Verve Group

Extensive report

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Inderes corporate customer

inderes.

Navigating the revived ad market with a new identity

The advertising market is recovering and so is Verve, as evidenced by the last two quarters of strong double-digit organic growth. We believe Verve has navigated the challenging advertising market witnessed in 2022-2023 well by maintaining a resilient margin profile and increasing its share of customers' advertising budgets. The acquisition of Jun Group brings a lot to the table, as it not only enables stronger margins and higher-quality earnings, but also expands Verve's data set and drives synergies. However, given the recent surge in the share price, we believe that the risk/reward ratio has moderated somewhat at the current market valuation. Consequently, we revise our recommendation to Accumulate (was Buy) while increasing the target price to SEK 29 (previously SEK 28).

An ad software media company that benefits from its own first-party data

Over the past few years, Verve Group has successfully transformed into a fully integrated ad software media company, marked by its name change from Media and Games Invest to Verve. Originally rooted in the gaming industry, the former name could suggest a pure focus on M&A driven gaming activities, but things have changed. The name "Verve" reflects the company's true identity, with 80% of its revenue coming from its advanced programmatic advertising software platform, which generates revenue through revenue sharing, commissions and platform fees. While the gaming division still plays a role, it now serves strategically as a valuable source of first-party data rather than a primary growth driver. Together with the company's SDKs, Verve collects a vast amount of first-party data, which is critical in a privacy-conscious world moving away from third-party cookies and identifiers. This data fuels Verve's proprietary ID-less targeting solutions, enabling rapid and efficient development and testing of new technologies, and positioning Verve to be highly agile and adaptable in the ever-changing digital advertising landscape.

Proven resilience in tough conditions and stands ready to leverage market rebound

The advertising market has been under pressure for the past two years due to rising interest rates, inflation, recessionary fears, geopolitical issues and supply chain disruptions, resulting in reduced advertising budgets and lower CPMs. Despite these difficulties, Verve maintained stable margins and achieved 5% organic revenue growth in 2023. While this might seem modest for a growth company of Verve's caliber, it becomes more commendable considering that average CPMs dropped by 20-30% during the year. By maintaining a net dollar expansion rate of ~90% among its software customers, Verve was able to effectively increase its share of customer spend given the pricing dynamics, highlighting its strength in cross-selling and up-selling. What's more, Verve's customer base growth of +20% year-on-year positions the company well to benefit from a recovering advertising market and rising CPMs, supporting our 2024 revenue forecast of 21.7%, of which 13.9% organic, to 391.8 MEUR (2024e pro forma: 449.8 MEUR). For 2025, we estimate revenues of 481.9 MEUR, representing a growth of 23% year-on-year, of which 9% organic. However, near-term risks include economic volatility, geopolitical uncertainties and the ongoing phase-out of third-party cookies.

Valuation multiples are on the low side

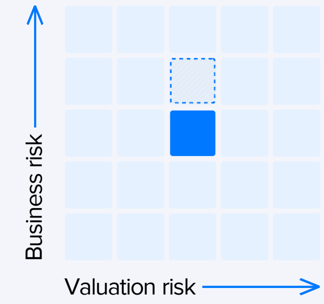
The combination of an elevated leverage and falling growth momentum has been a bad cocktail in valuation manners for all growth companies in the current high interest environment, and Verve was no exception. The company is trading at historically low levels and based on our estimates, the 2025 multiples (adj. EBIT 6.4x and EV/FCF 10.9x) are somewhat compressed in our view, even in the current rate environment. The DCF model, which we believe better reflects the company's long-term value creation, points to an upside for the stock (SEK 31.9/share) and supports our positive investment view.

Recommendation

Accumulate
(prev. Buy)

29.00 SEK
(prev. 28 SEK)

Share price:
25.25 SEK



Key indicators

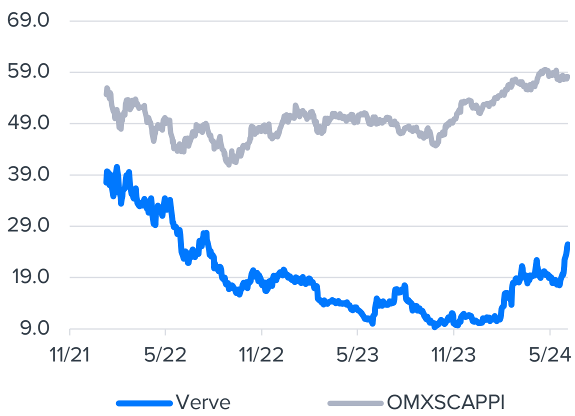
	2023	2024e	2025e	2026e
Revenue	322.0	391.8	481.9	526.2
growth-%	-1%	22%	23%	9%
EBIT adj.	76.9	91.5	122.3	132.1
EBIT-% adj.	23.9 %	23.4 %	25.4 %	25.1 %
Net Income	46.7	14.0	46.9	58.5
EPS (adj.)	0.15	0.20	0.34	0.41
P/E (adj.)	6.6	11.2	6.5	5.4
P/B	0.5	1.0	0.9	0.8
Dividend yield-%	0.0 %	0.0 %	0.0 %	0.0 %
EV/EBIT (adj.)	5.9	8.5	6.4	5.7
EV/EBITDA	4.8	7.3	5.2	4.5
EV/S	1.4	2.0	1.6	1.4

Source: Inderes

Guidance (Unchanged)

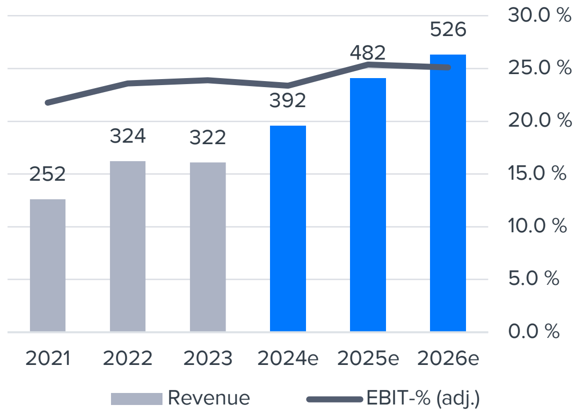
Revenue EUR 380-400 million (18-24%) and adjusted EBITDA EUR 115-125 million (21-31% growth)

Share price



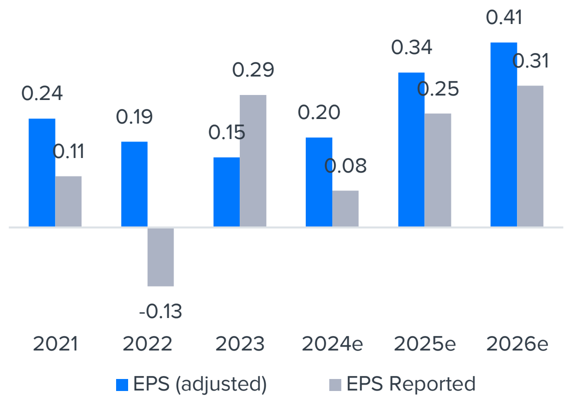
Source: Millistream Market Data AB

Revenues and operating profit-%



Source: Inderes

Earnings per share



Source: Inderes

Value drivers

- High single-digit growth in the programmatic ad market over the medium to long term, with In-app and CTV markets growing even faster
- Market-leading mobile In-App SSP
- Several proprietary targeting solutions for a post-identifier and cookie-less world
- Strong and increasing industry recognition could boost revenue growth
- A trusted end-to-end omnichannel platform
- Own first-party content that provides data to the ad platform
- Improved quality of earnings and increased potential for synergies in coming years following the acquisition of Jun Group

Risk factors

- Failing to maintain/increase market share in programmatic advertising
- Market disruption due to technological or regulatory reasons
- Despite a partial recovery in ad spending, persistent low CPMs and evolving privacy regulations pose ongoing risks
- Rapid slowdown in first-party games revenue
- If operating profit declines, free cash flow (FCF) might not be sufficient to cover the increased financial expenses.

Valuation	2024e	2025e	2026e
Share price (EUR)	2.23	2.23	2.23
Number of shares, millions	172.8	186.4	186.4
Market cap (MEUR)	415	415	415
EV (MEUR)	782	782	747
P/E (adj.)	11.2	6.5	5.4
P/E	27.5	8.9	7.1
P/FCF	neg.	13.2	6.7
P/B	1.0	0.9	0.8
P/S	1.1	0.9	0.8
EV/Sales	2.0	1.6	1.4
EV/EBITDA	7.3	5.2	4.5
EV/EBIT (adj.)	8.5	6.4	5.7
Payout ratio (%)	0.0 %	0.0 %	0.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %

Source: Inderes

Contents

Verve Group SE in brief

Verve is an advertising software company that facilitates the buying and selling of digital advertising across emerging channels like mobile in-app, connected TV (CTV), digital out-of-home (DooH) and audio, with the latter two still in their early stages. The company also generates revenue and data through its own first-party gaming content and SDKs.

2012
Current management takes over gamigo AG

2018 in Germany (2020 in Sweden)
IPO

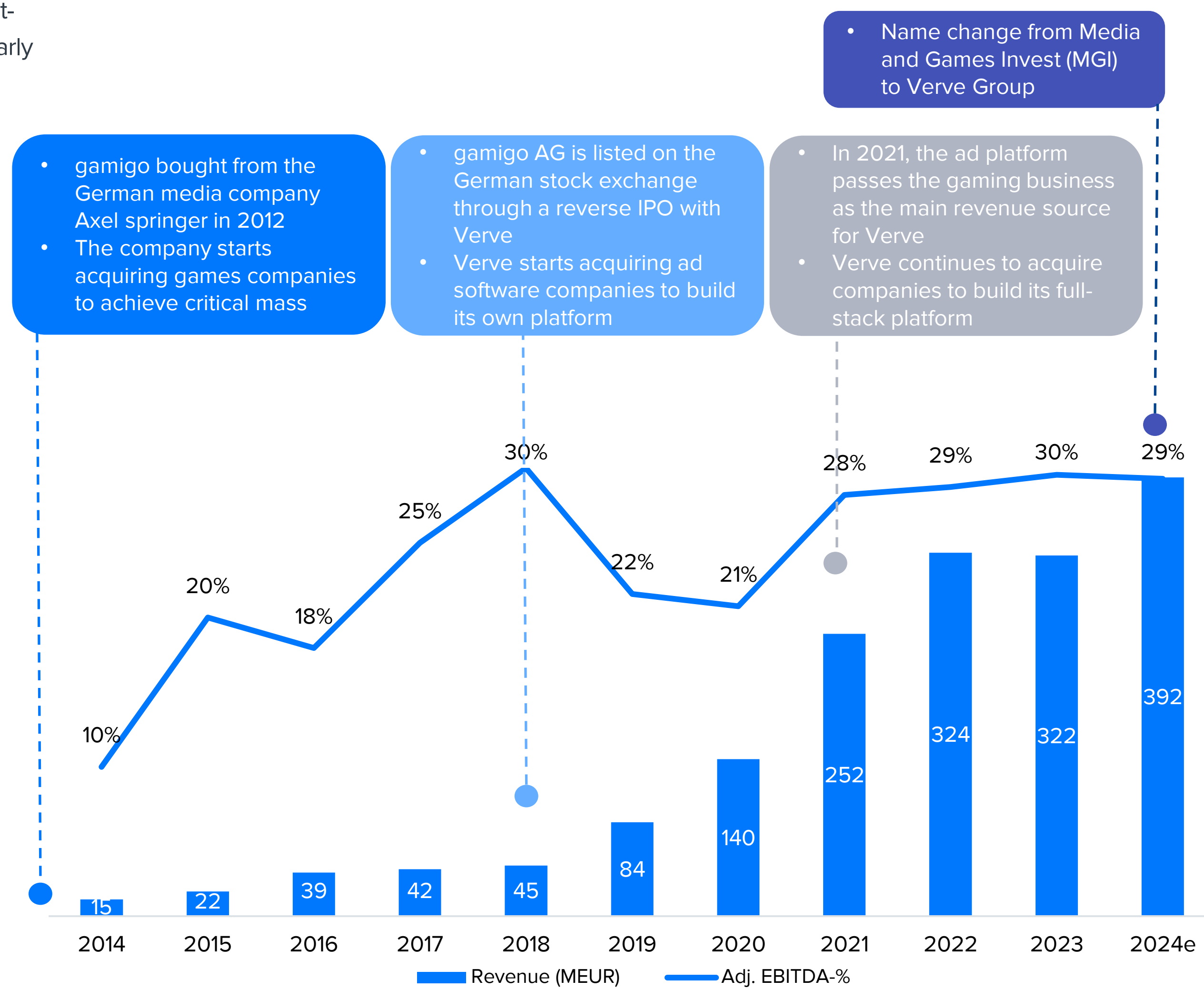
322 MEUR (-1 % vs. 2022)
Revenue 2023

+30.9% 2018-2023
Compounded annual growth rate (CAGR)

76.9 MEUR (23.9% of revenue)
Adjusted EBIT 2023

+700
Full-time employees at the end of Q1'24

+772 billion yearly ad impressions
Ads delivered LTM (Q1'24)



Source: Verve / Inderes

Company description

An ad software platform with first-party content

Verve Group SE ("Verve") facilitates the buying and selling of digital advertisements. Verve's 2023 revenues were 322 MEUR and operating profit adjusted for non-recurring costs and amortization of PPA was 76.9 MEUR (adj. EBIT 24%). About two thirds of the company's revenue are generated in the US and the remaining coming from Europe (20%) and rest of the world (14%).

Today, most digital ads we see on websites, apps, and smart TVs are bought and sold automatically. Within milliseconds after you open a website a synchronized process involving several actors coordinate behind the scenes to match the right ad with you, the end user. As soon as the webpage starts to load, the supply side platform (SSP) sends out requests to multiple ad exchanges requesting bids for displaying ads to you. The ad exchanges attach what data they have on the user so the demand-side platforms (DSPs) can evaluate the opportunity and send back a bid. If several bids are received, an auction process is conducted to select the winning bid and—voilà —an ad appears in front of your eyes. This process that happens within 100ms is what is know as "programmatic advertising" and is a market worth 546 BNUSD.

In a generalized form this process has three main participants: the supply-side platform (SSP), the ad exchange, and the demand-side platform (DSP). Verve owns and operates all three of these and is therefore what is know as a full-stack ad platform.

In addition to the programmatic ad platform, Verve has its own first-party content consisting of video games for PC, console, and mobile. The games not only provide revenue, but also first-party data to the ad platform, which allows Verve to learn about their audiences and serve the right ad to the right user.

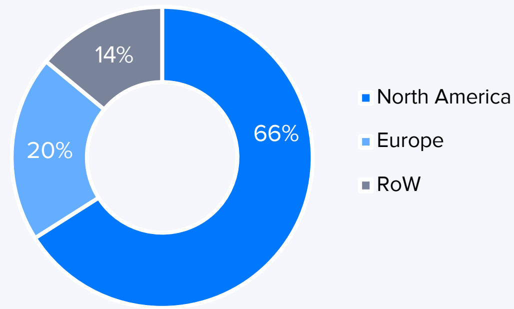
A brief history of Verve

The story of Verve started in 2012 when Remco Westermann (Verve's CEO) bought the games company gamigo AG from the German media company Axel Springer. At the time, gamigo was a struggling games company. The new management instituted a strategy of discontinuing new game development due to its high costs and risks in favor of focusing on growth through a buy and build strategy.

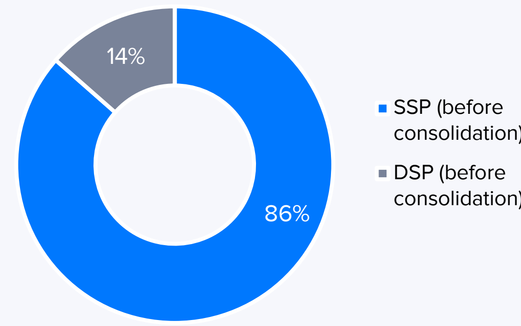
Between 2013-2018 gamigo acquired about 30 companies including games companies Looki publishing, Infernum Games, and Aeria games. Aeria games proved to be a pivotal acquisition as on top of Aeria's game portfolio gamigo also acquired its first media assets. gamigo also acquired additional media assets such as Mediakraft in 2017. These assets would start Verve's journey from a pure games company to an integrated ad software platform with first-party content.

In 2018, gamigo was listed on the Frankfurt stock exchange through a reverse IPO with Verve (formerly known as Media and Games Invest). Verve continued to acquire media and games companies, especially companies operating in the ad software space. Between 2019 and today, Verve acquired another 14 companies. Each acquisition was made with the philosophy of "buy, integrate, build, and improve". Through these strategic acquisitions Verve was able to piece together an ad software platform that today covers most of the programmatic advertising value chain.

