

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

Rating: BUY
Target price: € 6.70
(previously: € 6.60)

Current share price: € 3.76
04/12/2024 / Xetra
(closing price)

Currency: EUR

Master data:

ISIN: SE0018538068
WKN: A3D3A1

Ticker symbol: VER / M8G
Number of shares³: 186.36
Market cap³: 700.71
Enterprise value³: 1004.26
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 8

Date (time) completion:
05/12/2024 (9:01)

Date (time) first transfer:
05/12/2024 (10:30)

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

Company profile

Industry: Ad-tech and mobile/online games

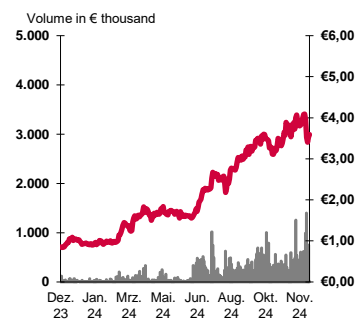
Focus: Software Application

Employees: >800

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 demand from advertisers with the advertising inventory of publishers and improves advertising results with the help of first-party data from its own online games and integration into over 65,000 apps. Verve generates 80.0% of its sales in the USA. 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	410.02	502.11	596.79
Adjusted EBITDA (Adj. EBITDA)	95.20	128.11	162.94	197.88
EBITDA	128.46*1	121.51	156.84	191.58
Net result (after minority interests)	46.73*1	23.22	43.88	67.97

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

Key figures in EUR				
Earnings per share (EPS)	0.29	0.13	0.24	0.37
Dividend per share	0.00	0.00	0.00	0.00

Key figures				
EV/Revenues	3.12	2.45	2.00	1.68
EV/Adj. EBITDA	10.55	7.84	6.16	5.08
EV/EBITDA	7.82	8.26	6.40	5.24
P/E ratio (after minorities)	14.99	30.18	15.97	10.31
P/B ratio	1.99			

Financial dates

**Latest research from GBC:

Date: Publication / Target price in EUR / Rating

09/09/2024: RS / 6.60 / BUY

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"

9M 2024: Dynamic sales and earnings performance; mobile in-app advertising and ID-less advertising solutions drive strong organic growth; GBC estimates and price target raised

P&L (in € million)	9M 2022	9M 2023	9M 2024
Revenues	231.55	223.27	292.78
EBITDA (EBITDA <i>margin</i>)	58.28 (25.2%)	101.15* ¹ (45.3%)	84.45 (28.8%)
Adjusted EBITDA (Adj. EBITDA <i>margin</i>)	61.70 (26.6%)	63.50 (28.4%)	84.80 (29.0%)
Net result (after minority interests)	8.77	41.83* ¹	14.49
EPS in €	0.06	0.23	0.07

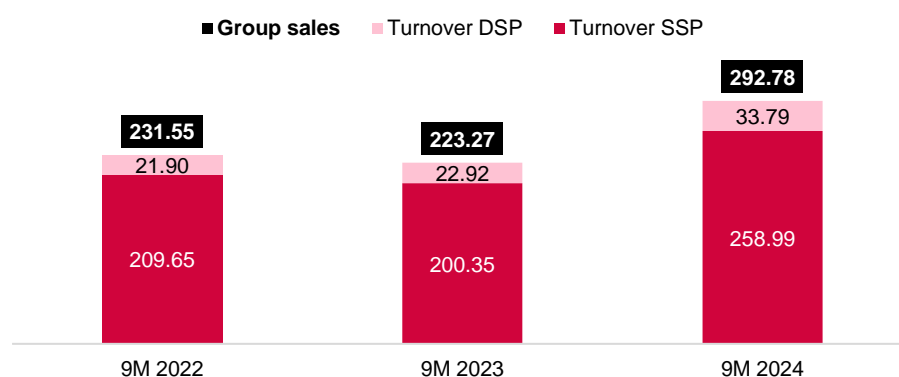
Sources: Verve Group SE; GBC AG *¹positively influenced by a revaluation of the AxesInMotion earn-out payment liability (one-off effect of € 62.76 million)

Business performance 9M 2024

On 28 November 2024, the Verve Group (SE) published its nine-month and Q3 figures for the current financial year. Thanks to its strong market positioning, particularly with innovative customer solutions (e.g. ATOM or Moments.AI) in the mobile advertising segment, the ad tech group was able to benefit significantly from the advertising market recovery in the past nine months and achieve a dynamic increase in consolidated digital revenue of 31.1% to € 292.78 million (9M 2023: € 223.27 million).

Growth was mainly driven by increased demand for ID-less targeting solutions from new advertising customers and increased budgets from existing customers (net USD expansion rate at the end of Q3 2024: 108% vs. 93.0% at the end of Q3 2023) as well as increased revenue from mobile full-screen and video advertising formats. Accordingly, the number of large software customers (annual gross revenue > USD 100,000) increased significantly by 55.9% to 1,076 at the end of the third quarter (including Jun acquisition; end of Q3 2023: 690). At the same time, the volume of digital advertising delivered increased significantly by 31.2% to 244 billion at the end of the third quarter (advertisements at the end of Q3 2023: 186 billion).

