

Verve Group SE^{*5a}; 7; 11

Rating: BUY

Target price: € 6.00
(previously: € 4.50)

Current share price: 1.66
20/06/24 / Xetra /
(17:35)
Currency: EUR

Master data:

ISIN: SE0018538068
WKN: A3D3A1
Ticker symbol: VER / M8G
Number of shares³: 186.36
Market cap³: 183.14
Enterprise value³: 486.69
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 Sponsors:
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mwb fairtrade
Wertpapierhandelsbank AG

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* Catalogue of possible conflicts of interest on page 7

Date (time) completion:
24/06/2024 (10:29)

Date (time) first distribution:
24/06/2024 (12:00)

Validity of the price target: until
max. 31/12/2024

Company profile

Industry: Ad-tech and mobile/online games

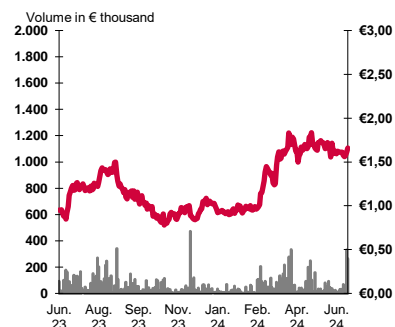
Focus: Software applications

Employees: >800

Foundation: 2011

Company headquarters: Stockholm (Sweden)

Management Board: Remco Westermann (CEO), Paul Echt (CFO), Jens Knauber (COO), Sonja Lilienthal (CIO), Sameer Sondhi (CRO)



Verve Group SE (Verve) operates a fast-growing, profitable advertising software platform that combines the global demand of advertisers with the advertising supply of publishers and improves advertising results with the help of first-party data from its own online games. 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 digital devices (mobile apps, web, connected TV and digital out-of-home) with the aim of improving advertising. 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 | 380.12 | 475.91 | 596.79 |
| Adj. EBITDA | 95.20 | 115.52 | 154.87 | 197.88 |
| EBITDA | 128.46* ¹ | 108.92 | 148.77 | 191.58 |
| Net result (after minority interests) | 46.73* ¹ | 14.26 | 38.23 | 67.97 |

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

| Key figures in EUR | | | | |
|--------------------|------|------|------|------|
| Earnings per share | 0.29 | 0.08 | 0.21 | 0.37 |
| Dividend per share | 0.00 | 0.00 | 0.00 | 0.00 |

| Key figures | | | | |
|------------------------------|------|-------|------|------|
| EV / Revenues | 1.51 | 1.28 | 1.02 | 0.82 |
| EV / Adj. EBITDA | 5.11 | 4.21 | 3.14 | 2.46 |
| EV / EBITDA | 3.79 | 4.47 | 3.27 | 2.54 |
| P/E ratio (after minorities) | 3.92 | 12.84 | 4.79 | 2.69 |
| KBV | 0.52 | | | |

| Financial dates | |
|-----------------|--------------------------|
| 29/08/2024: | Half-year report FY 2024 |
| 28/11/2024: | Quarterly report Q3 2024 |

| **Latest research from GBC: | |
|-----------------------------|--|
| Date: | Publication / Target price in EUR / Rating |
| 04/03/2024: | RS / 4.50 / BUY |
| 07/12/2023: | RS / 4.05 / BUY |
| 11/09/2023: | RS / 4.05 / BUY |
| 20/06/2023: | RS / 5.30 / BUY |
| 08/03/2023: | RS / 5.40 / BUY |

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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"

Jun acquisition ensures significant sales and earnings growth and a significant strengthening of the demand side; the integration of the acquisition opens up considerable sales synergies; significant increase in forecasts and price target; "BUY" rating confirmed

On 18 June 2024, Verve Group SE (Verve) announced the signing of an agreement to fully acquire Jun Group, a leading mobile advertising technology company with a focus on the demand side and strong business relationships with leading US brands and media agencies.

The Jun Group's mobile-first demand-side business with direct access to more than 230 Fortune 500 advertisers and US agencies is a perfect complement to the market-leading US-centred mobile supply-side platform, according to the company. The acquisition will result in a more balanced sales model with 30.0% demand-side business (previous demand-side share: approximately 10.0%) and 70.0% supply-side business (previous supply-side share: approximately 90.0%). The Jun Group has a highly diversified customer base (including Amazon, McDonalds and Dell), which is growing steadily.

This transformative transaction will significantly increase the size and profitability of the Verve Group. The acquisition of the Group is expected to contribute approximately 23.0% in revenue and approximately 43.0% in adjusted operating profit (Adj. EBITDA), which on a pro forma basis should lead to expected Group revenue of approximately € 447.0 million and adjusted EBITDA of approximately € 151.0 million in the current FY 2024.