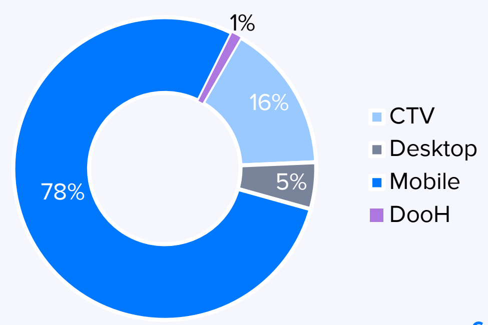
Geographic revenue breakdown (Q1'24)*



Revenue per Segment (Q1'24)*



Revenue per platform (Q1'24)*



Source: Verve, Inderes

*The figures refers to Verve prior the acquisition of Jun Group in Q2'24.

Timeline of key acquisitions

2012
gamigo AG bought from Axel springer

2015
Acquisition of Looki Publishing, GameSpree, and Infernum Games

2016
Acquisition of Aeria Games GmbH a games and media company

2017
Acquisition of social media specialist Mediakraft

2018
Reverse IPO with Verve and listed on the German stock exchange. Acquisition of Trion Worlds Inc

2019
Acquisition of Pubnative, Applift, ReachHero, and WildTangent

2020
Acquisition of Freenet digital, Platform161, Verve Wireless. Verve listed on First North Stockholm

2021
Acquisition of Match2One, Smaato, LKQD, KingsIsle, and Beemray

2022
Acquisitions of AxesInMotion and Dataseat

2024
Acquisition of Jun Group

Source: Inderes

Business model (1/4)

Advertising software platform

Through its ad software platform, Verve acts as the middleman in connecting advertisers interested in buying digital ads and publishers interested in selling digital ad space (ad inventory). Advertisers consist of global multinational companies, small and medium-sized enterprises (SMEs), and advertising agencies. The advertisers are interested in placing their ads on digital platforms such as websites, mobile apps, connected TV (CTV), and digital out-of-home (DooH). To do this, they can use a demand-side platform (DSP) where they can create, manage, and track their ad campaigns.

The publishers are the owners of the websites, mobile apps, and other digital platforms. Some examples of publishers would be news sites, blogs, apps, streaming apps, and mobile games. Publishers can either directly negotiate with advertisers about placing ads on their platforms or they can sign on to a supply-side platform (SSP) where they can sell their ad inventory automatically.

Verve operates both DSPs and SSPs and receives payment for acting as the facilitator in matching advertisers and publishers. Verve also operates several other functions in the ad-tech value chain such as ad exchanges, data management platforms, and software development kits (SDKs). The company aims to provide an end-to-end service covering most of the ad-tech value chain. Verve also aims to provide their products across all major digital platforms.

Verve also has first-party content through its games and SDKs. Verve's game portfolio consists of +5,000 casual and mobile games and 6 MMO games (Massively Multiplayer Online) for PC and console. The games business is run under the brand gamigo Group.

Diversified revenue stream

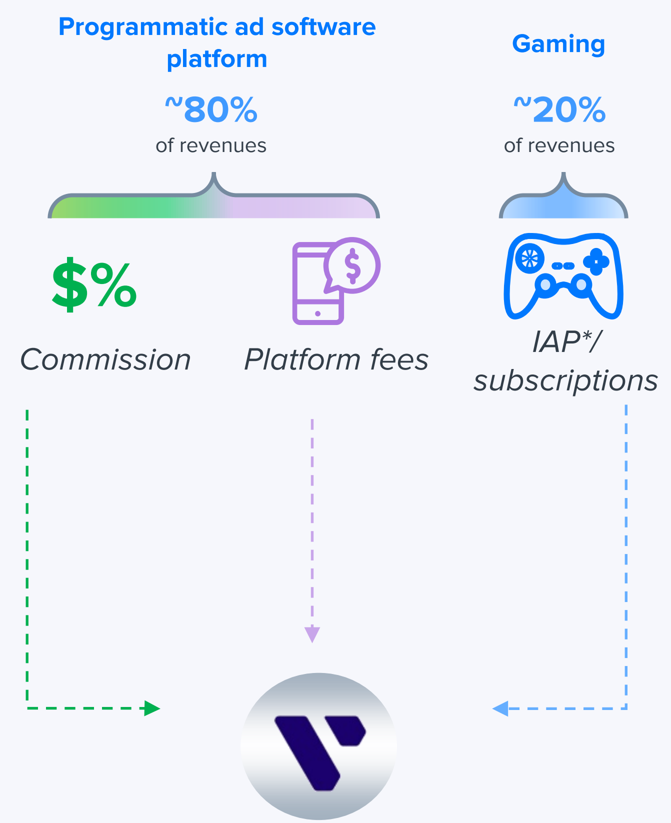
Verve's main source of revenues are fees and commissions from its ad software platform and revenue generated by the games business.

Advertisers and publishers pay a fee for using Verve's ad software platform. This fee is somewhat modest, and the bulk of the revenue generated from the ad platform is in the form of commissions for matching buyers and sellers. For every euro spent by the advertisers to buy ad space, about 50% ends up in the hands of the sellers of the ad inventory, i.e., the publishers. The other half is split among the DSPs, SSPs, ad exchanges and other middlemen that operate between the advertisers and publishers.

For a full-stack company (a company that covers the entire value chain) like Verve, the more its products are used in the transaction, the larger the share of the commission they get to keep. If the transaction is made entirely through Verve's supply chain, they get to keep the full commission. If for example, only its DSP or SSP is used, Verve's cut will be smaller at around 15-30%. Revenues are dependent on the volume of transactions and the price per ads. The price is set by the market through the real-time bidding system.

Verve's games portfolio generates revenue in a couple of different ways. Some of the games operate on the traditional revenue model of pay-to-play (one-time purchase of the game), but most of its games operate on the free-to-play model and generate income either through advertisements (IAA), in-game purchases, or subscriptions.

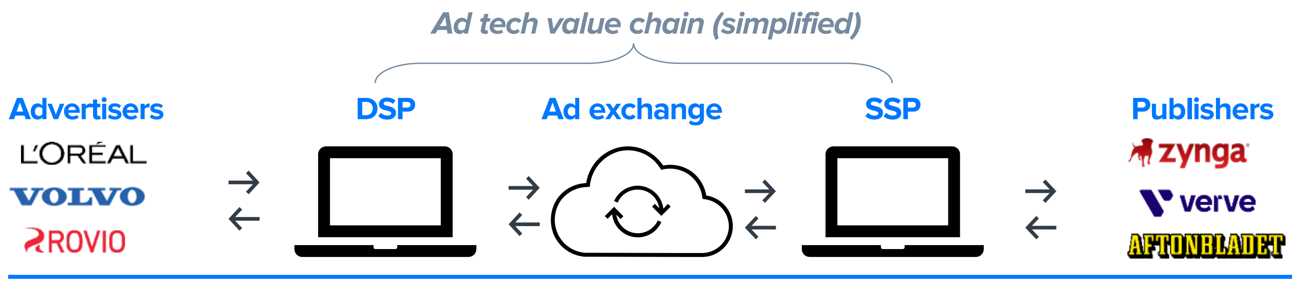
Verve's revenue streams



*In-app purchases

Source: Verve, Inderes

Overview of Verve's ad platform business model



Scenarios		Advertising spending	Commissions/Revenue-Share			Revenue for the publisher	
1	Verve facilitates the entire transaction	1 € L'ORÉAL	0.2 € verve	0.1 € verve	0.2 € verve	0.5 € zynga	Verve's total commission is **0.5 €**
2	Verve only acts as the DSP	1 € L'ORÉAL	0.2 € verve	0.1 € Other	0.2 € Other	0.5 € zynga	Verve's total commission is **0.2 €**
3	Verve facilitates the entire transaction and is also the publisher	1 € L'ORÉAL	0.2 € verve	0.1 € verve	0.2 € verve	0.5 € verve	Verve keeps the entire **1 €**

Advertisers

- Advertisers consist of multinational corporations, SMEs, and ad agencies
- Through its gaming business gamigo, Verve also acts as an advertiser when promoting its games
- Advertisers interested in advertising on digital platforms can sign up to a DSP to automatically purchase ad inventory
- Advertisers aim to get the best ROI and are willing to spend more per ad if the placement is valuable

Ad tech value chain

- The ad tech industry connects the advertisers and publishers
- The value chain consists primarily of DSPs, SSPs, ad exchanges, ad networks, and data management platforms
- Under its Verve group brand, Verve is what is called a full-stack ad platform meaning that they can offer the entire value chain in-house

Publishers

- Publishers consist of owners of digital platforms such as websites, mobile apps, games, and mobile games
- Publishers who want to monetize their platform through ads can sign up to an SSP to automatically sell their ad inventory
- Some of Verve's games are monetized by ads and these ads are sold through Verve's ad software platform
- Publishers naturally want to sell their ad inventory for as much money as possible

Business model (2/4)

Since 2022, Verve's revenue reporting has been split between the DSP and SSP segments. In Q1'24 (LTM), revenues were split 86% SSP and 14% DSP (before consolidation). The games business is reported in the SSP segment as it provides audience data and advertising inventory to advertisers. Following the acquisition of Jun Group in Q2'24, the DSP share has increased to approximately 25-30% on a pro forma basis (2024e).

Cyclical and seasonal revenue

As the share of revenue from the ad software platform has grown, the company has become more sensitive to the overall level of ad spending in the economy. Ad spending is both cyclical and seasonal. Advertisers scale their advertising budgets up and down depending on the industry/overall market environment. Often, when times get tough the advertising budgets are the first ones to take a hit. As Verve is active in the faster growing submarkets of advertising (programmatic) they are not as exposed to the cyclicality of total ad spending. This is because programmatic and especially mobile programmatic has grown faster due to taking market share from non-programmatic advertising forms. This was experienced in 2020 when total ad spending decreased due to the economic impact of the COVID pandemic while programmatic increased, as it benefitted from the shift to digital.

Seasonally, ad spending tends to be lowest in Q1 with each subsequent quarter being stronger than the previous one, as advertisers ramp up their spending towards Christmas. Consequently, like-for-like we see about a 20% drop in Verve's revenues from Q4 to Q1.

Recurring revenues from a wide customer base

Verve's revenues are recurring in nature due to its diverse revenue streams and customer base. In addition to advertisers, publishers and players of its games, Verve's customer base includes other companies in the ad tech value chain. These include other DSPs that route their business through Verve's SSPs and ad exchanges.

As of Q1'24 Verve had 764 (Q1'23: 612) large software customers with more than USD 100,000 in revenue (not including the acquisition of Jun Group). Verve is not dependent on any single large customer as no single customer accounts for more than 10% of revenue. Verve employs two sales teams focused on customer acquisition. One team is focused on the DSP side, trying to sign on advertisers while the other team is focused on acquiring publishers.

The benefits of first-party content

There are three main benefits of having first-party content for an ad software platform. These benefits are related to the act of selling, buying and targeting ads.

Games monetized through advertisements take on the role of a publisher in the ad-tech value chain, i.e., they have ad inventory to sell. This is usually done by tapping into the programmatic advertising market through SSPs or SDKs such as the ones provided by Verve.

Here the obvious synergy between Verve's games and the ad platform is evident. When the games sell their ad inventory through Verve's own ad platform, a larger share of the value stays in-house. As discussed previously, the publisher usually gets about 50% of the price paid by the advertisers and rest is pocketed by the middlemen. However, if Verve sells its ad inventory though its own ad software platform, the company essentially keeps 100% of the payment (50% gamigo, 50% Verve Group). Verve also achieves improved monetization of its games when selling ad inventory in-house through improved fill rates and higher prices per ads.

The other big benefit comes from the practices of user acquisition ("UA"). Gaming companies find new players through user acquisition. User acquisition can be organic through word-of-mouth and brand awareness or paid. Paid user acquisition is done mostly through advertisements, which are often bought using a DSP.

For most casual and mobile games, paid user acquisition is critical to the success of the games. Mobile games companies usually spend around 30% revenue on user acquisition. In effect, this means that games that are monetized through advertisements both sell and buy ads. Naturally, this means that to be profitable the games need to earn more from the ad inventory they sell than what they spend on ads to acquire new players. Hence, efficient user acquisition is key.

Verve routes its user acquisition spending through its own ad platform. This means that Verve is essentially paying themselves to facilitate the buying of ad inventory. If this is done entirely within the own platform, Verve keeps the entire commission for facilitating the transaction (50% Verve, 50% external publishers). Doing this in-house also allows Verve to maintain complete control over its user acquisition process and minimizes the risk of fraud and ads being placed on undesired sites. According to Verve, doing UA in-house is more efficient and lowers the cost of user acquisition. In Q2'22, Verve bought Dataseat, a mobile DSP that focuses on UA for mobile games. The aim of the acquisition was not only to generate future revenue but also further improve Verve's UA for its own games.

Business model (3/4)

The third advantage of first-party content relates to the practice of targeting ads to users. To get the most value out of every ad displayed, different targeting solutions are used to profile the end user as to evaluate which ad best fits them. The main solution here has been using identifiers such as third-party cookies, Apple's IDFA and Google's GAID. These identifiers are used to track and gather data on users. Data collected includes things such as age, location, demographic, and interests. With this data, ad platforms can display the right ad to the right user (i.e., diapers and children's clothes for recent parents).

Efficient targeting enables the advertisers to personalize each ad for the end user rather than showing a random ad that might or might not be relevant. Therefore, the better the targeting, the more advertisers are willing to pay for each viewed ad. This is also in the interest of the publishers as each individual ad slot sells for a higher price allowing them to better monetize their ad inventory.

In order to carry out this targeting, the ad software platform requires data on the users. This data is generally classified as third-party data and first-party data. Third-party data can be purchased from vendors or gathered using tools such as cookies and IDFA/GAID. First-party data is gathered from content owned or controlled by the party in question. Verve has access to first-party data through its games business and software development kits (SDKs). This data is then used by Verve's ad platform to more efficiently target users. Using first-party data also gives the company more control and transparency over the transaction. Having first-party content that supplies ad inventory also makes Verve more attractive to advertisers as there are observable and assured publishers on the platform.

Additionally, first-party content and data is used to enhance the ad software platform. Verve can use its own games as testing platforms to get quick feedback on what works and what doesn't work. Without these own games Verve would have to rely on third party developers to implement and test new products. The company is also able to use the first-party data to improve on the machine learning algorithms of different targeting methods such as Verve's Moments.AI and ATOM products.

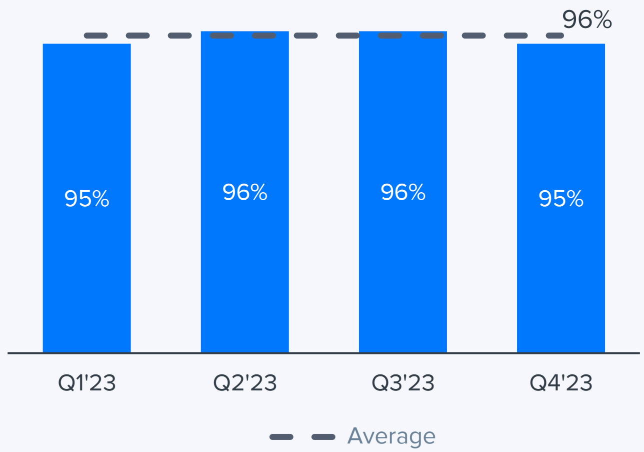
The acquisition of Jun Group provided Verve with a significant amount of so called zero-party data, which includes information that customers voluntarily share through e.g., surveys. This data offers direct insights into consumer preferences, enabling efficient targeting in a privacy-friendly way.

Key performance indicators

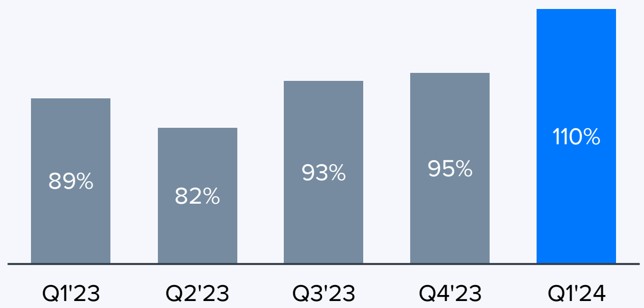
Verve uses different KPIs to measure its ad platforms performance. This includes indicators such as retention rate, net dollar expansion rate, ad impressions, and number of large software customers (see more on page 12). The retention rate shows how many of the company's customers with revenues over USD 100,000 did repeat business with them on a year-on-year basis. In Q4'23[1], Verve's retention rate was 95%. Looking at the last four quarters we see that Verve's retention rate has been quite stable averaging 96%.

