

Verve Group SE

Sweden / Application Software
 Nasdaq First North Premier & Xetra
 Bloomberg: M8G GR
 ISIN: SE0018538068

M&A
 Update

RATING
PRICE TARGET

Return Potential
 Risk Rating

BUY
€ 4.90

195.2%
 High

VERVE MAKES TRANSFORMATIVE DEAL

The recently rebranded Verve Group SE dusted off its M&A tool belt with the strategic acquisition of Jun Group, a US based digital media company. Verve has been patiently monitoring the markets for an opportunity to boost its ad software platform that was heavily weighted to the supply-side. We think Verve found the right deal at an excellent price that will invigorate its demand-side business, boost financials, strengthen the balance sheet, and provide direct access to coveted Fortune 500 brands, while also expanding its AI toolbox and data trove. We have recalibrated our forecasts to account for the accretive deal that more than offsets the dilution from the associated cap hike. Our TP moves to €4.9 (old: €4.1). We remain Buy-rated on Verve.

It's a match Digital advertising has two basic elements. A DSP (Demand-Side Platform) allows advertisers to efficiently buy ad impressions across various publisher websites, while an SSP (Supply-Side Platform) does the exact opposite. It enables publishers to sell their ad inventory to advertisers at the highest possible price. Verve's transformation from a predominantly online gaming business to an ad-tech company over the past years was heavily geared towards the supply-side, which accounted for ~90% of 2023 turnover with only a 10% DSP contribution. The combination with Jun will significantly increase the ratio of Verve's DSP business to around 30% and put the company within shooting distance of its eventual 50/50 target.

And there's more to like Jun boasts an EBITDA margin of over 50%. The business combination will thus increase Verve's targeted EBITDA margin corridor to 30% to 35% (old: 25% to 30%). Plus, some 93% of Jun EBITDA converts to cash. Several other factors stand out: (1) access to over 230 customers including a number of Fortune 500 brands; (2) revenue and operating cost synergies that translate into a 3.8x EBITDA multiple for... (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2020	2021	2022	2023	2024E	2025E
Revenue (€m)	140.2	252.2	324.4	322.0	389.9	500.7
Y/Y growth	157.2%	79.8%	28.7%	-0.8%	21.1%	28.4%
AEBITDA (€m)	29.1	71.1	93.2	95.2	120.7	168.3
AEBITDA margin	20.7%	28.2%	28.7%	29.6%	31.0%	33.6%
Net income (€m)*	6.6	28.0	21.1	57.4	28.1	67.1
EPS (diluted) (€)*	0.04	0.20	0.14	0.36	0.16	0.36
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-12.5	-230.8	-42.5	33.8	-28.4	73.1
Net gearing	31.2%	63.7%	84.3%	83.7%	88.6%	63.2%
Liquid assets (€m)	46.3	180.2	150.0	121.7	89.2	104.0

* Adjusted for PPA-amortisation

RISKS

Risks include but are not limited to: revenue diversity, financing, technology, and regulatory risks.

COMPANY PROFILE

Verve Group SE is a fast-growing, profitable digital media company that provides AI-driven ad-software solutions. The company matches global advertiser demand with publisher ad-supply, enhancing results through first-party data from its own content, while pursuing its "Let's make media better" mission.

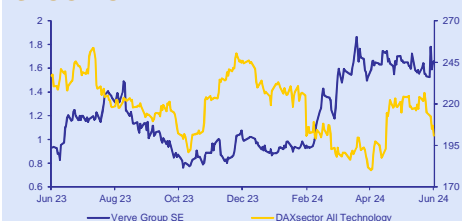
MARKET DATA

As of 21 Jun 2024

Closing Price	€ 1.66
Shares outstanding	186.36m
Market Capitalisation	€ 309.36m
52-week Range	€ 0.76 / 1.86
Avg. Volume (12 Months)	48,744

Multiples	2023	2024E	2025E
P/E	4.6	10.2	4.6
EV/Sales	2.1	1.7	1.3
EV/EBITDA	7.0	5.5	3.9
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Mar 2024

