs. Q2 2024: 109%) with existing customers. The growth achieved was also reflected in a 33.0% increase in larger software customers (annual revenue of more than USD 100,000) to 851 (Q2 2023: 642), with the total number of customers also increasing significantly to 2,518 software customers at the end of the second quarter (Q2 2023: 1,976). At the same time, the number of adverts delivered to digital customers increased significantly by 23.8% to 224 billion (Q2 2023: 181.0 billion).

According to the company, the ad-tech company once again succeeded in further increasing its market share in the past quarter, particularly through innovative AI-based customer solutions such as ATOM 3.0, Moments.AI and ML-driven optimisations (for SKAN), thereby expanding its existing market position.

In terms of operating earnings development, Verve achieved a significantly disproportionate increase in EBITDA of 40.5% to € 28.08 million (Q2 2023: € 19.99 million) due to the strong organic quarterly growth recorded and a reduced structural fixed cost base. Group EBITDA adjusted for one-off and special effects (e.g. M&A and consulting costs) increased by 36.6% to € 29.10 million (Q2 2023: € 21.30 million). At the same time, the adjusted EBITDA margin increased significantly to 30.1% (Q2 2023: 28.0%).

Quarterly performance of the Verve Group (in € million)



Sources: Verve Group SE; GBC AG

In view of the high profitability and strong operating cash flow, the Verve Group was able to improve its leverage ratio (net debt/adj. EBITDA) to 2.8x (end of FY 2023: 3.1x) and is aiming for a further improvement to 2.4x by the end of the 2024 financial year. In the medium and long term, the technology company is even aiming to further reduce its leverage ratio to 1.5x to 2.5x.

Forecasts and evaluation

P&L in € million	FY 2023	FY 2024e (New)	FY 2024e (Old)	FY 2025e (New)	FY 2025e (Old)	FY 2026
Revenues	321.98	401.24	380.12	502.11	475.91	596.79
Adjusted EBITDA (Adj. EBITDA)	95.20	125.89	115.52	162.94	154.87	197.88
EBITDA	128.46* ¹	119.29	108.92	156.84	148.77	191.58
Net result (after minority interests)	46.73* ¹	21.52	14.26	43.88	38.23	67.97

Sources: Verve Group SE; GBC AG estimates *¹positively influenced by a special revaluation effect in the amount of € 62.76 million

With the publication of its quarterly and half-year figures, the Verve Group has also revised its previously raised corporate guidance upwards again. In view of the positive half-year performance and its visibility in August regarding the further course of the financial year, the technology company now expects Group sales in a range of € 400.0 million to € 420.0 million (previously: € 380.0 million to € 400.0 million) and an adjusted EBITDA (Adj. EBITDA) of € 125.0 million to € 135.0 million (previously: € 115.0 million to € 125.0 million).

It should be noted here that the adjusted company guidance does not include any potential (additional) advertising income from the upcoming US election campaign, which is expected to occur between the end of the third quarter and the fourth quarter of 2024 in particular and thus opens up significant upside potential for revenue. It should be emphasised at this point that the US presidential candidate Kamala Harris is aiming for record spending on digital election advertising as part of her election campaign (according to media reports, around USD 200 million for digital advertising or digital advertising channels) and is therefore planning the strongest digital advertising campaign in US history.

At the same time, the technology company has also adjusted its previous medium-term financial targets upwards in the form of an average annual (adjusted) EBITDA margin of 30.0% to 35.0% (previously: 25.0% to 30.0%) due to the significant increase in the Group's size and profitability following the Jun acquisition. At EBIT margin and net leverage level, an improvement to 20.0% to 25.0% (previously: 15.0% to 20.0%) and a reduced leverage ratio (net debt/adj. EBITDA) of 1.50x to 2.50x (previously: 2.0x to 3.0x) is expected. In

terms of medium-term growth ambitions, Verve continues to expect an average annual growth rate of 25.0% to 30.0% (CAGR).

In view of the convincing half-year performance and the raised corporate guidance and increased medium-term financial outlook, we have adjusted our previous sales and earnings forecasts for the current financial year 2024 and also for the following years upwards. For the current financial year, we now expect consolidated sales of € 401.24 million (previously: € 380.12 million) and EBITDA of € 119.29 million (previously: € 108.92 million). Based on conservative assumptions, we expect sales of € 502.11 million (previously: € 475.91 million) and EBITDA of € 156.84 million (previously: € 148.77 million) for the following financial year 2025.

Overall, we continue to assume that the Verve Group will be able to dynamically continue its growth trajectory thanks to its strong market position in the digital advertising market and innovative technologies (privacy-first customer solutions, etc.). The recently acquired Jun company (effective from 1 August 2024) should lead to an even stronger pace of growth and improved Group profitability thanks to the expected synergy effects as part of the Group integration and strong positioning on the demand side.