The net dollar expansion rate shows how much Verve's customers spent compared to the same period last year. A rate above 100% means that customers are spending more than they did last year. Growth is a combination of new customer acquisition and how much existing customers are spending. In Q1'24, the net dollar expansion rate was 110%, exceeding 100% for the first time in 18 months after fluctuating between 89-95% in 2023 due to some softness in the advertising market.

Retention rate of software clients



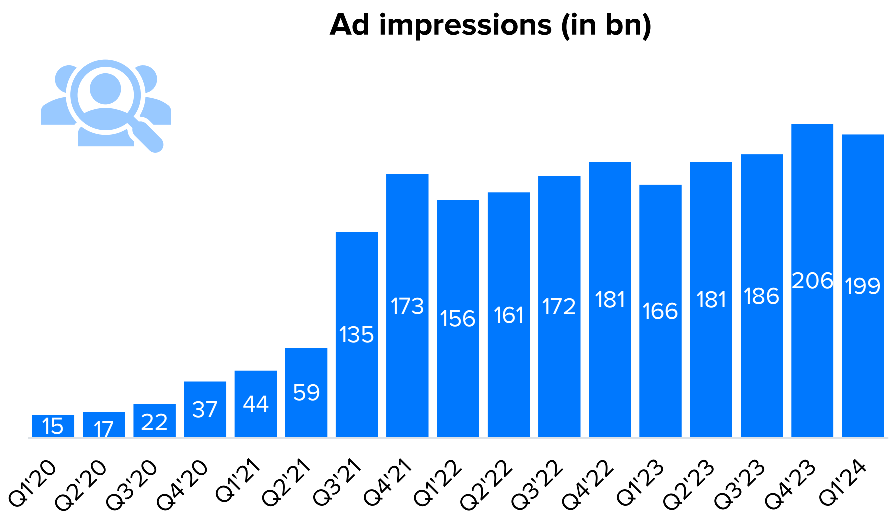
Net dollar expansion rate of software clients

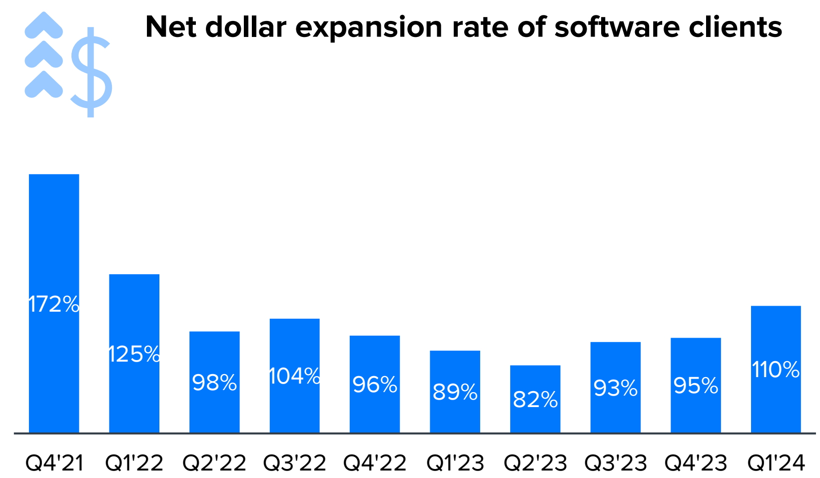


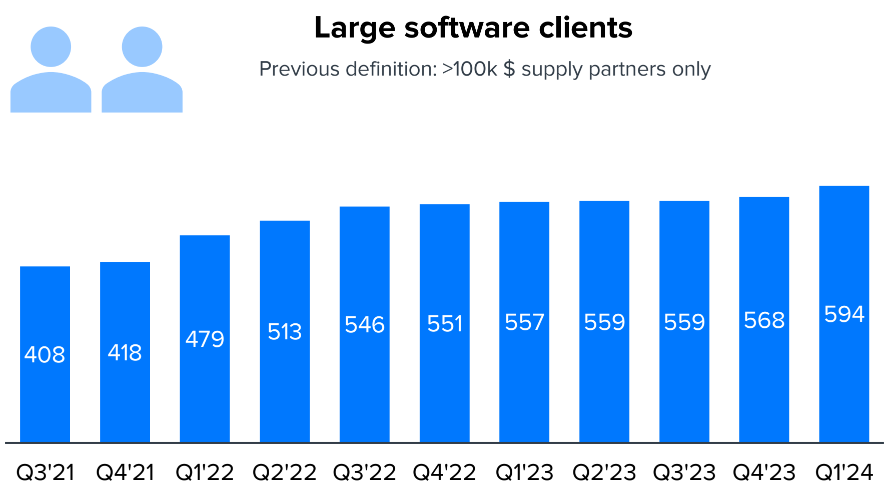
Source: Verve, Inderes

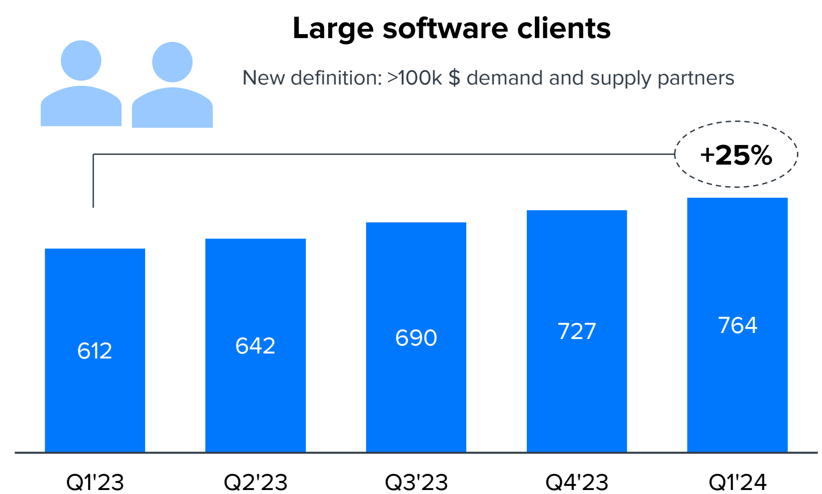
[1] Verve changed the definition for large software clients in Q1'24 and, hence, did not disclose the retention rate for the quarter. The figure, however, will be disclosed in the future.

Key KPIs*









Source: Verve, Inderes

*Excluding Jun Group, which was acquired in Q2'24.

Business model (4/4)

Ad impressions measure how many times an ad has been shown. In Q1'24 Verve delivered a total of 199 billion ad impressions and over the last twelve months 772 billion ad impressions where delivered. This figured has grown dramatically over the last few year with Verve delivering 91 billion ad impressions in 2020.

A scalable cost structure

Verve's cost structure is split roughly 70/30 in favor of variable costs. Variable costs are mainly infrastructure costs for datacenters and cloud computing services. These costs are booked under the 'Purchased services' item. The costs are largely based on a pay-as-you-go model, and the company is to some extent able to ramp the costs up and down in line with business activity. Purchased services have remained stable at around 55% of revenue over the past five years. Additionally, the item 'Other operating expenses' is included in variable costs, encompassing administrative, legal, auditing, and other expenses. These other operating expenses have fluctuated between 8% and 13% over the last five years.

Fixed costs consist mainly of personnel expenses, including wages and social security, which are by nature rather inflexible. These costs have remained relatively stable over the past three years at around 23% of revenues. Historically, they have been above 30%, reflecting clear economies of scale. Controlling personnel costs is critical to the company's future profitability.

Due to the large amount of costs being variable in nature, Verve's business model scales nicely, which should enable the company to further benefit from economies of scale as revenue grows.

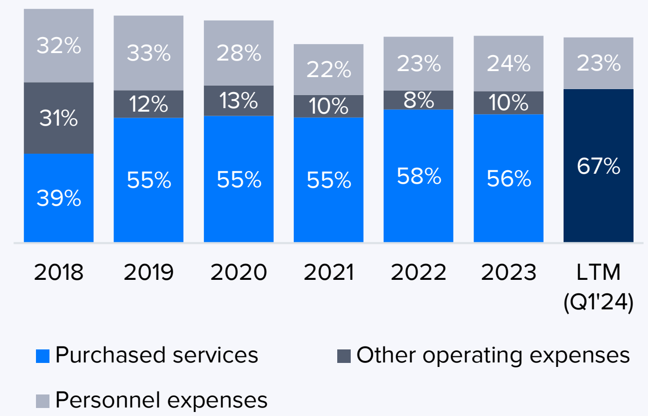
Capital commitment

Having transitioned from being a pure games company to a media company, and with the changes that accompany this shift, Verve's net working capital (NWC) turned positive in 2020, following slightly negative values in previous years. In 2021, the NWC amounted to 50 MEUR, corresponding to 20% of revenue. Regarding the media business, the NWC is in general positive as payments to publishers are due within 30-45 days, while receivables from the advertisers are collected within 60-90 days. This means as revenue grows, NWC will also grow and tie up more cash.

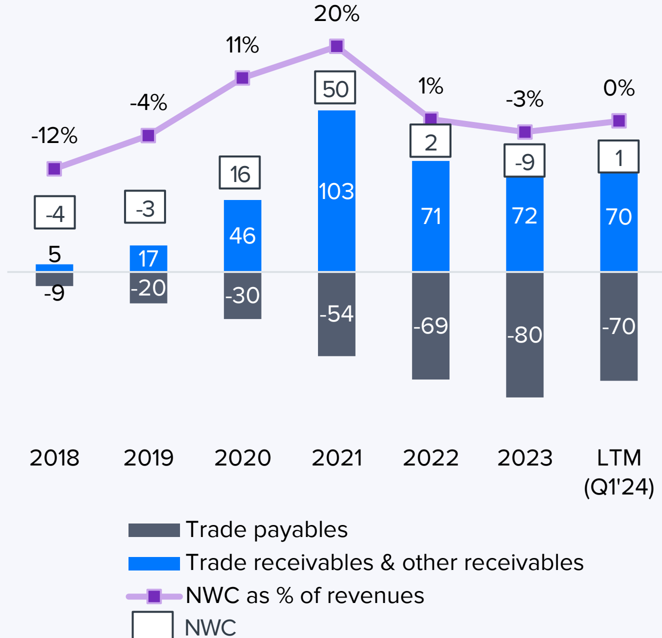
However, at the end of 2022, Verve entered a three-year securitization program under which the company's trade receivables are sold to a non-controlled entity on a non-recourse basis. This has resulted in more optimized receivables management and reduced the company's NWC, and in 2023, NWC was -3% of revenue. Going forward, the company expects NWC to be a negative low single-digit percentage of revenue.

The company invests both into tangible and intangible assets. In 2023, Verve invested 0.5 MEUR into tangible assets, but this figure has been roughly 5 MEUR in previous years. These investments consists mainly of investments into operating and business equipment, IT equipment, and right of use assets. Verve also invested 46 MEUR into intangible assets during 2023. These investments are mostly capitalized own work related to development on the ad software platform, games content, and game licenses.

Costs as a share of revenue (%)*

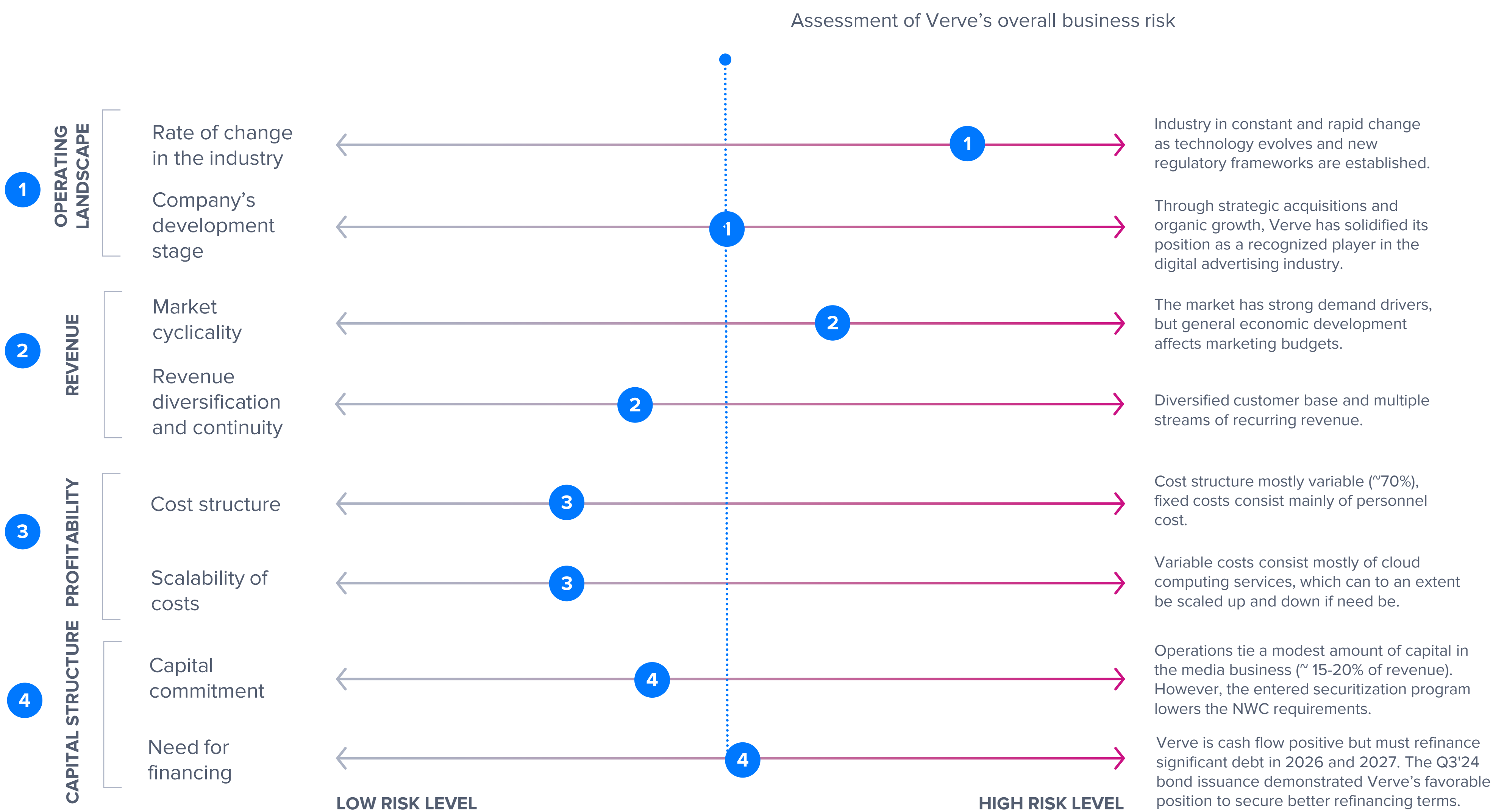


NWC development (MEUR)



Source: Verve, Inderes
* Purchased services and Other operating expense are reported together in the quarterly reports

Risk profile of the business model



Source: Inderes

Market overview – Digital advertising (1/6)

The digital advertising market

The digital advertising market is a submarket of the overall advertising market that is made up of digital and non-digital ads. The market size is estimated based on media ad spending. According to Statista the total worldwide ad spending amounted to 1,027 BNUSD in 2023. Digital ad spending was 718 BNUSD, which corresponds to a 70% share of total ad spending.

Traditionally, digital advertisements were sold the same way as non-digital ads. Advertisers and publishers would negotiate directly with one another about placing ads on their platforms. These ads functioned the same way as a traditional billboard where every visitor to the site saw the same ad regardless of whether it was relevant to them or not. Eventually, the practice of automatically matching ads and ad inventory was introduced and together with user targeting programmatic advertising was born. The share of digital ads served programmatically has increased rapidly and as of 2021, programmatic advertising was the main form of digital ads. In 2023, global programmatic ad spending was 546 BNUSD (Statista). This corresponds to 81% of digital ad spending and 53% of total ad spending.

Geographically split, North America is the largest market accounting for around 42% of global programmatic ad spending. The second largest market is Asia with a market share of 35% followed by Europe at 18% (Statista).

Mobile is the largest digital ad platform with mobile ad spending in 2023 being 315 BNUSD.