The agreed total purchase price for the transaction amounts to € 170 million. According to the company, € 120 million of the purchase price will be paid from existing cash funds, whereby a cash capital increase with gross issue proceeds of around € 40.0 million (27.11 million new shares at an issue price of around € 1.48) was recently carried out for this purpose. The remaining € 50.0 million of the purchase price payment is to be made in two annual instalments in 12 and 18 months after the planned closing in September 2024. The completed capital measure is intended to achieve the targeted capital structure with a medium-term pro forma net leverage ratio of 1.50 to 2.50.

According to the company, the purchase price including expected synergy effects thus amounts to 3.8x EBITDA. In addition to the significant cost synergies (approximately € 2.0 million in FY 2024), the Verve Group primarily expects extensive synergies at revenue level (approximately € 9.0 million in FY 2024). Extensive sales synergies are to be realised primarily through the combination of product and customer structures and the various platforms. In the medium term, Verve anticipates sales synergy potential of between € 30.0 million and € 40.0 million. In view of the high profitability (50.0% EBITDA margin from USD 72.0 million in sales in FY 2023) and the significant growth and synergy potential of the Jun Group, we consider the purchase price for the transaction to be extremely favourable.

With regard to future financing structure and conditions, Verve assumes that the ability to reduce debt will improve significantly in the future due to the strong (expected) cash EBITDA (approximately 80.0% in FY 2025 according to the company's forecast). Accordingly, the technology group anticipates that the expected improvement in debt ratios will reduce future financing costs as soon as the existing financial debt is refinanced. At the present time, declines in bond yields can already be observed for the existing longer-term bonds (see e.g. Verve Group bond with ISIN: SE0019892241), which indicates significantly lower financing conditions in the future.

Forecasts and evaluation

| P&L in € million | 2023 | 2024e(new) | 2024e (old) | 2025e(new) | 2025e(old) | 2026e(new) | 2026e(old) |
|-------------------------------|----------|------------|-------------|------------|------------|------------|------------|
| Revenues | 321.98 | 380.12 | 352.18 | 475.91 | 389.51 | 596.79 | 437.03 |
| Adj. EBITDA | 95.20 | 115.52 | 106.68 | 154.87 | 119.45 | 197.88 | 136.97 |
| EBITDA | 128.46*1 | 108.92 | 100.08 | 148.77 | 113.35 | 191.58 | 130.67 |
| Net result (after minorities) | 46.73*1 | 14.26 | 13.97 | 38.23 | 22.03 | 67.97 | 34.01 |

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

Based on the announced transformative acquisition and the strong first half of the current financial year, Verve's management has significantly revised its previous guidance upwards. For the current financial year 2024, the company now expects consolidated sales of € 380.0 million to € 400.0 million (previously: € 350.0 million to € 370.0 million) and adjusted EBITDA (Adj. EBITDA) of € 115.0 million to € 125.0 million (previously: € 100.0 million to € 110.0 million).

As a result of the significant increase in the Group's size and profitability, Verve has also updated its medium-term guidance. The technology company expects a sales CAGR of 25.0% to 30.0% (unchanged from previously) and an EBITDA margin of 30.0% to 35.0% (previously: 25.0% to 30.0%) and an EBIT margin of 20.0% to 25.0% (previously: 15.0% to 20.0%).

Against the backdrop of the improved company outlook and the increased medium-term financial targets, we have adjusted our previous sales and earnings estimates upwards. Accordingly, we now expect sales of € 380.12 million (previously: € 352.18 million) and EBITDA of € 108.92 million (previously: € 100.08 million) for the current 2024 financial year. For the following years 2025 and 2026, we are forecasting sales of € 475.91 million (previously: € 389.51 million) and € 596.79 million (previously: € 437.03 million). At the same time, operating earnings (EBITDA) should increase to € 148.77 million (previously: € 113.35 million) and € 191.58 million (previously: € 130.67 million).

Overall, the Jun acquisition represents a good strategic step towards better balancing the Group's demand- and supply-side-specific business model and utilising the resulting advantages profitably. In addition, this transaction will take the Verve Group to the "next level" in terms of consolidated sales and profitability. The integration of the acquisition will also result in considerable synergy effects, particularly in terms of sales, which can be gradually realised.

As part of our DCF valuation model, we have also significantly increased our price target to € 6.00 (previously: € 4.50) per share due to our increased sales and earnings estimates. However, the dilution effect resulting from the capital increase (increase in the number of shares by 0.27 million to 186.36 million) reduced the target price. In view of the current share price level, we therefore continue to assign a "BUY" rating and see significant upside potential in the Verve share.