Development of Group and segment sales over 9M 2024 (in € million)



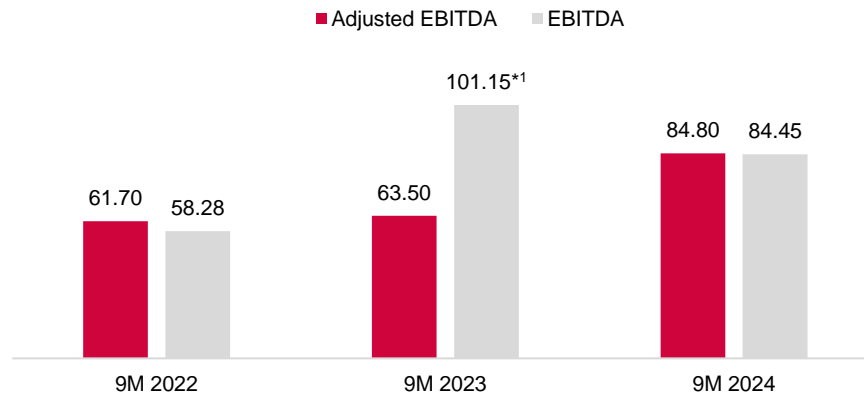
Sources: GBC AG; Verve Group SE

The revenue generated, which resulted in particular from the US market (US revenue share at the end of Q3: approximately 80.0%), was mainly driven by the traditionally largest advertising segment "Supply Side Platform" with digital revenue totalling € 258.99 million (9M 2023: € 200.35 million). This main business segment recently accounted for around 88.5% of Group revenue.

The above-average growth achieved has enabled the Verve Group to maintain its leading market position and even gain market share. Their strong market position in the US market

and the technology company's positive customer response are also reflected in Pixalate's current Top Mobile SSP Index (Seller Trust Index), where Verve recently achieved a top ranking with 99.0 index points (SPO score).

Development of EBITDA and adjusted EBITDA on a nine-month basis (in € million)



Sources: GBC AG; Verve Group SE *1 positively influenced by a revaluation of the AxesInMotion earn-out payment liability (one-off effect of € 62.76 million)

In parallel to their positive sales development, Verve also achieved a pleasing result at operating earnings level with EBITDA of € 84.45 million. Compared to EBITDA in the same period of the previous year (9M 2023: € 101.15 million), which was significantly positively influenced by the revaluation of the AxesInMotion earn-out payment liability (positive one-off effect of € 62.76 million), there was a significant decline in earnings. Adjusted for such special effects (e.g. M&A and restructuring costs or revaluations of balance sheet items), however, adjusted EBITDA (Adj. EBITDA) of € 84.80 million was generated, which was significantly higher than in the same period of the previous year (9M 2023: € 63.50 million).

In terms of operating profitability, a slight increase in profitability to 29.0% (9M 2022: 28.4%) was achieved on the basis of the adjusted EBITDA margin (Adj. EBITDA margin) despite high investments in the sales team and platform structures. In addition, the currently still rather low CPMs (cost-per-mile) in the advertising industry prevented a stronger increase in profitability.

The significant increase in earnings and high profitability were also reflected in an even stronger increase in operating cash flow of 152.5% to € 81.46 million (9M 2023: € 32.26 million). As a result, the leverage ratio (net debt/adj. EBITDA) also improved to 2.6x at the end of the third quarter (net leverage FY 2023: 3.1x). The company is forecasting a further improvement to 2.4x by the end of the year.

Consolidated net profit (after minority interests) of € 14.49 million was generated after the first nine months, which was below the previous year's level (9M 2023: € 41.83 million) due to the significant one-off effect in the previous financial year described above.

Business performance Q3 2024

The growth momentum achieved was particularly evident in the third quarter as it was by far the strongest quarter in the current financial year to date. In the third quarter, Verve achieved dynamic sales growth of 45.2% year-on-year to € 113.74 million, of which 31.0% was attributable to organic growth effects (excluding currency effects and the Jun Group acquisition). The significant (organic) sales growth resulted primarily from increased new customer acquisition and expanded advertising budgets from existing software customers.

In particular, ID-less advertising solutions fuelled growth among new and existing customers.

The inorganic growth effects recorded in the third quarter resulted from the Jun Group acquisition carried out in the summer (closing at the end of July 2024). According to the company, the Jun Group integration started as planned in the third quarter and the estimated positive synergy effects from this are mainly expected for the 2025 financial year. In the third quarter of 2024, the Jun Group already achieved year-on-year sales growth of 7.0%, which is significantly higher than in the previous second quarter (YoY growth: 2.0%). In October, the company achieved a further significant acceleration in growth compared to the third quarter with a recorded growth rate of 13.0%, generating a high EBITDA margin of 49.0%.

At the same time, a significant increase in adjusted EBITDA (Adj. EBITDA) of 45.5% to € 33.60 million (Q3 2023: € 23.10 million) was achieved at operating earnings level. At the same time, the adjusted EBITDA margin improved slightly to 30.0% (Q3 2023: 29.0%) thanks to the onset of economies of scale.

