

Verve Group

Driving better media outcomes

CMD and Q224 figures

Media

10 September 2024

Price €3.28

Market cap €611m

Pro forma net debt (€m) after Jun acquisition and bond issue 402

Shares in issue (including new shares) 186.4m

Free float 71.0%

Codes VER (Nasdaq), M8G (Xetra)

Primary exchanges Deutsche Börse Scale, OTCQX

Secondary exchange Nasdaq Stockholm First North Premier Growth

Verve Group's Q224 figures clearly show the benefit of its strategic focus on privacy-first targeted advertising solutions, with growth well ahead of the market. Organic revenues grew 26% in Q2 and the operating leverage against a tighter cost base delivered an adjusted EBITDA margin of 30%. We raised our forecasts at the H124 update, and now finesse our assumptions. The capital markets day, held with the results, highlighted the further potential from mobile in-app full screen and video, as well as Connected TV, retail media, audio and digital out-of-home. 78% of Verve's revenues in Q2 were generated in North America, yet the rating remains well below (mostly US-based) peers.

Year end	Revenue (€m)	Adjusted EBITDA (€m)	PBT* (€m)	EPS* (c)	EV/EBITDA (x)	P/E (x)
12/22	324.4	93.2	38.6	13.4	10.9	24.4
12/23	322.0	95.2	26.8	35.8	10.6	9.2
12/24e	410.0	130.0	59.4	24.6	7.8	13.7
12/25e	505.0	175.0	106.5	38.6	5.8	8.6

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Strong position in a consolidating market

The Verve rebrand is enabling the group to go to market with a more coherent proposition, particularly important when dealing with its global clients and agency customers. The market remains inefficient and overpopulated, with many subscale players, but Verve is a prominent participant with an established privacy-first ethos and strong, collaborative relationships. These include projects with Google, which presented at [Verve's CMD](#) (from 1:58). Verve now has the elements in place on both the supply (publisher) side and the demand (advertiser) side, enhanced by the recent acquisition of Jun, to address the considerable market opportunity.

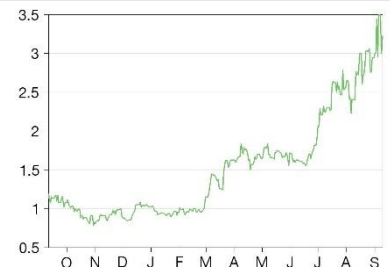
CMD key points

Q3 has started strongly, with a further quarterly sequential uplift in organic growth, although it is worth noting that the comparatives become tougher in Q4. Verve is achieving better advertising rates (CPMs, being cost per mille), in part because of a slightly better industry backdrop, but mostly reflecting the better quality of inventory with more full-page and video in the mix. Opportunities in other media channels, as well as now having a better balance between supply- and demand-side offerings, support the targeted mid-term revenue CAGR of 25–30%, with the adjusted EBITDA margin expected to expand further on a relatively fixed cost base.

Valuation: Well below peers, DCF

The share price has more than trebled in the year-to-date, reflecting the strong trading. However, the rating still sits at a discount to peers and to the value derived in our discounted cash flow (DCF). Looking at peer average EV/revenue and EV/EBITDA multiples across FY24 and FY25, parity now suggests a share price of €4.47, up from €4.22 as sector sentiment has improved. Our DCF (weighted average cost of capital 10%, terminal growth of 2%) points to €5.28 (previously €4.97) after making a modest (positive) shift in working capital assumptions.

Share price performance



%	1m	3m	12m
Abs	16.5	106.9	174.3
Rel (local)	11.9	108.2	134.2
52-week high/low	€3.50	€0.78	

Business description

Verve operates a fast-growing, profitable ad-software platform that matches global advertiser demand with publisher ad-supply while improving results through first-party data from own content. Verve's main operational presence is in North America and Europe.

Next events

Q3 report 28 November 2024

Analysts

Fiona Orford-Williams +44 (0)20 3077 5739

Milo Bussell +44 (0)20 3077 5700

media@edisongroup.com

[Edison profile page](#)

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Wide ranging CMD outlines dynamic market

The capital markets day (CMD), held in Stockholm where Verve is now headquartered, provided a thorough oversight of the dynamics of the ad tech market, which remains fast-moving and complex. The day comprised sessions around:

- the Q224 performance,
- Jun Group and what it brings to the group,
- the fast-changing advertising market (presented by a Verve NED with a background at Dentsu),
- how AI is shifting the playbook (presented by representatives from Google),
- privacy and targeting (presented by IAB TechLab),
- where Verve sits in the market, and
- where Verve's most attractive opportunities lie.

The link to the webcast sessions is above, with the accompanying presentation [here](#). We do not attempt to summarise the whole event, rather just pick out a few highlights. The extended view, in our opinion, is a useful time investment for those wishing to improve their understanding of the ad tech industry. Verve also hosts a very helpful [glossary](#) of ad tech terminology on its investor relations website.