In light of our increased sales and earnings forecasts, we have raised our previous price target to € 6.60 (previously: € 6.00) per share. The onset of the roll-over effect (price target based on the following financial year 2025 instead of 2024) also had the effect of increasing the price target. In view of the current share price level, we therefore assign a "BUY" rating and continue to see significant upside potential in the Verve share.

DCF valuation

Model assumptions

We have valued Verve Group SE using a three-stage DCF model. Starting with the specific estimates for the years 2024 to 2026 in phase 1, the forecast for 2027 to 2031 in the second phase is based on value drivers. We expect sales to increase by 5.0% (previously: 5.0%). We have assumed an EBITDA target margin of 32.1% (previously: 32.1%). We have included the tax rate in phase 2 at 30.0%. In the third phase, a residual value is also determined after the end of the forecast horizon using perpetuity. In the terminal value, we assume a growth rate of 2.5% (previously: 2.5%).

Determination of the cost of capital

The weighted average cost of capital (WACC) of Verve Group SE is calculated from the cost of equity and the cost of debt. The fair market premium, the company-specific beta and the risk-free interest rate must be calculated to determine the cost of equity.

The risk-free interest rate is derived from current yield curves for risk-free bonds in accordance with the recommendations of the IDW's Technical Committee for Business Valuations and Business Administration (FAUB). This is based on the zero bond interest rates published by the Deutsche Bundesbank using the Svensson method. The average yields of the previous three months are used to smooth out short-term market fluctuations. The value currently used for the risk-free interest rate is 2.5% (previously: 2.5%).

We use the historical market premium of 5.5% as a reasonable expectation of a market premium. This is supported by historical analyses of equity market returns. The market premium reflects the percentage by which the equity market is expected to outperform low-risk government bonds.

According to the GBC estimation method, the current beta is 1.36 (previously: 1.36).

Using the assumptions made, the cost of equity is calculated at 9.96% (previously: 9.96%) (beta multiplied by risk premium plus risk-free interest rate). As we assume a sustainable weighting of the cost of equity of 80.0% (previously: 80.0%), the weighted average cost of capital (WACC) is 8.95% (previously: 8.95%).

Valuation result

The fair value per share we have calculated for the end of the 2025 financial year corresponds to a target price of € 6.60 per share (previously: € 6.00 per share). Our price target increase is mainly based on our increased sales and earnings forecasts. In addition, the "roll-over effect" (share price target based on the following financial year 2025 instead of the previous 2024) has had the effect of increasing the share price target.

VALUATION

Verve Group SE - Discounted cash flow (DCF) analysis

Value drivers of the DCF model after the estimate phase:

Consistency phase		Final - Phase	
Revenues growth	5.0%	Perpetual revenues growth	2.5%
EBITDA margin	32.1%	Perpetual EBITA margin	23.9%
AFA to operating fixed assets	26.5%	Effective tax rate in the terminal value	30.0%
Working capital to revenues	5.0%		

Three-stage DCF model:

Phase in EUR million	Estimate			Consistency					Final Final value
	FY 24e	FY 25e	FY 26e	FY 27e	FY 28e	FY 29e	GJ 30e	FY 31e	
Revenues (US)	401.24	502.11	596.79	626.63	657.96	690.86	725.40	761.67	
US change	24.6%	25.1%	18.9%	5.0%	5.0%	5.0%	5.0%	5.0%	2.5%
US to operating fixed assets	1.88	2.57	3.38	3.93	4.48	5.01	5.50	5.96	
EBITDA	119.29	156.84	191.58	201.16	211.22	221.78	232.87	244.51	
EBITDA margin	29.7%	31.2%	32.1%	32.1%	32.1%	32.1%	32.1%	32.1%	
EBITA	85.72	113.63	144.86	154.44	169.08	182.94	196.39	209.65	23.9%
EBITA margin	21.4%	22.6%	24.3%	24.6%	25.7%	26.5%	27.1%	27.5%	
Taxes on EBITA	-25.72	-34.09	-43.46	-46.33	-50.72	-54.88	-58.92	-62.90	
to EBITA	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
EBI (NOPLAT)	60.00	79.54	101.40	108.11	118.35	128.06	137.47	146.76	
Return on investment	28.0%	35.8%	48.5%	55.6%	62.1%	71.3%	79.7%	87.3%	78.8%
Working capital (WC)	9.15	13.99	17.88	31.33	32.90	34.54	36.27	38.08	
WC to revenues	2.3%	2.8%	3.0%	5.0%	5.0%	5.0%	5.0%	5.0%	
Investments in WC	-17.71	-4.84	-3.89	-13.45	-1.57	-1.64	-1.73	-1.81	
Operating assets (OAV)	212.87	195.16	176.64	159.32	146.83	137.91	131.79	127.78	
AFA on OAV	-33.57	-43.21	-46.72	-46.72	-42.14	-38.84	-36.48	-34.86	
AFA to OAV	15.8%	22.1%	26.4%	26.5%	26.5%	26.5%	26.5%	26.5%	
Investments in OAV	-23.90	-25.50	-28.20	-29.40	-29.65	-29.92	-30.35	-30.85	
Invested capital	222.02	209.15	194.52	190.65	179.73	172.46	168.06	165.86	
EBITDA	119.29	156.84	191.58	201.16	211.22	221.78	232.87	244.51	
Taxes on EBITA	-25.72	-34.09	-43.46	-46.33	-50.72	-54.88	-58.92	-62.90	
Total investments	-196.61	-96.34	-57.09	-42.85	-31.22	-31.56	-32.08	-32.66	
Investments in OAV	-23.90	-25.50	-28.20	-29.40	-29.65	-29.92	-30.35	-30.85	
Investments in WC	-17.71	-4.84	-3.89	-13.45	-1.57	-1.64	-1.73	-1.81	
Investments in goodwill	-155.00	-66.00	-25.00	0.00	0.00	0.00	0.00	0.00	
Free cash flows	-103.04	26.41	91.03	111.98	129.28	135.33	141.87	148.95	1962.80