Growth outlook

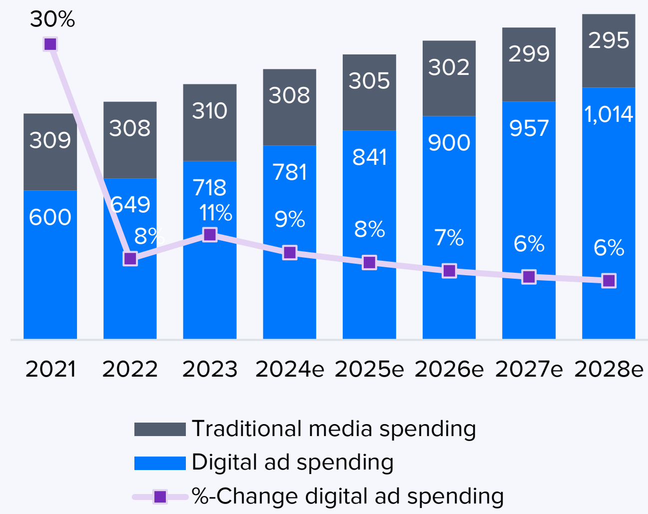
The overall ad market is expected to grow to 1,310 BNUSD by 2028, which corresponds to a CAGR of 5%. The digital ad market has grown rapidly over the last decades as it has captured market share from non-digital forms. Global digital ad spending is expected to keep gaining market share and is projected to grow to around 1,014 BNUSD by 2028, which corresponds to a CAGR of 7.2%.

Programmatic ad spending is projected to grow slightly faster than digital ad spending. Statista projects that global programmatic ad spending will grow to 779 BNUSD by 2028, from 546 BNUSD in 2023, which represents a CAGR of 7.4%. With these projections programmatic would grow to represent 84% of the total digital ad market in 2028 and 60% of total ad spend.

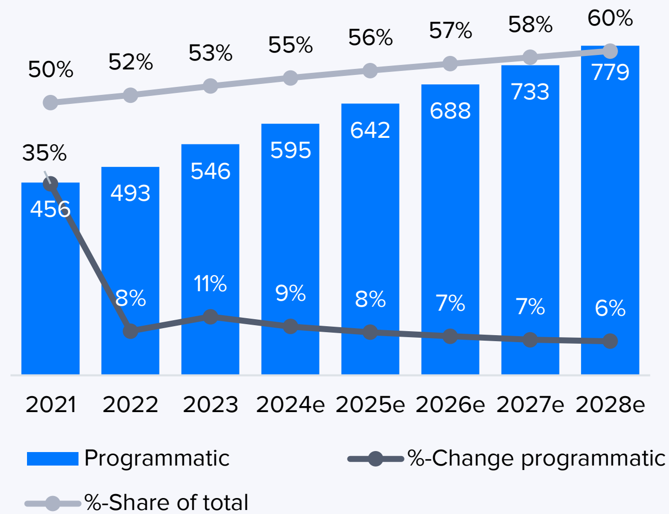
Looking at platforms the two fastest growing ones have been mobile and CTV. Mobile is already the largest platform, and it is expected to continue to grow faster than the overall market. The mobile market is expected to increase to 400 BNUSD in 2024, representing a CAGR of 14% across the last three years.

CTV is a relatively new market, but it's the fastest growing segment. According to Statista, US ad spending on CTV alone was 24.6 BNUSD in 2023 and is set to grow to 42.4 BNUSD by 2027. This corresponds to a CAGR of 15%. Verve's ad software platform provides services to all devices but is strongest on mobile (78% of Q1'24 revenue).

Total ad spending, worldwide (Statista, BNUSD)



Global programmatic ad spending (Statista, BNUSD)



Sources: Statista.com, Verve

Market overview – Digital advertising (2/6)

Market participants and competitors

The market players can be divided into two categories: the walled gardens and the open internet. The walled gardens control about 78% of the digital ad market and consist of large vertically integrated internet companies such as Google, Meta, Apple, and Amazon. These walled gardens have their own closed ecosystems that cover the entire value chain including owning their own content platforms such as YouTube, Facebook, and Amazon.com. The walled garden companies usually conduct the entire transaction from advertiser to publisher in-house. Taking Meta as an example, advertisers deal exclusively with Meta to place ads on their platforms (Facebook, Instagram, WhatsApp).

The open internet is one ecosystem that incorporates most of the other participants in the programmatic industry including Verve Group. Within this ecosystem the participants both compete and conduct business with each other. The open internet segment of the programmatic market is characterized by fragmentation with a lot of participants throughout the value chain. Some companies specialize in only one aspect while others operate in multiple ones, and some cover the entire value chain, like Verve. Walled garden companies also operate beyond their "walls" and engage with the open internet to some extent. For instance, Meta's Audience Network enables advertisers to place ads on non-Meta third-party apps.

From Verve's perspective many of the other ad-tech companies on the open internet are both competitors and partners at the same time. The Trade Desk is a large DSP, which competes with Verve for advertisers, but at the same time The Trade Desk also drives business to Verve's SSP platforms.

The same is also true for SSP providers such as Pubmatic. On one hand, they are a competitor to Verve but on the other, they also do business with Verve's DSPs and ad exchanges.

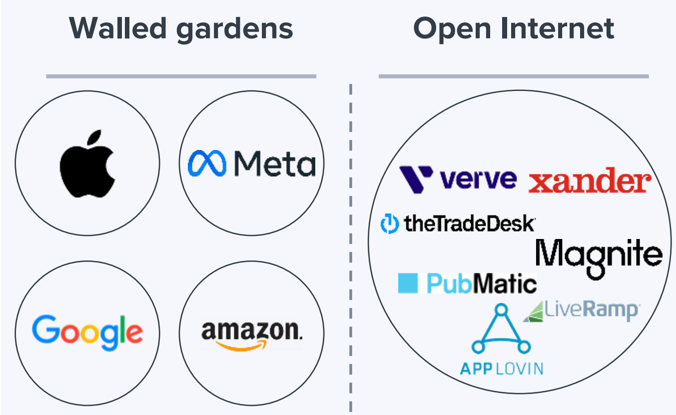
Verve themselves identify their largest peers as Applovin, The Trade Desk, Magnite, and the walled garden companies. The former, Applovin, is in many ways a peer to Verve as they to some extent cover the same sections of the value chain, i.e., from DSP to SSP and also have their own first-party content.

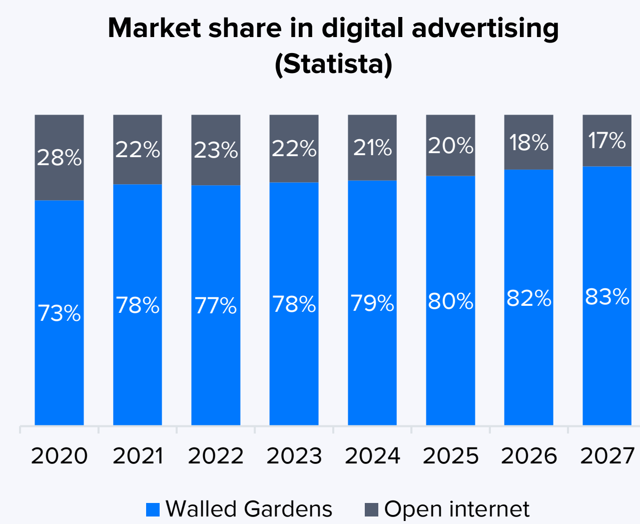
Choosing between multiple ad platforms

With several options to choose between, how do advertisers and publishers choose what ad platforms to go with? There is the choice between walled gardens and the open internet companies. Moreover, both have several companies within them to choose from. By market share, we can easily deduce that a lot of customers go with one of the big walled garden companies. Choosing a walled garden means that per definition you only have to deal with one counterparty, which in some regards makes the process simpler. Going with a large player such as Google is often a starting point for companies getting into programmatic advertising. Walled gardens also have large amounts of user data, which they can leverage for accurate ad targeting.

However, they're by no means always the best option. Like the name 'walled garden' implies, the companies are not very transparent in how ads are bought and sold, but rather their platforms are known as 'black boxes'.

On the open internet side, transparency is a way to differentiate yourself from the walled garden behemoths.





Source: Statista, Share of walled gardens vs open internet in digital advertising revenue worldwide

Market overview – Digital advertising (3/6)

For example, Verve's HyBid SDK is a piece of software that mobile app developers can integrate into their apps to sell ad inventory automatically. The SDK is an open-source solution that provides transparency for mobile app developers on how the SDK works, what user data it uses, and how to best integrate it with their applications. In other words, it's an open box as opposed to the black boxes of walled garden companies.

Open internet players are also often more flexible in incorporating things according to the customers wishes. For example, they're often more willing to work with independent measurement providers of the customers choosing.

Platforms are also chosen by trying out a handful of platforms and comparing the performance. An advertiser might sign up with a couple of different DSP providers and run trial ad campaigns on them. The budgets allocated to each platform can then be adjusted in accordance with the campaigns' performances. The DSP's that perform well will get more money allocated to them and the ones underperforming will be dropped all together.

Publishers can also do the same. They can try a couple of different SSPs and monitor the results. Let's take the Swedish news site Aftonbladet as an example. By visiting the newspaper's website and inspecting the ads shown there, we find an ad from adns.com, which belongs to Xandr (a Microsoft-owned ad platform). Little further down we find another ad delivered to us through Google Ads. Using multiple providers enables the publishers to compare the performances between different SSPs. In some cases, using multiple SSPs also helps with fill rates, i.e., making sure every available ad slot gets sold. This practice of trying out different platforms highlights why the retention rate is useful KPI.

Market trends

The main trends in digital advertising are as follows: identifiers and third-party cookies are going away, a shift from traditional ads to digital ads, increasing shift to programmatic, consolidation, and growth in mobile and CTV.

Removal of third-party cookies and identifiers: These have essentially been the cornerstone of programmatic advertising. However, this has started to change. In April 2021, Apple implemented changes to their Identifier for Advertisers (IDFA) tool, making user tracking an opt-in choice. With the introduction of App Tracking Transparency (ATT), Apple's updated user privacy framework, apps on iOS are now required to request user permission to access the IDFA. This change made the targeting of iPhone users harder and dealt a tangible blow to the programmatic market. One sector that took a particular hard hit was mobile game developers who noticed that their user acquisition campaigns on iPhones deteriorated strongly. This is a significant problem as iPhone users are meaningfully more profitable than Android users.

In addition to Apple's changes to IDFA, Google is also expected to institute similar changes to their identifier for Android, Google Advertising ID (GAID). The intention is to deprecate GAID during 2024-2025 and replace it with Privacy Sandbox on both Chrome and Android, which will offer alternative methods for targeting ads while preserving user privacy. Google has also started to phase out third-party cookies from the Google Chrome browser, beginning with a 1% deprecation in early 2024. The complete phase-out is expected to occur in 2025. This is a big deal as Google Chrome is the most common browser with a 65% market share globally. Competitors such as Firefox and Safari already offers options to block third-party cookies from their browsers.

The removal of third-party cookies and the depreciation of identifiers means that the profiling and targeting of individual users will become harder and, in some cases, impossible. So far this has meant that advertising and user acquisition efforts have become less effective and subsequently, they have spent less on ads.

One way to counter this trend is the use of first-party data. Having first-party data allows companies to profile users the same way as using third-party cookies/identifiers. Getting first-party data generally requires the platforms to have their own content from which they can gather this data. Verve has access to a large amount of first-party data through their own games and SDKs, which the company can use to target individual users effectively.

Another solution is to use other targeting methods such as contextual targeting and cohort targeting that don't depend on identifiers and third-party cookies. Contextual targeting is where the context of the website/content will be used to serve ads, for example ads for cars and watches to go along with an article about golf.

For this to work in an automated world, the ad platforms need a way to automatically identify the correct context of sites and what ads are relevant to it. Verve has acquired two companies focused on contextual targeting: Beemray (2021) with their Moments.AI solution and Dataseat (2022), a DSP focused on mobile games. Dataseat was quite early with their contextual targeting solution and hence were ready when Apple announced their changes to IDFA.

Market overview – Digital advertising (4/6)

Since then, Dataseat has seen strong growth as mobile game developers needed a new solution for user acquisition of iPhone users.

Cohort targeting is a method where, with the help of machine learning, end users are divided into cohorts. Ads are then targeted at a cohort level rather than an individual level. Verve employ this method through its proprietary tool, ATOM. With the sequel release of ATOM 3.0 in Q2'24, the tool was integrated into the company's HyBid SDK, which significantly expands its reach. This integration enables ATOM 3.0 to access a user base of over 1.5 billion people across more than 10,000 apps worldwide. This, in turn, opens access to a whole new level of scale and enabling advertisers and publishers to achieve more precise and effective targeting of users on iOS in a privacy-centric manner.

Other market participants are also working on other targeting solutions such as The Trade Desks Unified ID 2.0 that aims to replace third-party cookies with hashed and encrypted email-based identifiers. Other cookie-less solutions are for example Neustar's Fabrick ID and LiveRamp's ATS. With their first-party data and technological solutions, Verve feels confident that they are well-positioned going forward into this new world without third-party cookies and identifiers.

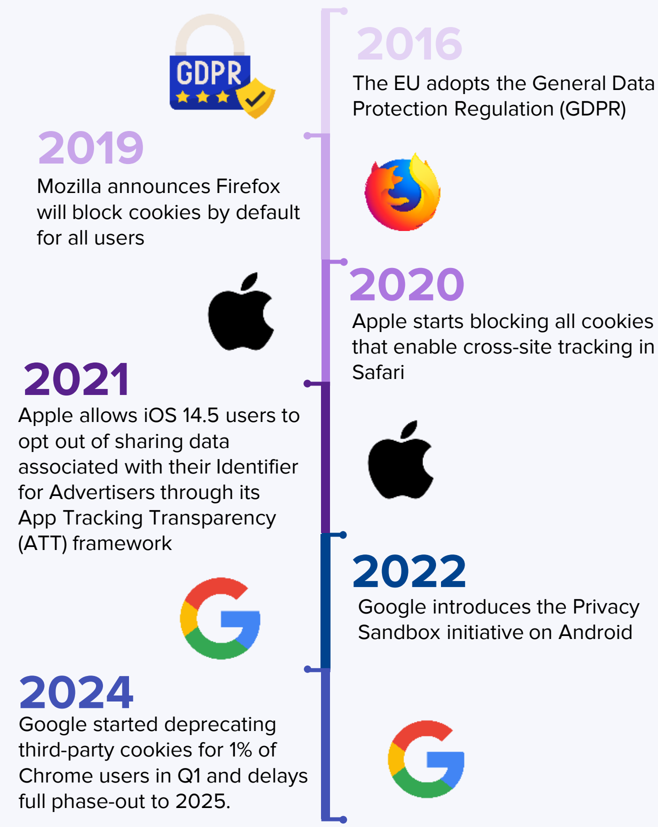
Shift from traditional ads to digital and programmatic ads: Essentially all future growth in ad spending is expected to come from digital ads. Traditional advertisements such as radio, television, and newspapers have flat or even negative growth rates as digital ads continue to capture market share.

Within the digital ad market, programmatic advertising has rapidly grown to become the leading form of digital ads. This trend is expected to continue. Given that Verve exclusively deals with programmatic advertisements, this trend presents a clear positive outlook for the company moving forward.

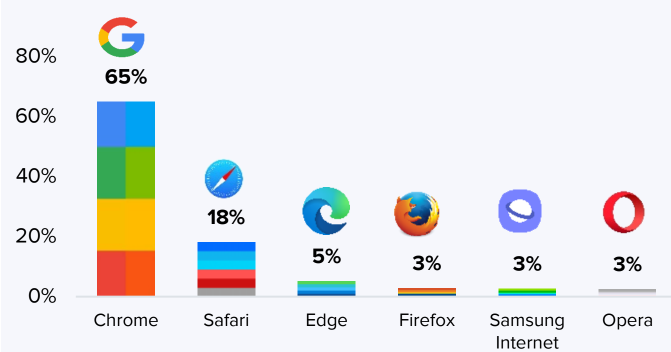
Consolidation: The current ad tech market has hundreds of companies. However, in a world without identifiers things will be much harder and smaller companies may struggle to survive, as investments for new solutions are expensive and first-party content becomes even more important. This has led to consolidation within the ad tech market with smaller companies merging and getting acquired. Verve alone has acquired six companies within the ad tech sector since 2020. David Philippson, CEO of Dataseat, mentioned that one of the reasons behind the decision to sell the company to Verve was that the company believed that ad software platforms need their own first-party content to be successful in the future. By joining Verve, Dataseat gains access to Verve's data provided by its first-party content.

Growth of programmatic ads on mobile and CTV: Mobile already represents about half of the total programmatic market. Mobile also grows faster than the overall programmatic market and is thus expected to increase its share even further. CTV differs from traditional TV by having its content consumed over the internet, i.e., through streaming on TV apps such as Netflix and YouTube. Placing ads on CTV is a relatively new market, but a rapidly growing one. Both Netflix and Disney+ have relatively recently launched ad-supported tiers of their streaming services, with Netflix's ad-supported plan reaching 40 million global monthly active users in early 2024. In its core, programmatic advertising on CTV works much the same as on web or mobile. Using different methods, the end user is profiled, and the best fitting ad is shown to them. Verve strengthened its position on this platform through the acquisitions of Smaato and LKQD.