Verve's performance and outlook

We upgraded our forecasts at the half-year trading update ([Another substantial upgrade](#)) and the adjustments that we make now relate to the finance costs (reduced to reflect the interest rate backdrop and management guidance) and small changes to working capital assumptions.

Overall Q3 has started well, with revenue reported to be growing (organically) ahead of the rate achieved in Q2 (+26%). Q4 will be against tougher comparatives, as Q423 was when the market (and Verve's performance) started to recover. This is built into the management guidance of revenues of €400–420m for the full year. Pro-forma FY24 revenue, as if including Jun for the full 12 months, is given as €447m and it is this figure that is the basis for our FY25 revenue estimate of €505m, which represents 11% year-on-year growth.

The H124 adjusted EBITDA margin exceeded 30%, reflecting the (relatively) fixed operating cost base post the trimming of €10m of operating cost in the prior year. Our full year assumption is for an adjusted EBITDA margin of 31.7%, with Q4 having an inherently seasonally stronger performance. With the building blocks all now in place, we anticipate further margin expansion in FY25.

What's driving the growth?

The substantial outperformance of the global programmatic ad spend, which is estimated to grow at 9% in 2025 (source: Statista), is down to a combination of factors. There is an element of market recovery in underlying pricing and volume, which is enhanced for Verve through offering better quality and therefore higher-value inventory such as full-page imagery and video ads. This is driving the net dollar expansion rate (ie the spend by existing clients) of 109% in Q224, with the number of large clients generating revenues of over \$100k growing to 851, from 764 in Q124. The group is also winning new clients and expanding into new segments, adding Macy's, LinkedIn, King and Disney+ on the demand side and Slacker Radio, Zynga, CBS News and WeatherBug on the supply side.

Being able to offer proven privacy-first solutions on iOS is also a major factor (iOS represented 31% of group revenue in Q2) and this provides a roadmap for the gradual withdrawal of personal

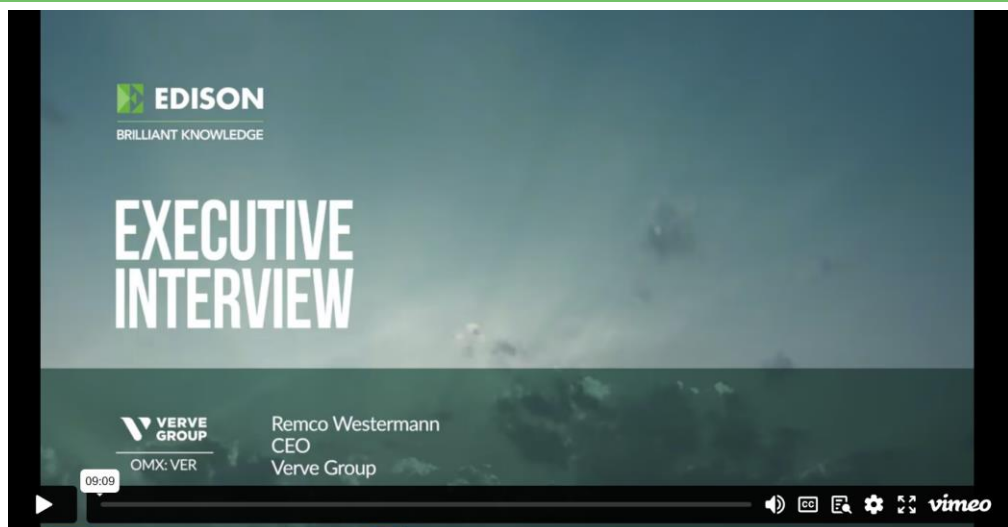
identifiers on Android. Mobile accounted for 85% of revenues in Q224, with the next largest segment the growing Connected TV (CTV) segment, where market growth is estimated at 14% (Statista).

In addition to this market growth and customer expansion, Verve is extending its offering through new products and services such as its privacy-safe contextual solutions and curated marketplaces (PMPs), which were covered in some detail at the CMD.

Interview with CEO Remco Westermann

Post the CMD, we recorded this short interview with the CEO, which summarises some of the factors behind the strong performance and outlook, including the benefits accruing from the Jun Group acquisition.

Exhibit 1: Executive interview with CEO Remco Westermann



Source: Edison Investment Research

Valuation

We evaluate Verve compared to three sets of peers: (relatively) pure adtech, ad software combined with content (games or other) and (relatively) pure gaming. Although this leads to a cumbersome peer table, it allows us to see the slightly different dynamics. Adtech performance in the year-to-date has been very mixed, with particularly strong performances from Criteo, Viant Technology, Magnite and The Trade Desk, with Digital Turbine and DoubleVerify at the other end of the scale. The median performance has been a gain of 9%. Ad software and content companies also had a mixed showing, with AppLovin continuing to perform particularly strongly (+121% year-to-date), while the purer gaming companies have (on average) underperformed.