Forecast and price target

In view of the extremely positive company performance in the first nine months and the expected strong profitable growth for the fourth quarter and subsequent financial years, management has reaffirmed its previously raised guidance (revenue of € 400.0 million to € 420.0 million and Adj. EBITDA of € 125.0 million to € 135.0 million) for the current financial year 2024 and its medium-term guidance (revenue CAGR: 25.0% to 30.0%; Adj. EBITDA margin: 30.0% to 35.0%). Accordingly, Verve expects continued high growth momentum in the form of double-digit profitable growth rates in the future as the advertising market continues to recover.

P&L in € million	FY 2023	FY 2024e (new)	FY 2024e (old)	FY 2025e	FY 2026e
Revenues	321.98	410.02	401.24	502.11	596.79
Adjusted EBITDA (Adj. EBITDA)	95.20	128.11	125.89	162.94	197.88
EBITDA	128.46 ^{*1}	121.51	119.29	156.84	191.58
Net result (after minority interests)	46.73 ^{*1}	23.22	21.52	43.88	67.97

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

In light of the strong company results and the confirmed outlook, we have adjusted our estimates for the current 2024 financial year upwards. Accordingly, we now expect sales of € 410.02 million (previously: € 401.24 million) and EBITDA of € 121.51 million (previously: € 119.29 million) for the current financial period. Our sales and earnings forecasts for subsequent financial years remain unchanged.

Based on our increased estimates for the current financial year and our confirmed forecasts for the following years, we have raised our previous price target slightly to € 6.70 per share (previously: € 6.60 per share). In relation to the current share price level, we therefore continue to assign a "BUY" rating and 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 € 6.70 per share (previously: € 6.60 per share). Our price-target increase results from our increased sales and earnings forecasts for the current financial year 2024.

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 sales 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	FY 30e	FY 31e	
Turnover (US)	410.02	502.11	596.79	626.63	657.96	690.86	725.40	761.67	
US change	27.3%	22.5%	18.9%	5.0%	5.0%	5.0%	5.0%	5.0%	2.5%
US to operating fixed assets	1.93	2.57	3.38	4.00	4.64	5.29	5.93	6.56	
EBITDA	121.51	156.84	191.58	201.16	211.22	221.78	232.87	244.51	
EBITDA margin	29.6%	31.2%	32.1%	32.1%	32.1%	32.1%	32.1%	32.1%	
EBITA	87.94	113.63	144.86	154.44	169.76	184.29	198.35	212.15	
EBITA margin	21.4%	22.6%	24.3%	24.6%	25.8%	26.7%	27.3%	27.9%	23.9%
Taxes on EBITA to EBITA	-26.38	-34.09	-43.46	-46.33	-50.93	-55.29	-59.50	-63.65	
	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
EBI (NOPLAT)	61.56	79.54	101.40	108.11	118.84	129.01	138.84	148.51	
Return on investment	28.8%	35.8%	48.5%	55.6%	63.2%	73.9%	84.1%	93.6%	84.8%
Working capital (WC)	9.15	13.99	17.88	31.33	32.90	34.54	36.27	38.08	
WC to turnover	2.2%	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	156.72	141.72	130.50	122.35	116.19	
AFA on OAV	-33.57	-43.21	-46.72	-46.72	-41.45	-37.48	-34.52	-32.36	
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	-26.80	-26.45	-26.27	-26.36	-26.20	
Invested capital	222.02	209.15	194.52	188.05	174.62	165.05	158.62	154.27	
EBITDA	121.51	156.84	191.58	201.16	211.22	221.78	232.87	244.51	
Taxes on EBITA	-26.38	-34.09	-43.46	-46.33	-50.93	-55.29	-59.50	-63.65	
Total investments	-196.61	-96.34	-57.09	-40.25	-28.02	-27.91	-28.09	-28.01	
Investments in OAV	-23.90	-25.50	-28.20	-26.80	-26.45	-26.27	-26.36	-26.20	
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	-101.48	26.41	91.03	114.58	132.27	138.58	145.28	152.85	1970.70

Value of operating business (reporting date)	1626.29	1745.36
Present value of explicit FCFs	544.51	566.81
Present value of the continuing value	1081.78	1178.56
Net debt	472.67	497.35
Value of equity	1153.62	1248.02
Minority interests	-0.20	-0.22
Value of the share capital	1153.41	1247.80
Outstanding shares in € million	186.36	186.36
Fair value of the share in EUR	6.19	6.70

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%
84.3%	7.54	7.07	6.66	6.28	5.94
84.6%	7.56	7.09	6.68	6.30	5.95
84.8%	7.58	7.12	6.70	6.32	5.97
85.1%	7.60	7.14	6.71	6.33	5.99
85.3%	7.62	7.16	6.73	6.35	6.00

APPENDIX

I.

Research under MiFID II

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2. The research report is made available to all interested investment service providers at the same time.

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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%.
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GBC AG is currently represented by its Executive Board members Manuel Hölzle (Chairman) and Jörg Grunwald.

The analysts responsible for this analysis are

Marcel Goldmann, M.Sc., Financial Analyst

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