The privacy-focused trend continues



With 65% browser market share, Google's phase-out of cookies will profoundly impact the advertising industry



Source: Verve, Inderes

Market overview – ID-less and cookie-less world (5/6)

Advertising in an ID-less and cookie-less world

For several years, third-party cookies and identifiers have been the backbone of online advertising, enabling the tracking of users across websites and building detailed profiles of their browsing habits and interests. This made targeted advertising relatively straightforward for advertisers. However, the digital advertising landscape is undergoing significant changes. Privacy concerns and regulatory shifts have prompted the deprecation of identifiers and third-party cookies. IDFA became an opt-in choice in 2021, GAID is set to be phased out during 2024-2025, and third-party cookies is anticipated to be fully phased out by 2025. This shift will result in less consumer data, making it increasingly difficult to serve targeted ads. How will the advertising market function in an ID-less and cookie-less world?

It's important to note that not all cookies are going away - only third-party cookies. First-party cookies will still be available, but only for the content owner/publisher. In a cookie-less future, advertisers need to find new ways to reach and target customers without relying on intrusive tracking. One of the main challenges advertisers face in this new world is attribution, which involves identifying which marketing channels or touchpoints led to a conversion or desired action by a user.

Hence, brands must leverage existing and new solutions to target the right customers without requiring user logins. Solutions like contextual targeting, cohort targeting, and first-party data have previously been discussed. However, there is no "silver bullet" replacement for third-party cookies. Marketers will need to use a mix of privacy-friendly solutions to minimize the impact of losing third-party cookies on their campaigns. The report "The State of the Data" by Wpromote (2024) highlights this dynamic, showing how both advertisers and publishers are identifying various solutions with different levels of promise in replacing cookie-dependent strategies.

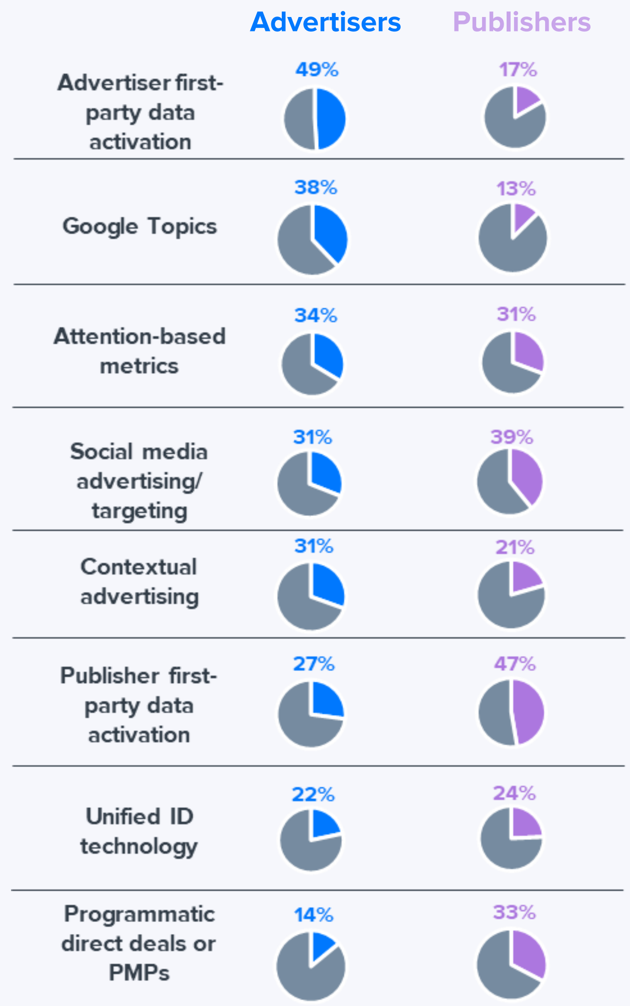
The implications of cookie deprecation in the programmatic world

The deprecation of third-party cookies, driven by privacy concerns and regulations like GDPR and CCPA, signifies a major shift in digital marketing. This change challenges programmatic advertising's reliance on cookies for targeting, measurement, and attribution, posing a significant obstacle for the industry. However, leveraging first-party data, adopting new technologies like contextual advertising, unified ID solutions, and AI/ML, and embracing privacy-first practices can help maintain effective targeting.

The impact on CPMs remains uncertain and could significantly affect publishers. Early results (Raptive, 2024) from the 1% cookie deprecation trial show that cookie-less test audiences on Chrome experienced an average 30% lower CPM compared to those with cookies, which is better than the 60% lower CPMs seen with Safari audiences. While it is still early and conclusions should be drawn cautiously, this 30% CPM drop may change as Chrome phases out cookies for more users - potentially for better or worse.

Solutions that hold the greatest promise in replacing cookie-dependent solutions according to advertisers and publishers worldwide (The State of Data, 2024)

(% of respondents)



Market Overview - Contextual advertising (6/6)

Contextual advertising in a nutshell

As The State of the Data report from Wpromote highlights, contextual advertising is one of several solutions that holds the greatest promise to replace cookie-dependent solutions according to both advertisers and publishers.

Contextual advertising is a targeted advertising strategy that involves displaying ads based on the content of the webpage being viewed by the user. Instead of relying on user behavior data, it focuses on the content of the webpage or app where the ad is displayed, such as its topic, keywords, and themes, to deliver relevant ads. Imagine an ad for a meal kit or cooking app appearing during midday when people start thinking about dinner. Contextual ads can target users based on the time of day and their current interests. Or a webpage focused on books (whether an article, video, or online retailer) can use contextual algorithms to display book-related ads. If someone is reading about mystery novels, they might see ads for detective stories.

Rather than tracking individual users, contextual advertising analyzes keywords, website content, and other metadata to determine the context of a page. Ads are then placed based on the content users are actively consuming at that moment. Unlike behavioral targeting (which uses cookies to track user behavior), contextual advertising doesn't collect personal information. This makes it privacy-friendly and aligns with upcoming trends and policy changes. Contextual campaigns are served programmatically, allowing marketers to review metrics in real time and optimize for maximum performance.

Contextual advertising is effective because it enables precise targeting without compromising user privacy. It is also multichannel and scalable, making it reliable for reaching diverse audiences. The downside is that, unlike behavioral advertising, contextual advertising does not take into account an individual's past behavior, potentially resulting in a less personalized experience. It can also misfire, resulting in irrelevant ads appearing in front of a user.

Contextual advertising spending is expected to surge in a post-cookie and identifier environment and according to Statista, the market size will increase from 227 MUSD in 2023 to 562 MUSD in 2030, representing a 14% CAGR. The U.S. market accounted for roughly a third of the global market in 2023 and was valued 65 MUSD.

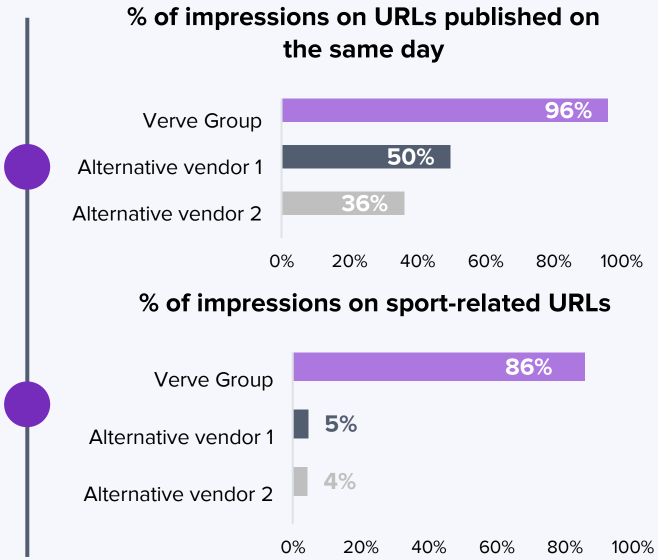
Moments.AI – Verve's award-winning solution

Verve has spent the last several years developing and investing in contextual solutions that do not rely on identifiers. One such solution is Moments.AI, an award-winning[1] contextual solution that has been validated by an independent third party to be 36x more effective at targeting new, contextually relevant media than leading alternatives[2]. As shown in the adjacent charts, Moments.AI significantly outperformed alternatives in generating ad impressions on web content published within the last 24 hours and in showing ads on sports-related content, which was the intent of the study. Appearing on same-day web content is essential for any brand that wants to be associated with relevant sports, entertainment and news. This validation puts Verve in an advantageous position as contextual advertising becomes more relevant after the cookie phase out.

Contextual advertising

- Does not use third-party cookies
- Target users based on current interests
- Aligns ads with contextually relevant and safe content
- Easy to scale
- In compliance with privacy regulations like GDPR and CCPA

Moments.AI: Highlights from research study (TPA Labs)



Moments.AI 36X more effective than leading alternatives.

[1] Digiday Awards Europe, 2023
[2] TPA Labs, 2023

Verve’s strategy and financial targets (1/2)

Strategy for the upcoming years

Verve's strategy is to establish itself as a significant player in the ad-tech industry as a full-stack omnichannel ad platform with first-party content. To achieve this, Verve focuses on enhancing efficiency for advertisers and publishers through privacy-centric solutions and prioritizing emerging advertising channels, all in alignment with the company’s mission, "Let’s make media better.“

By reducing intermediaries, Verve creates a more efficient and transparent marketplace for its customers, ensuring that every advertising dollar goes further, and thus, maximizing the ROI. By utilizing AI/ML, Verve can leverage its first-party data and proprietary contextual solutions like Moments.AI and ATOM to deliver high-performing and targeted campaigns.

With consumer privacy as a cornerstone of Verve’s technology, combined with a strong focus on initiatives such as sustainability, Verve ensures its commitment to deliver responsible media that aligns with the interests of industry stakeholders.

Positioned within high-growth segments such as mobile apps and mobile web, CTV, and DOOH, Verve lays the foundation for stronger-than-market growth. Verve has already established itself as one of the key players on the supply side of programmatic advertising for mobile.

This strategic focus allows Verve to capitalize on shifting consumer behaviors, ensuring sustainable growth in an ever-changing ad-tech landscape.

Capitalizing on changes in the market

The company believes that the ongoing privacy changes in the ad-tech space will disrupt the current market status and open the door for new opportunities and innovations. Specifically, Verve thinks that using identifiers to create profiles of users will go away and companies must turn to other solutions.

The company believes that having first-party content and hence first-party data will become vital in the future. As the targeting of end user through identifiers will decrease, more data will be needed to effectively target the relevant end users. As Verve has a decent games portfolio combined with many developers using its software development kit (SDK), the company has access to a significant amount of first-party data. This data will enable the company to target users and more efficiently optimize its proprietary targeting algorithms.

Network effects within the ad software platform

Within Verve's ad software platform, there is a network effect where an increase in advertisers attracts more publishers and vice versa. This symbiotic growth relationship is enhanced by Verve's proprietary first-party content. First-party content not only provides valuable data for the "Data Engine" but also acts as a publisher that sells ad inventory. This ensures a reliable supply of quality ad inventory, which in turn attracts more advertisers.

Verve’s recent acquisitions highlight these dynamics well. AxesInMotion is a mobile game developer with over 800 million downloads. Most of its revenue comes from advertisements, which makes AxesInMotion a publishers in the ad tech space. Having quality publishers like AxesInMotion in your ecosystem helps attract advertisers to the platform, more advertisers in turn attracts more publishers.

Another recent acquisition, Dataseat, is a mobile DSP focused on user acquisition for medium-to-large mobile game developers. Dataseat brought a number of existing customers (advertisers), whose ads are able to end up on AxesInMotion’s games. These advertisers also help to attract new publishers to the platform, perpetuating the network effect. Additionally, both companies provide valuable first-party data that Verve can use to further develop and improve its ad platform.

First-party content strategy

Verve’s strategy for first-party games content going forward is to grow through user acquisition and some internal game development. Verve’s focus is on the casual and mobile games as the data gathered there better supports its ad software platform. Verve has traditionally not done a lot of new game development due to the costs and risks involved and has rather grown through M&A. However, with the acquisition of AxesInMotion, Verve has an experienced in-house mobile game developer.

Further growth in mobile games is expected to come from leveraging Verve's ad platform in terms of user acquisition and monetization through advertising. A good example of this is AxesInMotion, who didn't do any user acquisition prior to the acquisition. Verve believes that with its internal expertise, it can cost-effectively perform UA for AxesInMotion's games and drive incremental revenue in the future. In addition, Verve Group is confident that it will be able to increase the CPM as they have good knowledge of the players of its games for which advertisers are willing to pay more.

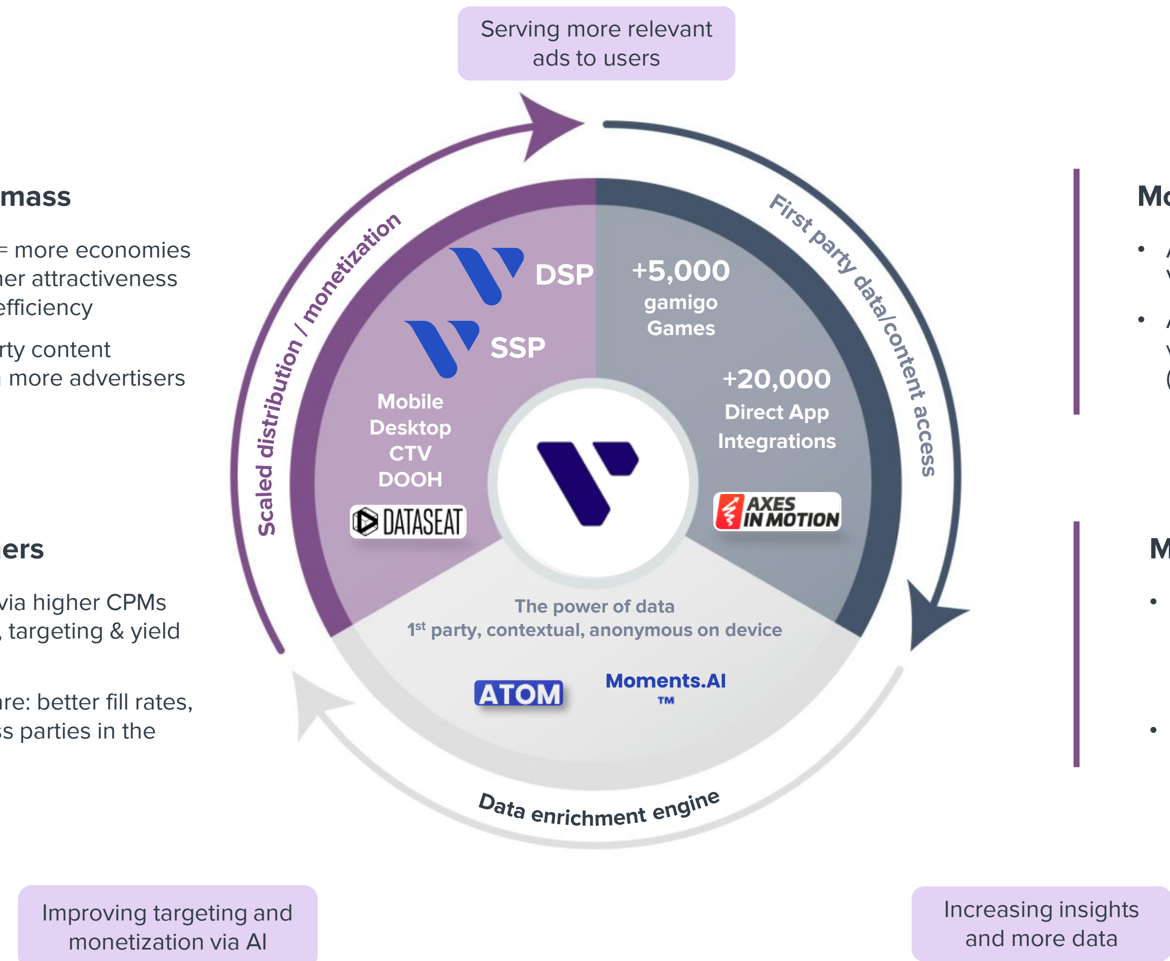
Network effects within Verve's ad software platform

More critical mass

- More volume = more economies of scale = higher attractiveness & better cost efficiency
- Value of 1st party content increases with more advertisers

More publishers

- Adding value via higher CPMs via audiences, targeting & yield optimization
- Larger rev share: better fill rates, lower cost, less parties in the chain



More players

- Adding 350-400 games to the Verve platform
- Adding ca. 500 apps per year via direct publisher integration (SDK)

More advertisers

- Access to Verve audiences (first-party content) and contextual data leads to high click through rate (CTR)
- One-stop shop, omnichannel (Mobile, Desktop, DOOH, CTV)

Source: Verve

Verve's strategy and financial targets (2/2)

Financial targets

In conjunction with the acquisition of Jun Group in Q2'24, Verve raised its medium-term financial targets:

Growth: Revenue CAGR of 25-30% (unchanged).