Liquid Assets	€ 124.70m
Current Assets	€ 195.10m
Intangible Assets	€ 807.90m
Total Assets	€ 1,023.50m
Current Liabilities	€ 245.40m
Shareholders' Equity	€ 364.60m

SHAREHOLDERS

Bodhivas GmbH	27.1%
Oaktree Capital Mngt	17.7%
Sterling Active Fund	5.1%
Free Float	50.1%



. . . the deal; (3) aforementioned high cash generation, which will help compress the net debt / EBITDA ratio towards 2.5x this year and likely below 2x in 2025 (YE23: 3.1x); and (4) more AI tools and better data to work with. Investors have been griping about Verve's high leverage for some time now. The company has been husbanding cash in lieu of paying down outstanding bonds to remain flexible in the event that the right deal would come along. It appears that it did.

Transaction overview The Jun deal is valued at €170m equal to an attractive 3.8x EV/AEBITDA multiple, post synergies. Jun was looking for the right partner and a quick solution to comply with its stretched leverage covenants. Verve was able to lean on its vast M&A experience to accelerate the required due-diligence and put the financing together. Verve issued ~27.1m new shares for €40m to add to an €80m cash payment for the first €120m instalment. Jun will receive another €25m twelve months after the September close and a final €25m tranche six months after that.

Table 1: Increased 2024 guidance including Jun Group

	Unit	2023	2024 guidance		FBe
			Old	New (incl: Jun Group*)	
Revenue	€m	322	350 - 370	380 - 400	390
Grow th	%	-1	9 - 15	18 - 24	21
AEBITDA	€m	95	100 - 110	115 - 125	121
Grow th	%	31	5 - 16	21 - 32	27

*as of September 2024

Source: First Berlin Equity Research; Verve Group

Increasing target price 20% to €4.9 Verve upped 2024 guidance on the Jun takeover, and we have recalibrated FBe to align our numbers with the midpoint. The company expects to complete the Jun onboarding by the end of 2024 in order to fully harness business synergies. CapEx should also be minimal, given the business and technology fit.

We have also factored in the new shares from the capital increase into our DCF model. The combined effects of earnings accretion and share dilution point to fair value of €4.9 per share (old: €4.1). We think the Jun is a big win for Verve, which will augment the good organic growth the company has booked since Q4/23. We maintain our Buy rating.

Table 2: Updated FBe and target price

	old	new	revision	upside	dividend yield	total return
Price target (€)	4.1	4.9	19.5%	195.2%	0.0%	195.2%
All figures in € '000	2024E			2025E		
	old	new	revision	old	new	revision
Revenue	360,040	389,919	8.3%	406,845	500,657	23.1%
EBITDA	99,464	115,191	15.8%	115,765	164,283	41.9%
Margin (%)	27.6%	29.5%	-	28.5%	32.8%	-
EBIT	66,012	71,566	8.4%	79,956	112,685	40.9%
Margin (%)	18.3%	18.4%	-	19.7%	22.5%	-
AEBITDA*	104,964	120,691	15.0%	119,765	168,283	40.5%
Margin (%)	29.2%	31.0%	-	29.4%	33.6%	-

*adjusted for one-offs

Source: First Berlin Equity Research estimates



VALUATION MODEL

All figures in EUR '000	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Revenue	389,919	500,657	553,225	600,250	642,267	674,380	701,356	722,396
NOPLAT	51,528	81,133	95,348	103,912	112,176	119,201	125,074	131,300
(+) depreciation & amortisation	43,624	51,597	48,182	51,568	54,593	56,905	58,848	60,363
(=) Net operating cash flow	95,152	132,731	143,530	155,480	166,770	176,106	183,921	191,662
(-) Investments	-303,375	-60,034	-36,578	-36,778	-37,153	-37,428	-36,821	-37,926
(-) Working capital	-6,178	5,833	3,962	3,595	3,031	2,052	1,534	967
(=) Free cash flows (FCF)	-214,401	78,529	110,914	122,297	132,648	140,731	148,634	154,704
PV of FCFs	-203,244	67,216	85,718	85,340	83,577	80,061	76,348	71,752