Looking at average EV/revenue and EV/EBITDA multiples across FY24 and FY25, parity across the peer set would suggest a share price of €4.47, from the €4.22 calculated previously as sector prospects have improved. This is a little below the figure derived from our DCF of €5.28 (WACC: 10%, terminal growth of 2%), up from €4.97, having made small adjustments to working capital assumptions following the half-year results.

Both approaches result in figures well above the current share price of €3.28, which has more than trebled over the year-to-date as the market has gained confidence in both Verve's financial performance and improved sentiment around the sector.

Exhibit 2: Peer performance and valuation

Company	Price (local CCY)	Ytd performance (%)	Market cap (€m)	EV/sales (x)			EV/EBITDA (x)			P/E (x)		
				FY0	FY1e	FY2e	FY0	FY1e	FY2e	FY0	FY1e	FY2e
Ad-tech												
The Trade Desk	101.4	41	44,957	24.5	19.8	16.5	61.8	47.7	39.3	77.3	63.7	53.6
Pubmatic	15.1	(8)	679	2.2	2.0	1.8	7.8	6.4	5.6	779.9	72.6	N/A
Viant Technology	10.5	52	598	1.9	1.7	1.5	15.7	10.9	9.3	N/A	95.3	66.6
Magnite	13.3	42	1,693	3.8	3.4	3.0	12.3	10.4	9.0	24.4	17.5	14.3
AcuityAds Holdings	1.5	(6)	51	0.2	0.2	0.2	19.3	4.4	2.7	N/A	N/A	120.2
DoubleVerify Holdings	19.3	(48)	2,961	5.1	4.4	3.7	16.1	13.9	11.6	54.3	61.0	42.2
Integral Ad Science Hold	11.3	(22)	1,641	3.8	3.4	3.0	11.6	10.0	8.6	442.7	55.1	32.7
LiveRamp Holdings	25.5	(33)	1,530	2.2	2.0	1.8	19.1	11.8	9.8	34.2	17.1	16.4
Digital Turbine	2.8	(59)	260	1.0	1.2	1.2	3.8	6.9	7.2	2.4	5.5	6.7
Tremor	287.5	41	462	1.3	1.2	1.1	4.9	4.1	3.7	17.1	9.8	8.2
Criteo	45.1	78	2,280	2.1	1.9	1.8	7.7	5.9	5.6	16.3	10.7	10.4
YOC	18.5	23	64	2.1	1.7	1.5	14.6	10.6	8.5	23.7	17.9	13.8
Median		9		2.1	1.9	1.8	13.4	10.2	8.6	29.3	17.9	16.4
Ad-software and content												
AppLovin	87.9	121	26,506	9.7	7.3	6.5	21.3	13.3	11.6	98.9	25.9	20.8
IronSource	15.9	(61)	5,708	3.4	4.2	4.1	18.9	20.7	18.5	N/A	N/A	N/A
Azerion	1.4	(25)	172	0.6	0.6	0.5	4.7	4.8	4.1	12.6	43.5	15.3
Future	1,049.0	32	1,401	2.0	2.0	1.9	5.6	6.5	6.3	7.6	8.7	8.0
Median		3		2.7	3.1	3.0	12.3	9.9	8.9	12.6	25.9	15.3
Gaming												
Embracer Group	24.2	(12)	2,748	1.3	1.2	1.2	5.4	4.5	4.7	6.2	8.5	7.6
Stillfront Group	7.2	(41)	325	1.1	1.2	1.1	3.0	3.4	3.2	3.4	4.2	3.3
Paradox Interactive	147.2	(35)	1,363	5.7	6.3	5.4	8.9	9.9	8.1	28.3	27.7	21.4
Modern Times Group	76.3	(11)	803	1.2	1.1	1.1	4.6	4.1	4.1	11.0	9.4	8.0
Rovio Entertainment	9.3	(0)	707	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Team17	250.0	35	431	2.2	2.1	2.0	11.4	8.0	7.6	17.3	11.7	11.0
Median		(11)		1.3	1.2	1.2	5.4	4.5	4.7	11.0	9.4	8.0
Total average		1		2.0	2.1	2.0	10.4	8.2	7.4	17.7	17.7	13.2
Verve	3.2	215	611	3.1	2.5	2.0	10.6	7.8	5.8	9.2	13.7	8.6
Premium/(discount) to ad-tech		209		53%	32%	16%	(19%)	(22%)	(31%)	(68%)	(21%)	(46%)
Premium/(discount) to ad-software and content		213		17%	(20%)	(34%)	(13%)	(19%)	(34%)	(25%)	(45%)	(42%)
Premium/(discount) to gaming		227		139%	108%	59%	94%	72%	23%	(17%)	45%	8%
Premium/(discount) to total		212		56%	21%	0%	3%	(3%)	(20%)	(47%)	(21%)	(34%)

Source: LSEG Data & Analytics. Note: Prices as at 9 September 2024.