Profitability: Adj. EBITDA margin of 30-35% (prev. 25-30%) EBITDA is adjusted for nonrecurring costs.

Profitability: Adj. EBIT margin 20-25% (15-20%) EBIT is adjusted for nonrecurring costs and PPA amortization.

Leverage: Pro forma leverage ratio of 1.5-2.5x (2-3x).

When comparing the revenue target to the previous years, we can see that overall growth easily exceeded the target between 2019-2022, partly due to number of acquisitions made by Verve, but also through strong organic growth. However, in end of 2022 and throughout 2023, the advertising landscape changed as the macroeconomic environment worsen, and therefore impacted the demand for ads and CPMs negatively. As such, Verve's growth slowed quite substantially and was below target in 2023. However, the revenue growth picked up some pace in Q4'23 and Q1'24, with organic growth rates of 16% and 21%, respectively, as a result of a somewhat better macroeconomic environment, which has supported a general market recovery.

Going forward we assess the revenue growth target as quite ambitious considering the outlook of the current macro environment, geopolitical risks, higher interest rates, and the expected growth rate of the overall programmatic ad market (7.4%).

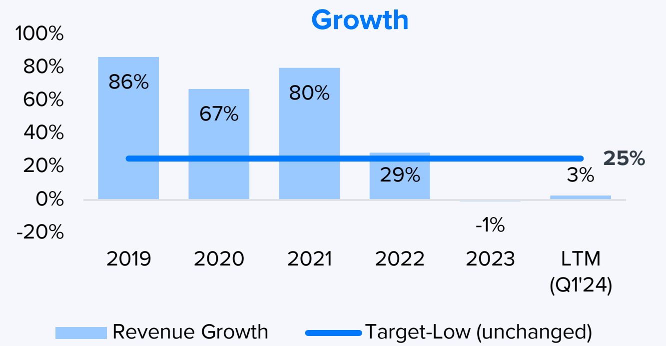
Since 2021, Verve's adjusted EBITDA margin has consistently surpassed its previous target low of 25%. However, it currently falls short of the newly established target low of 30%, which was set in Q2'24 after acquiring Jun Group. It's important to note that these new financial targets reflect the enhanced profitability profile resulting from the acquisition. Jun Group has achieved an impressive 45-50% adjusted EBITDA margin over the past two years and is a key contributor to Verve's potential to achieve its upgraded financial targets going forward.

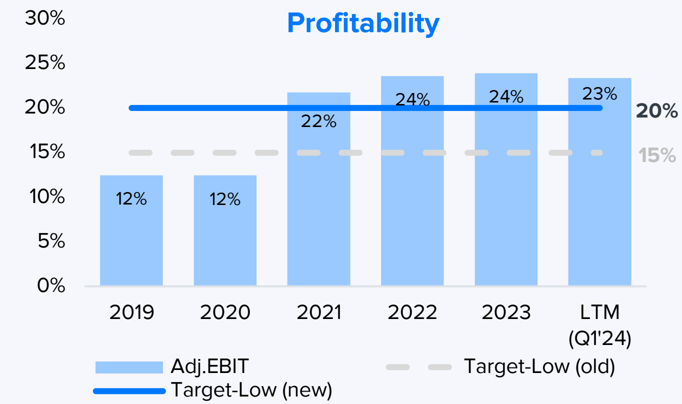
As for adjusted EBIT, we note that Verve was below the old target range in 2019 and 2020, primarily due to increased investments into the media business. However, through integration of acquired businesses and realizing revenue synergies, Verve was able to lift the profitability and have since exceeded both the old and new adjusted EBIT margin target. Hence, we see the upgraded adjusted EBIT margin target of 20-25% as a reasonable range for Verve in coming years.

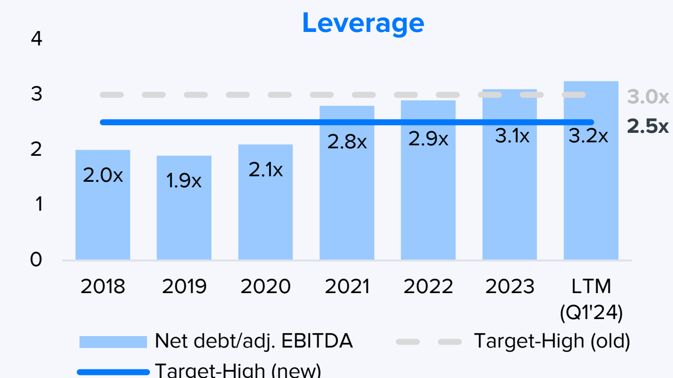
Verve's reported net-debt to adj. EBITDA ratio has been steadily increasing since 2019 through several acquisitions, particularly within the media space. In Q1'24, the ratio stood at 3.2x, which is above the company's old and new target range (prior the acquisition of Jun Group). Verve aims to get the ratio down to 2.4x (excl. contingent considerations) in 2024 on a pro forma basis.

The company raised its guidance following the acquisition of Jun Group, and the current guidance for 2024 is a revenue growth of 18-24% and an implied adjusted EBITDA margin of 30-31%. Over the past few years, Verve's management has been quite conservative with guidance, under-promising and over-delivering.

Financial targets and performance (reported)







Source: Verve, Inderes

Development of Verve’s strategy

2012 - 2016

2017 - 2021

2022-

Scaling games business through acquisitions and limited development

- Focus on achieving critical mass to be a profitable games company
- New game development is expensive and risky and therefore Verve focused on growth through acquisitions
- Revenue increases from 10 MEUR to 39 MEUR

Building the ad software platform

- Focus shifting to building an ad software platform business
- Growth through vertical acquisitions to construct a full stack ad platform
- Continue growing first-party games content through acquisition such's as KingsIsle and AxesInMotion
- Revenues growing quickly: increasing from 42 MEUR in 2017 to 252 MEUR in 2021

Focus on continuing profitable organic growth

- Due to higher leverage and worsening capital markets company shifted focus from M&A to organic growth. This shift in strategy remains in place unless acquisitions can be financed without increasing the company’s debt burden, as demonstrated by the Jun Group acquisition in Q2’24
- Focus on integrating the acquired companies and capitalizing on the opportunity that the depreciation of identifiers will offer
- Focus on the faster growing platforms, i.e., mobile and CTV
- Further investing in ID-less targeting solutions
- Strengthening the relationships with advertisers and agencies

Must Win Battles in the strategy

Implemented

- Building a full-stack ad software platform while maintaining profitability
- Divesting/closing the non-core focus of influencer marketing
- Gaining critical mass on the gaming side

Near future, 1-2 years

- Continue to successfully integrate acquired companies, especially on the ad software side
- Maintaining profitability levels throughout an uncertain macroeconomic and geopolitical environment
- Using generated cash flow to pay down debt and shore up the balance sheet
- Navigating successfully in an ever-changing digital advertising landscape and post-cookie/identifier environment

The next 5 years

- Continuing to innovate on the ad platform side to stay competitive as the advertising market evolves
- Maintaining revenue growth and expanding market share of the ad platform with a strong focus on growing the DSP segment
- Developing and nurturing first-party games content through internal development

Source: Inderes

Financial position 1/2

Balance sheet and financial position

Verve's balance sheet total at the end of Q1'24 was 1,024 MEUR. Most of the assets consists of goodwill (584 MEUR) and other intangible assets (224 MEUR) mainly related to intangibles from acquisitions and capitalized development costs. The remaining assets consist primarily of cash and cash equivalents (125 MEUR) short-term receivables (70 MEUR), and other long-term assets (21 MEUR).

The shift from gaming to a media business has altered Verve's working capital needs. Previously, the company's net working capital (NWC) hovered around a slightly negative percentage of revenues. As the media business expanded, NWC peaked at 20% of revenues in 2021 but dropped to -3% in 2023, largely due to the implementation of a trade receivables securitization program. Verve now expects NWC to remain a negative low-single digit percentage of revenue in the future.

Assets per segment are divided as follows: DSP 9.1% and SSP 90.9%. Overall, we think that Verve's assets are relevant for the operations and, while it's hard to assess, we don't foresee any immediate risk for write-downs other than already made write-downs related to the game portfolio in Q4'22.

Capital structure

Due to the number of acquisitions made, Verve's capital structure has changed considerably in recent years. The acquisitions have been funded mostly by debt and equity. As of Q1'24 Verve's net gearing amounted to 87% while the equity ratio stood at 36%.

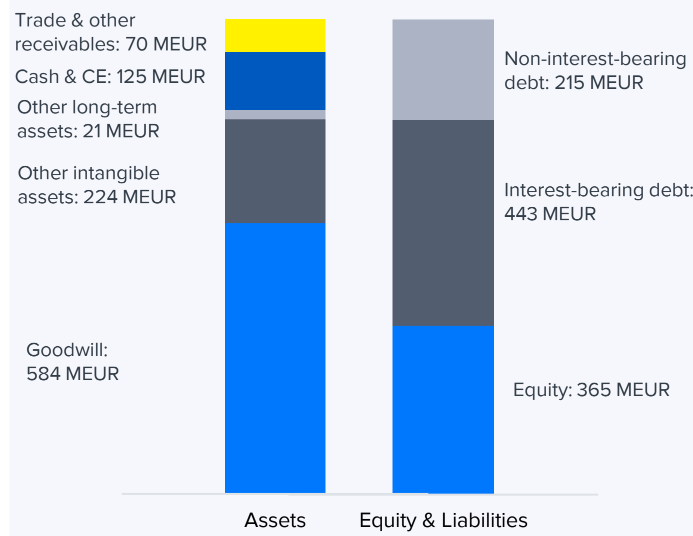
At the end of Q1'24, Verve had 443 MEUR in interest-bearing debt, primarily comprised of issued bonds, and 125 MEUR in cash and cash equivalents, resulting in a net debt position of 319 MEUR. However, after the end of Q1'24, Verve has acquired Jun Group for 170 MEUR (with 120 MEUR paid in cash), completed a directed share issue raising 40 MEUR and issued an additional 65 MEUR in bonds within existing framework. The intention behind the subsequent bond issue was partly to early redeem the company's outstanding bond (approx. 34.5 MEUR) maturing in November 2024 and replace it with new debt at lower interest rate and longer maturity (June 2026).

As Verve did not incur any additional debt for the acquisition of Jun Group, the net effect on the company's debt position from aforementioned events is an increase of approx. 30 MEUR in interest-bearing debt to 474 MEUR. From a cash perspective, the net effect, including the subsequent bond issue and early redemption, is approx. -50 MEUR. All else being equal, this results in a net debt of 399 MEUR after deducting cash and cash equivalents of approx. 75 MEUR.

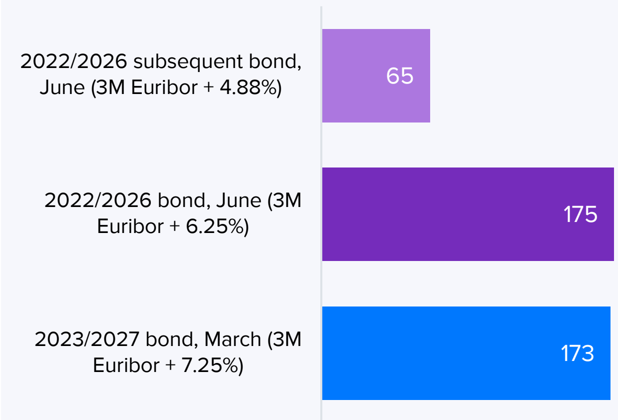
As of the end of Q1'24, the net debt to adjusted EBITDA ratio was 3.2x, which is above the company's old target of 2-3x (new target: 1.5-2.5x). However, considering the events following the end of Q1 2024, the ratio is expected to decrease. The company aims for a ratio of 2.4x (or 2.8x when including contingent considerations) by the end of 2024 on a pro forma basis. With the enhanced cash flow generation capability following the acquisition of Jun Group, Verve will have an improved capacity to deleverage its balance sheet going forward.

Following the subsequent bond issue and the early redemption of the existing bond maturing in 2024, Verve's outstanding bonds amount to approx. 413 MEUR. Of these, 240 MEUR matures in June 2026, with the remaining bonds maturing in March 2027. We believe that the Jun Group acquisition and directed share issue have positioned Verve to refinance its debt on more favorable terms. This is evidenced by the 2.4% lower yield that Verve achieved for the subsequent bond issued in Q3'24, compared to the bond issued in 2023.

Balance sheet: 1,024 MEUR (Q1'24)



Overview of outstanding bonds and maturities (MEUR)



Source: Verve, Inderes

Financial position 2/2

At the end of Q1'24, Verve also had around. 27 MEUR in contingent considerations of which 15 MEUR are earmarked for cash payments, with the remaining amount to be settled in equity. These considerations are related to the previous acquisitions of AxesInMotion and Dataseat, with the settlement scheduled in 2025. Additionally, the acquisition of Jun Group introduces another 50 MEUR in contingent considerations, to be paid in two installments of 25 MEUR each, 12 and 18 months after the deal closure. Contingent considerations are essentially agreed-upon additional payments in acquisition deals, which can be either performance-based or fixed, depending on the terms set during the transaction.

Return of equity and invested capital

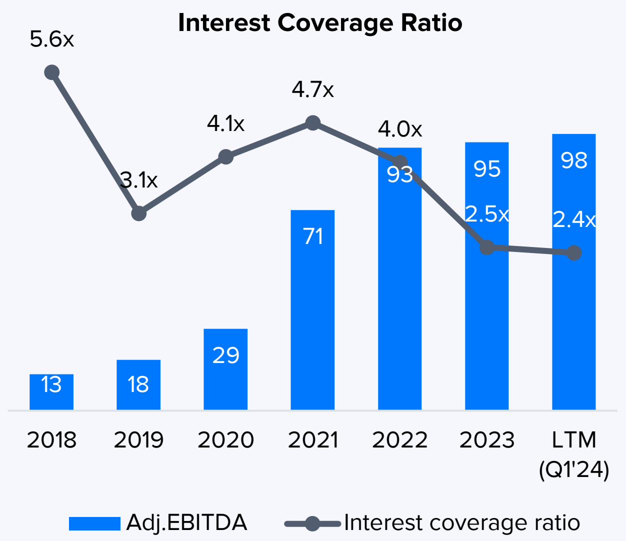
Verve's adjusted[1] return on invested capital (ROIC) and adjusted return on equity (ROE) have averaged 7.4% and 7.1%, respectively, during 2018-LTM (Q1'24). Both figures have experienced a steady increase throughout these years, however, adjusted ROE fell notably in 2022 as increased interest rates resulted in higher financial expenses. The relatively low figures are primarily due to a rapidly expanding balance sheet after the numerous acquisitions in the past years. Looking at the invested capital we note that it has grown from 177 MEUR in 2018 to 683 MEUR in Q1'24. The acquisition of Jun Group will result in a notably increase Verve's invested capital. However, due to Jun Group's robust profitability, we anticipate that the resulting earnings growth will more than offset the increase in invested capital. Consequently, we expect the acquisition to enhance Verve's ROIC and ROE going forward.

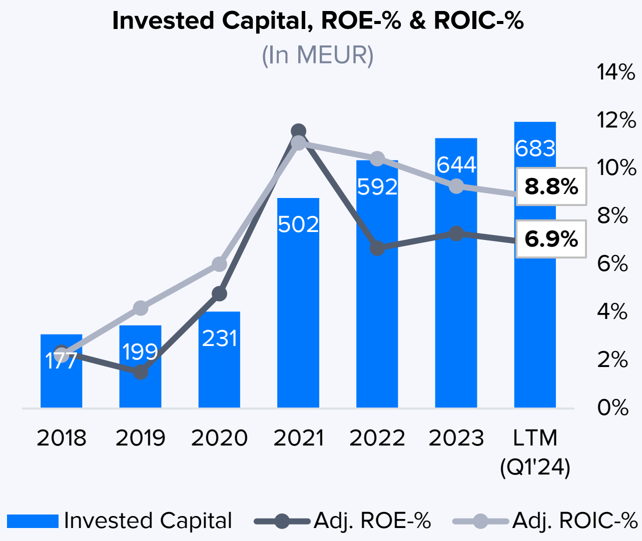
Cash flow

Verve's underlying operations produce a decent stream of cash flow. In 2023, Verve made 69 MEUR in operating cash flow. Investments into tangible assets were at low 0.5 MEUR, down from 5.4 MEUR in 2022. Investments into intangible assets (excl. acquisitions) where considerably larger with investments of 46 MEUR in 2023. Deducting the investments from the operating cash flow, we get a free cash flow of 23 MEUR. Of the total 53 MEUR in investments, including payments for the acquisition of business units, Verve lists 8 MEUR as maintenance CAPEX and the remaining 45 MEUR as expansion CAPEX. Deducting only 8 MEUR would naturally give a substantially higher FCF.