All figures in thousands		Terminal EBIT margin							
		19.4%	21.4%	23.4%	25.4%	27.4%	29.4%	31.4%	
PV of FCFs in explicit period	479,703	9.3%	5.20	5.70	6.19	6.69	7.18	7.68	8.17
PV of FCFs in terminal period	799,062	9.8%	4.68	5.12	5.56	6.00	6.44	6.88	7.33
Enterprise value (EV)	1,278,765	10.3%	4.22	4.61	5.01	5.41	5.80	6.20	6.59
(+) Net cash / (-) net debt	-294,900	10.8%	3.81	4.17	4.53	4.88	5.24	5.59	5.95
(-) Non-controlling interests	-767	11.3%	3.46	3.78	4.10	4.42	4.74	5.06	5.38
Shareholder value	983,098	11.8%	3.14	3.43	3.72	4.01	4.30	4.59	4.88
Fair value per share (€)	4.90	12.3%	2.85	3.11	3.38	3.64	3.91	4.17	4.44

		Terminal growth rate							
		1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	
Cost of equity	13.6%	9.3%	5.62	5.93	6.28	6.69	7.16	7.71	8.37
Pre-tax cost of debt	9.0%	9.8%	5.10	5.36	5.66	6.00	6.39	6.84	7.38
Tax rate	28.0%	10.3%	4.64	4.86	5.12	5.41	5.73	6.11	6.54
After-tax cost of debt	6.5%	10.8%	4.22	4.42	4.64	4.88	5.16	5.47	5.83
Share of equity capital	60.0%	11.3%	3.85	4.02	4.21	4.42	4.66	4.92	5.22
Share of debt capital	40.0%	11.8%	3.52	3.66	3.83	4.01	4.21	4.44	4.69
WACC	10.8%	12.3%	3.21	3.34	3.48	3.64	3.82	4.01	4.23

*Please note our model runs through 2033 and we have only shown the abbreviated version for formatting purposes



INCOME STATEMENT

All figures in EUR '000	2020	2021	2022	2023	2024E	2025E
Revenues	140,220	252,166	324,444	321,981	389,919	500,657
Capitalised work	15,994	22,851	28,928	25,954	28,759	32,539
Total output	156,214	275,017	353,373	347,935	418,678	533,195
Services purchased + Other OpEx	-96,365	-162,623	-215,619	-212,949	-230,442	-277,794
Personnel expenses	-39,573	-55,978	-76,207	-77,975	-78,374	-96,607
Other operating income	6,272	8,626	23,206	71,447	5,328	5,488
EBITDA*	26,549	65,042	84,753	128,458	115,191	164,283
Depreciation & amortisation	-15,508	-28,238	-58,135	-29,456	-43,624	-51,597
Operating income (EBIT)*	11,041	36,804	26,618	99,002	71,566	112,685
Net financial result	-7,139	-21,919	-37,959	-50,067	-52,221	-48,279
Pre-tax income (EBT)	3,901	14,885	-11,341	48,936	19,346	64,406
Income taxes	-1,194	1,169	-9,064	-2,718	-6,835	-12,881
Net income	2,707	16,054	-20,405	46,218	12,511	51,525
Discontinued operations	0	0	0	0	0	0
Consolidated profit	2,707	16,054	-20,405	46,218	12,511	51,525
Minority interests	352	7	88	513	-13	-52
Net income to owners	3,059	16,060	-20,317	46,731	12,499	51,473
Diluted EPS (in €)	0.03	0.11	-0.13	0.27	0.07	0.26
Adj. EPS (excl PPA amort.) (diluted)	0.04	0.20	0.14	0.36	0.16	0.36
AEBITDA (excl: one-offs)	29,090	71,100	93,153	95,171	120,691	168,283
AEBIT (excl: PPA amort. & one-offs)	14,916	54,826	76,508	76,943	92,616	132,235
Ratios						
EBITDA margin on revenues*	18.9%	25.8%	26.1%	39.9%	29.5%	32.8%
EBIT margin on revenues*	7.9%	14.6%	8.2%	30.7%	18.4%	22.5%
Net margin on revenues	2.2%	6.4%	-6.3%	14.5%	3.2%	10.3%
AEBITDA margin on revenues	20.7%	28.2%	28.7%	29.6%	31.0%	33.6%
Tax rate	30.6%	n.a.	-79.9%	2.5%	10.0%	20.0%
Expenses as % of revenues						
Services purchased + Other OpEx	68.7%	64.5%	66.5%	66.1%	59.1%	55.5%
Personnel expenses	28.2%	22.2%	23.5%	24.2%	20.1%	19.3%
Depreciation & amortisation	11.1%	11.2%	17.9%	9.1%	11.2%	10.3%
Y-Y Growth						
Revenues	67.1%	79.8%	28.7%	-0.8%	21.1%	28.4%
EBITDA*	70.8%	145.0%	30.3%	51.6%	-10.3%	42.6%
AEBITDA	60.6%	144.4%	31.0%	2.2%	26.8%	39.4%
Operating income*	120.9%	233.4%	-27.7%	271.9%	-27.7%	57.5%
Net income/ loss	n.m.	425.0%	n.m.	n.m.	-73.3%	311.8%