Exhibit 3: Financial summary

	€000s	2022	2023	2024e	2025e
Year end 31 December		IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT					
Revenue		324,444	321,981	410,000	505,000
Operating costs excluding D&A		(239,691)	(193,523)	(285,113)	(332,113)
Adjusted EBITDA		93,202	95,171	130,000	175,000
EBITDA		84,753	128,458	124,887	172,887
Operating profit (before amort. and excepts.)		76,556	76,943	112,620	154,467
Amortisation of acquired intangibles		(14,853)	(13,706)	(19,000)	(19,000)
Exceptionals		(27,100)	(6,500)	(3,500)	(500)
Share-based payments		(1,613)	(1,613)	(1,613)	(1,613)
Reported operating profit		26,618	55,124	88,507	133,354
Net Interest		(37,959)	(50,128)	(52,406)	(47,982)
Joint ventures & associates (post tax)		0	0	0	0
Exceptionals		0	0	0	0
Profit Before Tax (norm)		38,597	26,814	60,214	106,485
Profit Before Tax (reported)		(11,341)	4,996	36,101	85,372
Reported tax		(9,064)	(2,718)	(11,913)	(28,173)
Profit After Tax (norm)		21,085	57,312	40,343	71,345
Profit After Tax (reported)		(20,405)	46,218	24,188	57,200
Minority interests		(88)	(513)	(520)	(525)
Discontinued operations		0	0	0	0
Net income (normalised)		20,947	57,025	40,863	71,871
Net income (reported)		(20,317)	46,731	24,708	57,725
Average Number of Shares Outstanding (m)		156.2	159.2	166.0	186.4
EPS - basic normalised (c)		13.4	35.8	24.6	38.6
EPS - normalised fully diluted (c)		12.0	32.1	22.2	35.1
EPS - basic reported (c)		(13.0)	29.3	14.9	31.0
Dividend (c)		0.00	0.00	0.00	0.00
Revenue growth (%)		28.7	(0.8)	27.3	23.2
Adjusted EBITDA Margin (%)		28.7	29.6	31.7	34.7
Normalised Operating Margin (%)		23.6	23.9	27.5	30.6
BALANCE SHEET					
Fixed Assets		823,637	813,515	954,448	1,005,252
Intangible Assets		791,284	796,607	938,970	991,320
Tangible Assets		5,522	3,963	2,532	987
Investments & other		26,831	12,945	12,945	12,945
Current Assets		221,022	193,513	206,191	241,315
Stocks		0	0	0	0
Debtors		52,229	32,281	41,562	51,192
Cash & cash equivalents		149,992	121,740	125,136	150,631
Other		18,801	39,493	39,493	39,493
Current Liabilities		219,471	240,768	190,413	206,029
Creditors		68,711	80,335	95,229	110,845
Short term borrowings		31,903	34,510	32,390	32,390
Other financial liabilities		97,515	104,402	42,746	42,746
Other non-financial liabilities		21,342	21,521	20,048	20,048
Long-term liabilities		503,443	413,804	528,385	516,385
Long-term borrowings		389,386	348,038	422,000	415,000
Other long-term liabilities		114,057	65,766	106,385	101,385
Net Assets		321,745	352,456	441,841	524,153
Minority interests		(1,211)	182	182	182
Shareholders' equity		322,956	352,274	441,659	523,971
CASH FLOW					
Operating Cash Flow		(20,405)	46,218	24,188	57,200
Depreciation & amortisation		70,694	29,491	36,380	39,533
Working capital		55,284	12,051	5,613	5,986
Exceptional & other		1,907	(66,328)	1,613	1,613
Tax		1,340	(1,940)	4,500	0
Net finance cost		37,959	50,065	52,406	47,982
Net operating cash flow		146,779	69,556	124,700	152,313
Capex		(45,859)	(35,047)	(37,050)	(40,337)
Acquisitions/disposals		(138,000)	0	(130,000)	(50,000)
Equity financing		28,517	0	40,050	0
Dividends		0	0	0	0
Other		(53,413)	(52,301)	(26,184)	(29,482)
Net Cash Flow		(61,976)	(17,792)	(28,484)	32,494
Opening net debt/(cash)		198,600	273,900	297,427	372,000
FX		0	(2,881)	0	0
Other non-cash movements		(765)	(2,854)	(46,088)	0
Closing net debt/(cash)		261,341	297,427	372,000	339,505

Source: Company accounts, Edison Investment Research

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