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: 30.3%). 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 2024 financial year corresponds to a target price of € 6.00 per share (previously: € 4.50 per share). Our price target increase is primarily based on our raised sales and earnings forecasts and the increased margin targets. This was offset by the dilutive effect of the capital measure and the associated increase in the total number of shares (by 0.27 million to 186.36 million shares).

DCF model

Verve Group SE - Discounted cash flow (DCF) analysis

Value drivers of the DCF model after the estimate phase:

| Consistency phase | | Final phase | |
|-------------------------------|-------|--|-------|
| Revenue growth | 5.0% | Perpetual sales growth | 2.5% |
| EBITDA margin | 32.1% | Perpetual EBITA margin | 23.8% |
| AFA to operating fixed assets | 26.5% | Effective tax rate in the terminal value | 30.0% |
| Working capital to sales | 5.0% | | |

Three-stage DCF model:

| Phase | Estimate | | | Consistency | | | | | Final value |
|------------------------------|----------|--------|--------|-------------|--------|--------|--------|--------|-------------|
| | FY 24e | FY 25e | FY 26e | FY 27e | FY 28e | FY 29e | FY 30e | FY 31e | |
| in EUR million | | | | | | | | | |
| Revenues (US) | 380.12 | 475.91 | 596.79 | 626.63 | 657.96 | 690.86 | 725.40 | 761.67 | |
| US change | 18.1% | 25.2% | 25.4% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 2.5% |
| US to operating fixed assets | 1.79 | 2.44 | 3.38 | 3.93 | 4.48 | 5.01 | 5.50 | 5.96 | |
| EBITDA | 108.92 | 148.77 | 191.58 | 201.16 | 211.22 | 221.78 | 232.87 | 244.52 | |
| EBITDA margin | 28.7% | 31.3% | 32.1% | 32.1% | 32.1% | 32.1% | 32.1% | 32.1% | |
| EBITA | 75.35 | 105.56 | 144.86 | 154.44 | 169.08 | 182.95 | 196.39 | 209.66 | |
| EBITA margin | 19.8% | 22.2% | 24.3% | 24.6% | 25.7% | 26.5% | 27.1% | 27.5% | 23.8% |
| Taxes on EBITA | -22.61 | -31.67 | -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) | 52.75 | 73.89 | 101.41 | 108.11 | 118.36 | 128.06 | 137.48 | 146.76 | |
| Return on investment | 24.6% | 33.3% | 48.5% | 55.6% | 62.1% | 71.3% | 79.7% | 87.3% | 78.3% |
| Working capital (WC) | 9.15 | 13.99 | 17.88 | 31.33 | 32.90 | 34.54 | 36.27 | 38.08 | |
| WC to revenues | 2.4% | 2.9% | 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 | 108.92 | 148.77 | 191.58 | 201.16 | 211.22 | 221.78 | 232.87 | 244.52 | |
| Taxes on EBITA | -22.61 | -31.67 | -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 | -110.30 | 20.76 | 91.04 | 111.98 | 129.28 | 135.33 | 141.88 | 148.95 | 1950.89 |

| | | |
|--|-------------|---------|
| Value of operating business (reporting date) | 1599.81 | 1722.17 |
| Present value of explicit FCFs | 528.91 | 555.46 |
| Present value of the continuing value | 1070.90 | 1166.71 |
| Net debt | 481.69 | 512.02 |
| Value of equity | 1118.12 | 1210.15 |
| Minority interests | -0.20 | -0.22 |
| Value of the share capital | 1117.92 | 1209.93 |
| Outstanding shares in € million | 186.36 | 186.36 |
| Fair value of the share in EUR | 6.00 | 6.49 |

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 investment | WACC | | | | |
|----------------------|------|------|-------------|------|------|
| | 8.3% | 8.6% | 8.9% | 9.2% | 9.5% |
| 77.8% | 6.79 | 6.36 | 5.96 | 5.60 | 5.28 |
| 78.1% | 6.82 | 6.38 | 5.98 | 5.62 | 5.29 |
| 78.3% | 6.84 | 6.40 | 6.00 | 5.64 | 5.31 |
| 78.6% | 6.86 | 6.42 | 6.02 | 5.66 | 5.33 |
| 78.8% | 6.88 | 6.44 | 6.04 | 5.67 | 5.34 |

APPENDIX

I.

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BUY

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

| | |
|------|---|
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The analysts responsible for this analysis are

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