Value of operating business (reporting date)	1611.53	1729.28
Present value of explicit FCFs	534.08	555.45
Present value of the continuing value	1077.44	1173.83
Net debt	474.43	499.11
Value of equity	1137.09	1230.17
Minority interests	-0.20	-0.22
Value of the share capital	1136.89	1229.96
Outstanding shares in € million	186.36	186.36
Fair value of the share in EUR	6.10	6.60

Determination of the cost of capital:

Risk-free return	2.5%
Market risk premium	5.5%
Beta	1.36
Cost of equity	10.0%
Target weighting	80.0%
Borrowing costs	6.5%
Target weighting	20.0%
Tax shield	25.0%
WACC	8.9%

Return on capital	WACC				
	8.3%	8.6%	8.9%	9.2%	9.5%
78.3%	7.43	6.97	6.56	6.18	5.84
78.5%	7.46	7.00	6.58	6.20	5.86
78.8%	7.48	7.02	6.60	6.22	5.88
79.0%	7.50	7.04	6.62	6.24	5.89
79.3%	7.53	7.06	6.64	6.26	5.91

APPENDIX

I.

Research under MiFID II

1. There is a contract between the research company GBC AG and the issuer regarding the independent preparation and publication of this research report on the issuer. GBC AG is remunerated for this by the Issuer.
2. The research report is made available to all interested investment service providers at the same time.

II.

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A specific update of the present analysis(es) at a fixed date has not yet been scheduled. GBC AG reserves the right to update the analysis without prior notice.

§ 2 (II) Recommendation / Classification / Rating:

GBC AG has been using a three-stage absolute share rating system since 1 July 2006. Since 1 July 2007, the ratings have been based on a time horizon of at least six to a maximum of 18 months. Previously, the ratings were based on a time horizon of up to 12 months. When the analysis is published, the investment recommendations are determined according to the ratings described below with reference to the expected return. Temporary price deviations outside these ranges do not automatically lead to a change in the rating, but do give rise to a revision of the original recommendation.

The respective recommendations/classifications/ratings are linked to the following expectations:

BUY

The expected return, based on the calculated price target, including dividend payment within the corresponding time horizon is $\geq + 10\%$.

HOLD	The expected return, based on the calculated price target, including dividend payment within the corresponding time horizon is > - 10% and < + 10%.
SALE	The expected return, based on the calculated price target, including dividend payment within the corresponding time horizon is <= - 10%.

GBC AG price targets are determined on the basis of the fair value per share, which is calculated using generally recognised and widely used methods of fundamental analysis, such as the DCF method, the peer group comparison and/or the sum-of-the-parts method. This takes into account fundamental factors such as share splits, capital reductions, capital increases, M&A activities, share buybacks, etc.

§ 2 (III) Historical recommendations:

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§ 2 (IV) Information basis:

For the preparation of the present analysis(es), publicly available information on the issuer(s) (where available, the three most recently published annual and quarterly reports, ad hoc announcements, press releases, securities prospectuses, company presentations, etc.) was used, which GBC considers to be reliable. In addition, discussions were held with the management of the company/companies concerned in order to obtain more detailed information on business developments.

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GBC AG and the responsible analyst hereby declare that the following potential conflicts of interest exist for the company/companies named in the analysis at the time of publication and thus fulfil the obligations of § 85 WpHG and Art. 20 MAR. A detailed explanation of the possible conflicts of interest is given below in the catalogue of possible conflicts of interest under § 2 (V) 2.

The following potential conflict of interest exists with regard to the securities or financial instruments discussed in the analysis: (5a, 5b, 7, 11)

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- (7) The analyst in charge, the principal analyst, the deputy principal analyst and or any other person involved in the preparation of the study person holds shares or other financial instruments in this company at the time of publication.
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