Maintenance CAPEX has averaged 3.5% of revenue in the past five years, which is a level that the company expects to maintain going forward. Expansion CAPEX has fluctuated quite heavily in the past due to acquisitions. However, the company anticipate expansion CAPEX to amount to roughly 35 MEUR (about 80% of total CAPEX) going forward. If Verve can maintain this investment level while achieving solid revenue growth, the FCF would start increasing at a decent pace. When it comes to FCF, it's worth keeping in mind that a large part of the free cash flow produced by Verve is needed to service the interest payments (FY2023 48 MEUR). With the acquisition of Jun Group, CAPEX is expected to increase by an additional 2-3 MEUR. However, the overall cash profile of Verve will significantly strengthen due to Jun Group's high cash conversion rate.

The company currently pays no dividends and doesn't carry out any share buybacks. Going forward the FCF will be used to pay interest expenses and what is left after that will be used to reinvest into the company, but also to pay down debt and settle remaining contingent considerations in 2025 and 2026.





Source: Verve, Inderes

[1]Adjusted for purchase price allocation (PPA) and non-recurring costs.

Investment profile (1/2)

Profitable growth with a short track record

Verve is a profitably growing ad software platform company, complemented by its first-party games content. After pausing acquisitions from mid-2022 to Q1'24, Verve acquired Jun Group, significantly enhancing the company's profitability, cash profile, and deleveraging capacity. Future investments are expected to be modest, supporting strong free cash flows.

Currently, a significant portion of Verve's free cash flow is allocated to servicing interest payments, impacting net earnings in the short term. However, the integration of Jun Group will mitigate these effects while also enable Verve to accelerate the deleveraging of the balance sheet. This deleveraging will free up additional cash for future reinvestments, acquisitions, and dividends. Additionally, refinancing existing bonds at better terms, as demonstrated by the recent bond issuance in Q3'24, along with anticipated future interest rate cuts, will benefit Verve's cash flow and overall financial position going forward.

The current company structure, now bolstered by Jun Group, is relatively new and has a short track record. The main questions are whether the historically high organic growth rate and current profitability levels, now augmented by Jun Group, are sustainable.

Positive value drivers and opportunities

Growth of the programmatic market: The market is expected to grow at a high single-digit pace and the key focus area of Verve, mobile, is growing even faster.

Omnichannel ad platform: Verve's ad platform is omnichannel across desktop web, mobile web, in-app, and CTV. This means that advertisers can run campaigns on multiple devices at the same time using a single ad software platform. Competitors such as Applovin focuses only on mobile and CTV while competitors like PubMatic and Magnite are active on web and CTV, but not on mobile.

Proprietary targeting solutions: Verve's contextual solution, Moments.AI, and cohort solution ATOM, bolstered by, e.g., Jun Group's solutions for delivering targeted ads with zero-party data, provides Verve with alternative targeting methods for when identifiers and third-party cookies are gone.

Scalable cost structure: Verve's costs are mainly variable in nature, which should scale decently and help the company maintain its current profitability.

The main opportunity we see for Verve is with the ongoing changes regarding identifiers on the programmatic ad market. With identifiers going away, Verve hopes that the market will need to look at other targeting solutions like the ones provided by Verve. This could be a major opportunity if these solutions turn out to be a viable options in replacing identifiers and if competitors are slow to roll out comparable solutions. Dataseat that was acquired by Verve focuses on a contextual solution and has had good success so far in winning over medium-to-large mobile game developers – a strong signal that developers are happy with the performance.

Risks and threats

Navigating upcoming changes: With identifiers and third-party cookies going away the programmatic market is trying to figure out what to replace them with. Will it be a contextual solution or cohort solution as Verve believes or will it be some other solution like Unified ID 2.0 that becomes the new market standard. If this where to happen and Verve is too slow to react, they run the risk of falling behind its competitors. As advertisers and publishers often use several ad platforms the ad spending can quickly be decreased or increased depending on performance. There is also the possibility that identifiers won't go away. This is not necessarily a bad thing for Verve, but it would perhaps remove the opportunity to rapidly capture market share from larger competitors.

Other market disruption: Disruption due to technological changes, regulation, or initiatives from large platform owners like for example Apples IDFA initiative, could threaten the value proposition of programmatic advertising. Especially if the disruption is large enough to severely impact overall ad spending in the long term.

Slowdown in ad spending: Overall ad spending is tied to the global macro economic climate. When ad budgets start getting slashed it has a twofold impact on the programmatic market a drop in volume and a drop in CPM (costs per thousand ad impressions). Verve does have two things working in its favor in combating the cyclicality of ad spending. Firstly, Verve is active in the fastest submarkets of mobile and CTV. Secondly, Verve derives more than two thirds of its revenue from North America, which traditionally has been a more resilient market than Europe and Asia.

Rapid slowdown in games revenue: In 2022[1], 20% of the Verve's revenue came from its games. We also know that most of this was from the MMO games. Several of Verve's MMO games have been around for a while and it's inevitable that some of these games will fall off at some point. Verve used to talk about 30 MMO games, but today that number is 6.

[1] Latest reported

Investment profile (2/2)

Without new game development and acquisitions on hold there is the possibility that revenue from the MMO games could slow down quicker than expected. However, as growth is mostly expected to come from the ad software platform, the games contribution and importance to revenue will decrease over time.

Competitive advantage

One of Verve's main competitive advantage is its own content. Very much like the large walled gardens, Verve is also a publisher in the ad-tech value chain. This gives them a couple of advantages over competitors who don't have any own content.

Owning your own content provides Verve with copious amounts of first-party data. This data unlike third-party data won't go away due to changes in identifiers such as IDFA or cookies. This means that Verve can use its first-party data to accurately target users with advertisements the same way as with identifiers. Through its games and SDKs, Verve is connected to over 2 billion end consumer devices.

Another advantage of having your own content is that Verve can use it to develop and improve its non-identifier targeting solutions. Moreover, instead of relying on third-party publishers to trial its new solutions Verve can do it in-house and quickly get feedback on performance. Verve is also able to use the first-party data as a measuring stick against its contextual and cohort solutions. In many ways, Verve has built its ad software platform with a privacy-first approach hoping to capitalize on future changes.

Rooted in its origins as a pure games company, Verve has unique insights into the needs and desires of gaming publishers and advertisers, which allows Verve to finetune its platform to meet these specific requirements. This, in turn, provides a clear differentiator in the competitive landscape. Leveraging its profound understanding of the gaming industry, Verve pioneered on-device targeting solutions for iOS with the introduction of ATOM 3.0, a cutting-edge, cohort-based behavioral targeting tool. This innovation allows Verve to anticipate and swiftly address the specific challenges faced by, e.g., gaming companies, particularly in the wake of major industry shifts like the deprecation of identifiers.

Verve's commitment to transparency is also a competitive advantage, to some extent. Verve's HyBid SDK is open-source, meaning that the code is freely available to mobile developers to inspect and integrate into their apps, essentially enabling complete transparency. This is important when it comes to SDKs as it makes the integration easier for the developers and also allows the developers to see what data the SDK is gathering. Verve's SDK is one of few premium open-source SDK on the market and is connected to over 20,000 mobile apps.

Verve's vertical integration allows it to bypass intermediaries, directly linking advertisers to publishers, which enhances transparency and operational efficiency. The acquisition of Jun Group further strengthens Verve's value proposition by providing a better balance between supply and demand while enriching the company's data set. This, in turn, improves the overall targeting precision, supply-path optimization and transparency throughout the value chain. However, this competitive edge is, in our view, moderate as competitors like AppLovin also leverage vertical integration and offer some open-source SDKs, providing similar benefits.

In 2023, Jounce Media released a benchmarking report analyzing supply chain data from over 1.3 million websites, 720,000 mobile apps, and 36,000 connected TV apps. The report highlighted Verve Group as the leading provider of premium mobile app supply, ensuring high-quality ad experiences at lower costs. Specifically, Verve Group accounted for 79% of the premium mobile app supply, more than any other SSP. We believe this could be viewed as some sort of competitive advantage, since being recognized as the leader in providing premium mobile app supply not only enhances the brand's reputation but also attracts high-quality advertisers and reputable publishers.

Investment profile

1. **A profitably growing ad platform with first-party content, but a short track record in current configuration**

2. **Positioned within the faster-growing submarkets of programmatic advertising through mobile and CTV**

3. **Omnichannel platform across emerging channels like mobile in-app, CTV and DooH**

4. **Ready for a shakeup in the programmatic advertising market through its own proprietary solutions**

5. **Leveraged balance sheet, but good cash flow that should enable Verve to pay down debt in the future**

Potential

- Somewhat compressed valuation multiples with upside potential as the strategy progresses and growth continues, while deleveraging the balance sheet
- Leveraging the first-party content and data in an identifier free world
- Increasing market share in the mobile programmatic ad market
- Establishing themselves as strong players in the fast-growing market of programmatic ads for CTV

Risks

- Failure to maintain and increase market share on the programmatic market
- Proprietary targeting solutions failing to replace identifiers and third-party cookies
- Decrease in programmatic ad spending due to market disruption or macroeconomic headwinds
- High leverage exerts pressure on cash flows
- Rapid slowdown in games revenue

Source: Inderes

Estimates (1/6)

Basis for the estimates

The future revenue growth of Verve hinges, in our view, on several key factors, including the growth of the overall programmatic market, the company's ability to grow its software client base, increased volumes of ad impressions, customer retention rate, net dollar expansion rate, and overall development of advertising CPMs. In addition to these revenue drivers, we have evaluated the company's historic organic growth levels, Verve's financial targets, and the growth levels of important competitors, in order to derive our revenue estimates.

When it comes to the two segments which Verve divides its revenues into, we expect the DSP segment to continue to grow organically at a significantly faster rate than the SSP segment, given that the segment is currently much smaller but also a priority by the management going forward. The acquisition of Jun Group will naturally elevate the share of the DSP segment, providing a stronger foundation for growth in the coming years. This will be achieved through improved cross-selling and upselling potential, as well as the internationalization of Jun Group's product offerings via Verve's established presence in Europe, LATAM, and APAC.

Over the past few years, Verve has increasingly transformed into an integrated software media company through strategic acquisitions and robust organic growth. As of the latest data from 2022, approximately 20% of the group's revenue came from in-game purchases and subscriptions, while 80% was from its software platform. We estimate that the gaming segment's revenue share has since decreased, now accounting for about 17-18% of the group's total revenue (excl. Jun Group), reflecting a growing emphasis on the media business. This is a significant shift from 2019 when 56% of revenue was generated from gaming. However, it's important to note that the ~20% figure excludes in-app advertising revenues from Verve's gaming portfolio, indicating that the company's exposure to the gaming market is still quite high.

The rapid pace of M&A in previous years provides a higher level of complexity in evaluating the track record of the current structure of the company, which comes down to the relevance of historic growth rates and profitability levels. However, our big picture view on the company is that the ad software platform will be the main revenue driver going forward. Meanwhile, Verve's gaming operations are expected to provide a steady revenue stream, bolstered by ongoing content development, new game licensing and publishing, and general maintenance.

2024 will be a year of recovery

The global advertising market has struggled over the past two years amid interest rate hikes, inflation, recession fears, geopolitical issues, and supply chain disruptions. These challenges led to more cautious advertisers, reduced ad budgets, and lower CPMs, impacting Verve's growth from end of 2022 and throughout 2023. Despite this, Verve sustained strong profitability due to its flexible cost structure and mitigated growth slowdowns by effectively onboarding new customers.

With the advertising market showing early signs of recovery since late 2023, the growth has picked up. During Q1'24, Verve posed a 21% organic revenue growth, building on the 16% growth achieved in Q4'23, with revenue amounting to 82 MEUR. Adjusted EBIT increased by 10% to 16.6 MEUR, resulted in a somewhat compressed margin year-on-year but still above the 20% mark and the company's target level.

Following the acquisition of Jun Group in Q2'24, Verve upgraded its full-year 2024 guidance. The company expects revenue in the range of 380-400 MEUR, corresponding to a 18-24% growth year-on-year, and an adjusted EBITDA of 115-125 MEUR, 21-31% growth year-on-year. We view the guidance as highly achievable considering the strong start to the year, several significant cyclical events during the year and rising consumer privacy expectations.

For 2024, we project Verve's revenue to grow by 21.7% (of which 13.9% organically) reaching 391.8 MEUR (449.8 MEUR pro forma), aligning with the mid-point of the company's guidance. Verve has indicated that this guidance is somewhat conservative, influenced by current geopolitical uncertainties. Our projected organic growth is below Verve's long-term target of 25-30% and past organic growth rates. However, the target range factors M&A, with Verve aiming for approx. half of the growth to come from organic expansion.

Beyond the overall boost from a recovering advertising market, we expect Verve to capitalize on its expanding software client base, which has driven higher ad impression volumes. As CPMs are anticipated to rebound in the second half of the year, these factors will support Verve's growth at a rate faster than the market average in 2024, allowing the company to further increase its market share.

Estimates (2/6)

Uncertainty and shifting budgets will prevail in 2025

However, with the expected complete phase-out of third-party cookies in 2025 and the continued deprecation of GAID, the outlook for next year is more uncertain. As there is currently no "silver bullet" replacement for the loss of third-party cookies, it is still uncertain which solutions will dominate, creating challenges for the entire ecosystem where new strategies will be needed. Advertisers will need to allocate their budgets across multiple privacy-friendly targeting solutions, leading to intense competition between different platforms and technologies.

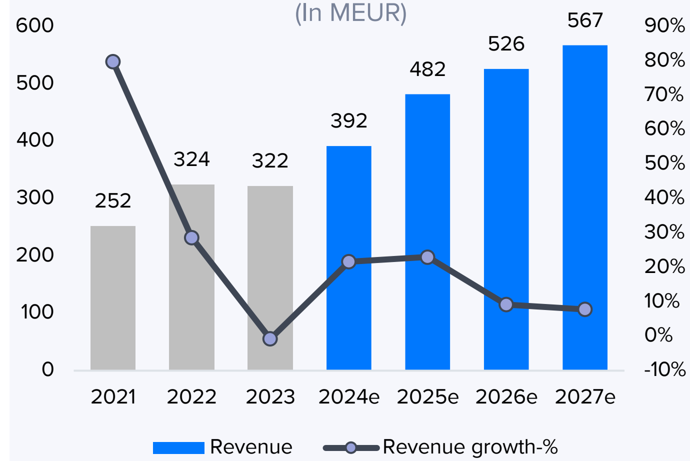
We expect the phase-out of third-party cookies and GAID to mirror the introduction of Apple's ATT framework, initially creating challenges for advertisers to accurately target users. This transition will likely result in short-term CPM declines due to uncertainty and adjustment. After this initial period, we expect CPMs on Android devices and search to stabilize at a new, lower equilibrium. This new equilibrium will reflect the trade-off between effective privacy advertising solutions and the loss of granular targeting capabilities. Apps with strong first-party data strategies may be less impacted than those that rely on third-party data. In the short term, we also believe that walled gardens will capture a larger share of advertising budgets due to their rich first-party data and sophisticated targeting capabilities, reflecting some form of safeguarding by advertisers and marketers against the loss of third-party cookies and identifiers.

As third-party cookies continue to be phased out, advertisers and publishers will increasingly adopt first-party data strategies to maintain targeting and measurement capabilities. In this evolving market landscape, we believe Verve is strategically well-positioned with its extensive first-party data and proprietary ID-less targeting solutions (e.g., Moments.AI and ATOM). Verve has demonstrated resilience in a changing market through continuous innovation. Its growing market share in iOS in-app advertising in North America, despite approximately 75% of users opting out, and successful onboarding of new clients underscore this ability. This suggests, in our view, that Verve is well-prepared for the phase-out of GAID and third-party cookies. Additionally, Verve achieved an average net dollar expansion rate of 90% among software customers in 2023, even as CPMs declined by 20-30%. This indicates that Verve effectively increased its share of client spend by offering more services or ad inventory, demonstrating its strong cross-sell and up-sell capabilities.