* non-adjusted 2023 earnings impacted by one-time earn-out release for AiM



BALANCE SHEET

All figures in EUR '000	2020	2021	2022	2023	2024E	2025E
Assets						
Current assets, total	92,375	283,599	221,022	193,513	170,249	197,939
Cash and equivalents	46,254	180,157	149,992	121,739	89,210	103,998
Trade receivables	37,009	97,497	52,229	32,281	42,731	54,866
Other ST assets	9,112	5,945	18,801	39,493	38,308	39,074
Non-current assets, total	293,467	650,495	823,637	813,515	939,255	925,285
Property, plant & equipment	1,742	4,681	5,522	3,963	4,158	4,408
Intangible assets	272,829	605,746	791,284	796,607	921,935	907,493
Deferred taxes	15,737	11,545	6,651	10,506	10,716	10,930
Investments in associated companies	1,207	1,154	1,003	1,003	1,003	1,003
Other financial assets	1,952	27,369	19,177	1,436	1,443	1,450
Total assets	385,842	934,094	1,044,659	1,007,029	1,109,504	1,123,224
Shareholders' equity & debt						
Current liabilities, total	78,205	243,434	219,471	240,769	226,660	213,267
Trade payables	30,037	53,754	68,711	80,335	84,607	102,576
ST debt	6,087	32,027	31,903	32,000	35,000	25,000
Provisions	17,257	54,036	65,225	61,656	62,581	63,520
Other current financial liabilities	12,897	83,568	32,290	45,257	22,629	0
Other current liabilities	11,927	20,049	21,342	21,521	21,844	22,171
Long term liabilities, total	130,792	383,168	503,443	413,804	469,382	444,971
Other LT financial liabilities	11,671	16,034	89,618	36,881	41,881	41,881
Bonds	95,355	343,925	389,386	348,038	348,038	348,038
Other LT liabilities	0	0	0	0	50,000	25,000
Deferred tax liabilities	23,766	23,209	24,439	28,885	29,463	30,052
Shareholders' equity	176,845	307,492	321,745	352,456	413,462	464,987
Total consolidated equity and debt	385,842	934,094	1,044,659	1,007,029	1,109,504	1,123,224
Ratios						
Current ratio (x)	1.2	1.2	1.0	0.8	0.8	0.9
Net debt	55,188	195,795	271,297	294,900	366,457	294,040
ICR (x)	4.1	4.6	4.0	2.5	3.4	5.1
Net gearing	31%	64%	84%	84%	89%	63%
Net debt / EBITDA (x)	1.9	2.8	2.9	3.1	3.0	1.7
Equity ratio	46%	33%	31%	35%	37%	41%
Return on equity (ROE)	1.5%	5.2%	-6.3%	13.1%	3.0%	11.1%
Capital employed (CE)	307,637	690,660	825,188	766,260	882,844	909,958
Return on capital employed (ROCE)	4%	5%	3%	13%	8%	12%



CASH FLOW STATEMENT

All figures in EUR '000	2020	2021	2022	2023	2024E	2025E
Net income	2,707	16,054	-20,405	46,218	12,511	51,525
Depreciation and amortisation	15,508	28,238	58,135	29,456	43,624	51,597
Other non-cash adjustments	4,072	1,165	1,907	-66,403	0	0
Net interest expense	6,264	21,600	37,959	50,065	52,221	48,279
Tax result	1,194	1,939	5,702	439	6,835	12,881
Operating cash flow	29,745	68,996	83,298	59,774	115,191	164,283
Tax expense	0	-425	-4,362	-2,379	-6,835	-12,881
Change in working capital	-4,543	-4,634	55,284	12,051	-3,378	6,708
Net operating cash flow	25,202	63,937	134,220	69,446	104,978	158,109
Cash flow from investing	-37,707	-294,729	-176,672	-35,694	-133,382	-85,041
Equity inflow , net	26,876	109,338	28,517	0	40,095	0
Debt inflow , net	-1,420	33,230	-51	-2,991	8,000	-10,000
Corporate debt inflow , net	27,678	247,047	42,733	-8,162	0	0
Interest paid	-6,018	-22,059	-33,610	-47,972	-52,221	-48,279
Payments for non-controlling interests	-17,480	0	0	0	0	0
Other adjustments	-3,862	-2,861	-25,301	0	0	0
Cash flow from financing	25,774	364,695	12,288	-59,125	-4,126	-58,279
Net cash flows	13,269	133,903	-30,164	-25,373	-32,530	14,789
Fx adjustments	0	0	0	-2,882	0	0
Cash, start of the year	32,984	46,254	180,157	149,992	121,739	89,210
Cash, end of the year	46,253	180,157	149,992	121,737	89,210	103,998
Free cash flow (FCF)	-12,505	-230,792	-42,452	33,752	-28,404	73,068
FCFps (in €)	-0.15	-1.63	-0.27	0.21	-0.16	0.39
Y-Y Growth						
Operating cash flow	56.4%	153.7%	109.9%	-48.3%	51.2%	50.6%
Free cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
FCF / share	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.

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ASSET VALUATION SYSTEM

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ASSET RECOMMENDATION

The recommendations determined in accordance with the share price trend anticipated by First Berlin in the respectively indicated investment period are as follows:

Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy ¹	An expected favourable price trend of:	> 50%	> 30%
Buy	An expected favourable price trend of:	> 25%	> 15%
Add	An expected favourable price trend of:	0% to 25%	0% to 15%
Reduce	An expected negative price trend of:	0% to -15%	0% to -10%
Sell	An expected negative price trend of:	< -15%	< -10%

¹ The expected price trend is in combination with sizable confidence in the quality and forecast security of management.

Our recommendation system places each company into one of two market capitalisation categories. Category 1 companies have a market capitalisation of €0 – €2 billion, and Category 2 companies have a market capitalisation of > €2 billion. The expected return thresholds underlying our recommendation system are lower for Category 2 companies than for Category 1 companies. This reflects the generally lower level of risk associated with higher market capitalisation companies.

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The First Berlin categories for risk assessment are low, average, high and speculative. They are determined by ten factors: Corporate governance, quality of earnings, management strength, balance sheet and financial risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, strength of brandname, market capitalisation and free float. These risk factors are incorporated into the First Berlin valuation models and are thus included in the target prices. First Berlin customers may request the models.

RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	7 November 2019	€1.23	Buy	€2.10
2...28	↓	↓	↓	↓
29	6 March 2023	€1.62	Buy	€4.00
30	2 June 2023	€1.10	Buy	€4.00
31	12 September 2023	€1.14	Buy	€3.20
32	7 December 2023	€0.80	Buy	€3.20
33	11 March 2024	€1.37	Buy	€3.60
34	20 March 2024	€1.27	Buy	€3.60
35	9 April 2024	€1.86	Buy	€3.80
36	8 May 2024	€1.79	Buy	€4.10
37	Today	€1.66	Buy	€4.90

INVESTMENT HORIZON

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- key sources of information in the preparation of this research report
- valuation methods and principles
- sensitivity of valuation parameters

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