For 2025, we believe Verve is positioned to achieve double-digit organic growth in both its software customer base and ad impression volume, as strong and growing industry awareness of Verve's solutions facilitates sales efforts. However, the impact of lower expected CPMs will moderate overall growth. We expect Verve's revenue to increase by 23% (of which 9% organic) to reach 481.9 MEUR in 2025. Although we expect Verve to realize synergies from the Jun Group acquisition through cross-selling and up-selling, we have been somewhat conservative in our estimates to account for the possibility that the accelerated due diligence process could lead to an overestimation of synergies and overlooked issues. Therefore, our cautious approach takes into account potential integration challenges and the time required to fully realize synergies.

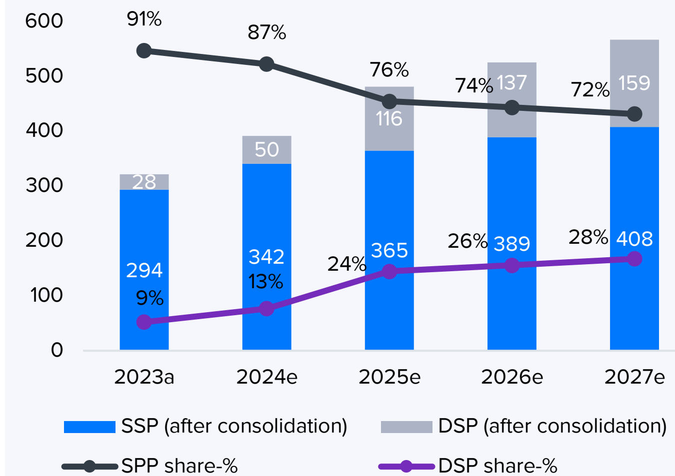
Revenue and growth-%

(In MEUR)



Revenue per segment

(In MEUR and % of total revenue)



Source: Inderes

Estimates (3/6)

For 2026-2027, we expect the main revenue drivers for Verve to be its positioning within the faster-growing submarkets of programmatic advertising through mobile and CTV, and the company's focus on ID-less targeting solutions and extensive first-party data. However, given the complex and uncertain dynamics in the evolving advertising landscape, we believe it is prudent to adopt a somewhat conservative approach. Based on these assumptions, we estimate that Verve's revenue will grow organically by 9.2% in 2026 and 7.8% in 2027, which is more or less in line with the global programmatic advertising market. This, in turn, represents a revenue CAGR of around 15% during 2024-2027, including M&A impact.

Profitability and earnings estimates

Since 2021, Verve has exceeded the adjusted EBIT target range and demonstrated a strong margin profile resilience even in the deteriorating market conditions of the last two years, thanks to its flexible cost structure and focus on efficiency. During 2023, Verve initiated a 10 MEUR annual cost savings program through the integration of acquired platforms. By reducing the technical complexity in the company, i.e., by using fewer platforms, Verve was able to reduce its headcount on the media side, as the company no longer needed certain expertise to manage and enhance the backend.

Another step in optimizing the company's technology stack came in Q2'24 when Verve entered into a strategic collaboration with Google Cloud. Through this collaboration, Verve will consolidate its marketplaces onto a single cloud infrastructure, ultimately resulting in more streamlined operations and reduced costs. Through these initiatives, Verve expects to achieve cost savings of 20 MEUR over the next four years.

We expect these cost savings to support resilient margins, but it is still uncertain where the new equilibrium for advertising CPMs will be set, and we estimate that it is likely to settle below historical levels in an initial phase after the complete phase-out of third-party cookies. However, we expect CPMs to increase over time as alternative solutions become more efficient through the power of AI and ML, albeit at a slower pace than Verve's customer onboarding. This dynamic, i.e. faster volume growth than price growth, is expected to result in higher direct technology costs per ad through higher traffic and infrastructure costs, i.e. more transactions per dollar of advertising revenue, and therefore limit the impact of the cost reduction measures that have been initiated. However, given the higher underlying profitability of the Jun Group, with gross margins of approx. 70%, we expect purchased services to decline to ca. 51% of revenue upon full integration, which is lower than the ca. 54-58% of revenue Verve had on a standalone basis in the historical years prior to the acquisition.

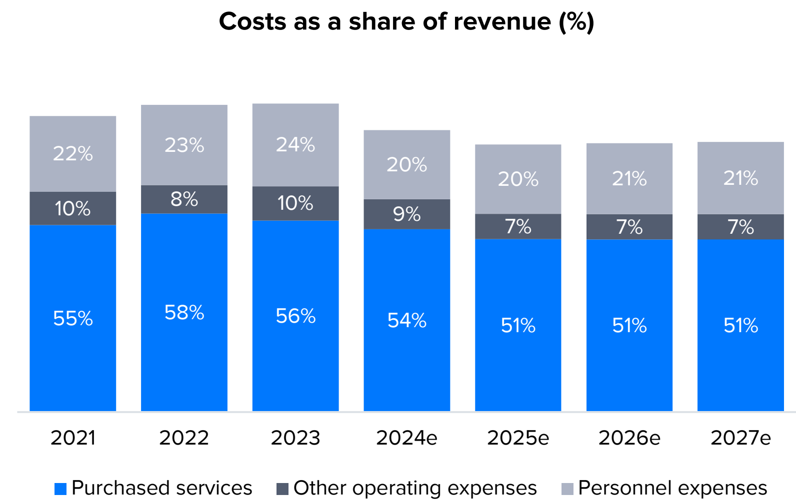
Furthermore, as a software media company, the need to innovate in an ID-less landscape is inevitable. Therefore, we expect Verve to increase personnel expenses, especially on the AI side to increase the pace of innovation, as well as to strengthen the sales side to enable a wider reach and traction of the developed ID-less targeting solutions. In 2024, we expect personnel expenses to increase by only 1 MEUR y/y, despite the projected revenue increase of around 70 MEUR. This modest increase in personnel costs is due to the cost reduction program implemented in 2023, which will result in annual personnel cost savings of 10 MEUR. In 2025-2026, however, we expect personnel expenses to grow slightly faster than revenues due to the aforementioned investments in areas such as AI and sales.

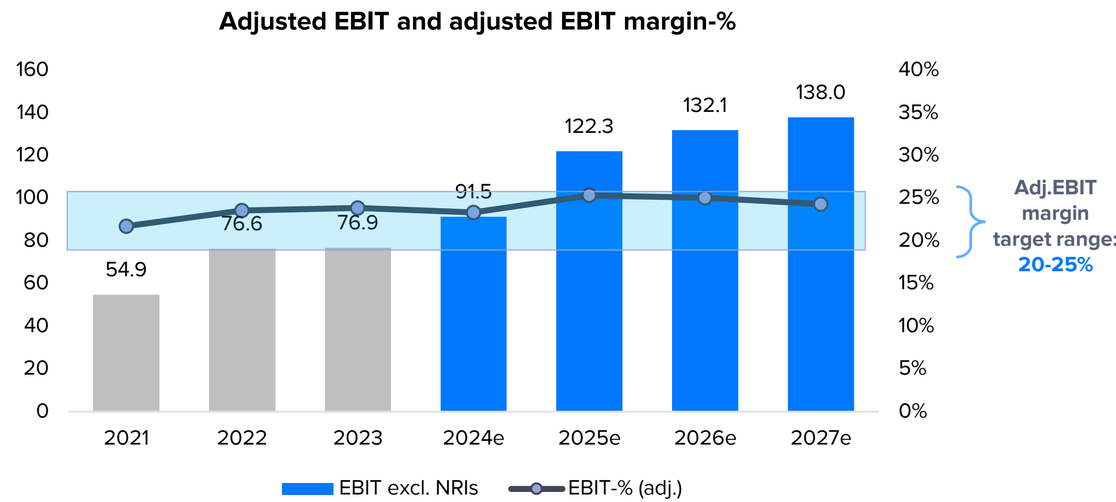
We also expect other operating income to be around 2% of revenue going forward, in line with historical years. We also expect other own work capitalized as a percentage of revenue to be at or slightly below the 2023 level (~8%) and to remain at that level in the coming years to support top-line growth. Other operating income has averaged 11% of revenue over the past three years (22% in 2023), but excluding earn-out releases and FX effects, the corresponding figure has been around 2-3%, which is a level we expect going forward. Overall, we expect the cost structure to remain relatively in line with historical experience. In addition, we are not estimating any nonrecurring costs for 2025-2027, however, given the 1.8 MEUR non-recurring costs reported in Q1'24 and acquisition of Jun Group in Q2'24, we estimate 8.1 MEUR in non-recurring costs for the full year 2024.

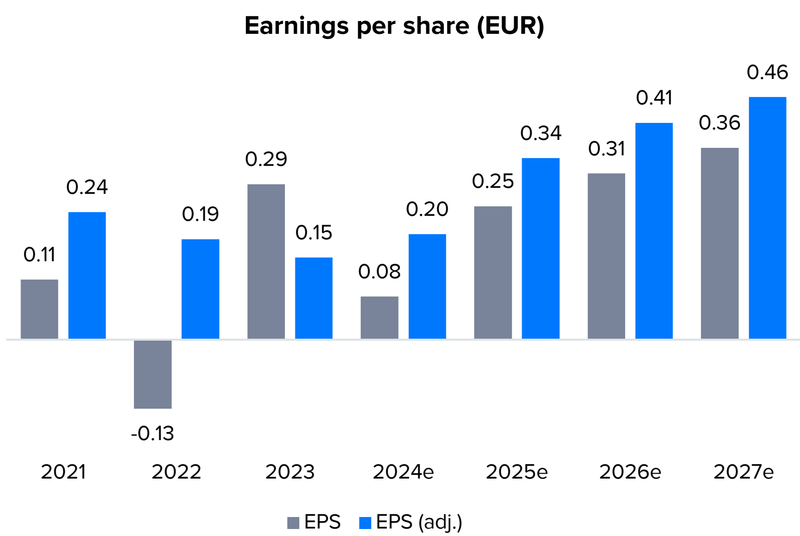
In terms of profitability, we estimate an adjusted EBIT margin of 23.4% for the full year 2024, resulting in an earnings growth of 19% y/y. For the years 2025-2027, we expect the adjusted EBIT margin to steadily increase and establish within the company's new target range, reaching 24.3% in 2027, representing the upper end of the target range (20-25%).

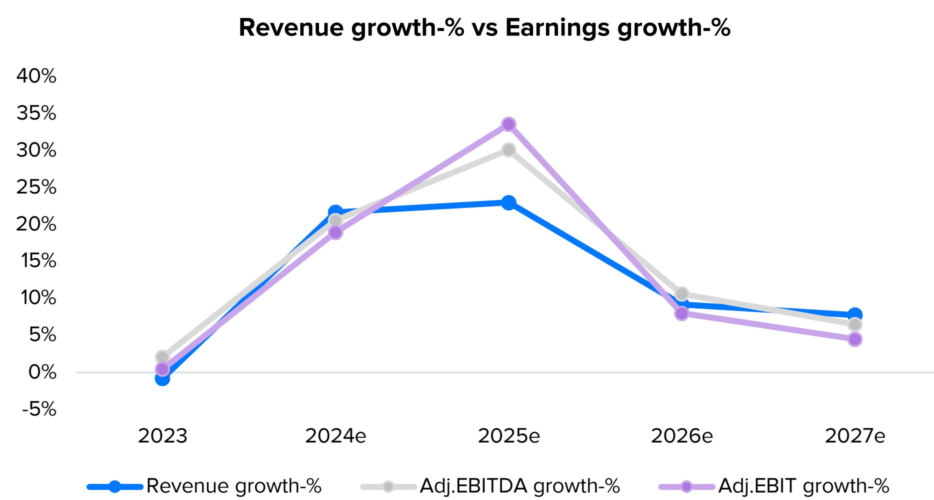
We estimate adjusted EPS of 0.20 in 2024 and 0.34, 0.41, and 0.46 in 2025-2027, respectively, supported by total operating income growth combined with lower interest expense following expected interest rate cuts and better negotiated terms when refinancing existing outstanding bonds.

Estimates (4/6)









Source: Inderes

Estimates (5/6)

Long-term estimates

Over the long term, we expect the key drivers to be growth in the programmatic market, continued innovation and deleveraging of the business. After 2027, we estimate that organic revenue growth will begin to slow, reaching our terminal growth rate of 2% in 2033. The compound annual growth rate for 2028-2033 is 4%. In terms of profitability, we expect adjusted EBIT to continue to decline slowly after 2027 to around 20%, which is at the lower end of the company's adjusted EBIT target range of 20-25%.

Balance sheet and net leverage

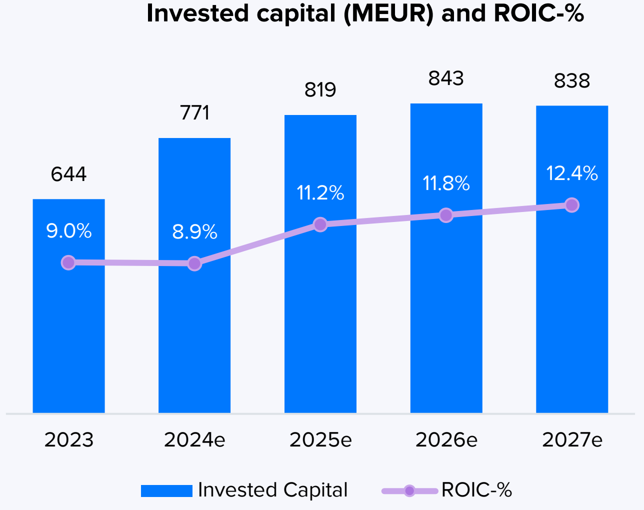
Verve has historically maintained a strong cash position, but the recent acquisition of Jun Group has reduced the cash balance, while debt levels remain elevated. Acquisitions have significantly increased goodwill on the balance sheet in recent years, contributing to a relatively low return on invested capital (ROIC). However, adjusting for goodwill (which is not an ongoing investment required for organically built businesses), ROIC is in the high twenties. However, we expect the highly profitable Jun Group business to boost Verve's ROIC going forward, reaching the low to mid-teens upon full integration (including goodwill).

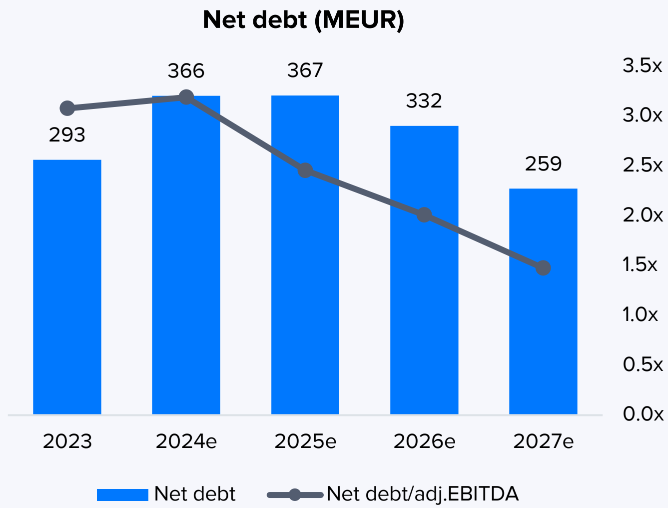
As of Q1'24, Verve's net debt to adjusted EBITDA ratio was 3.2x, exceeding its targeted leverage cap. This elevated leverage is exacerbated by contingent consideration, non-recurring costs and a high interest rate environment, which collectively constrain Verve's cash flows and impede meaningful debt reduction.

However, as previously mentioned in the report, Verve's capital structure and financial profile have changed following several events after the end of Q1'24. The net effect of the Jun Group acquisition, the completed direct share issue and the subsequent bond issue, is an increase of the company's net debt position of some 80 MEUR. However, due to the combination of an improved cash flow generation profile and post-acquisition earnings accretion, we expect Verve's net leverage to gradually decline over the next few years, reaching 2x by 2026, representing the midpoint of the company's new target level. On a pro forma basis, we expect net leverage to decline to 2.5x in 2024 when excluding contingent considerations (cash payments) and to 2.9x when including these.

The acquisition of Jun Group, along with the accelerated reduction in net leverage it enables, positions Verve to renegotiate better terms on its outstanding bonds in 2026 and 2027, as evidenced by the subsequent bond issue in Q3'24. Securing a lower fixed interest rate on the outstanding bonds, coupled with expected interest rate reductions, would free up additional cash flow and enhance the company's ability to reduce its debt more efficiently.

Verve has approximately 65 MEUR of remaining contingent consideration cash payments due in 2025-2026. The settlement of these, together with expected lower interest rates, should improve cash generation and facilitate further deleveraging in the future. By 2027, we expect Verve's net debt to adjusted EBITDA ratio to further improve to 1.5x, supported by increased earnings and further boosted by the absence of contingent considerations by that time.





Source: Inderes

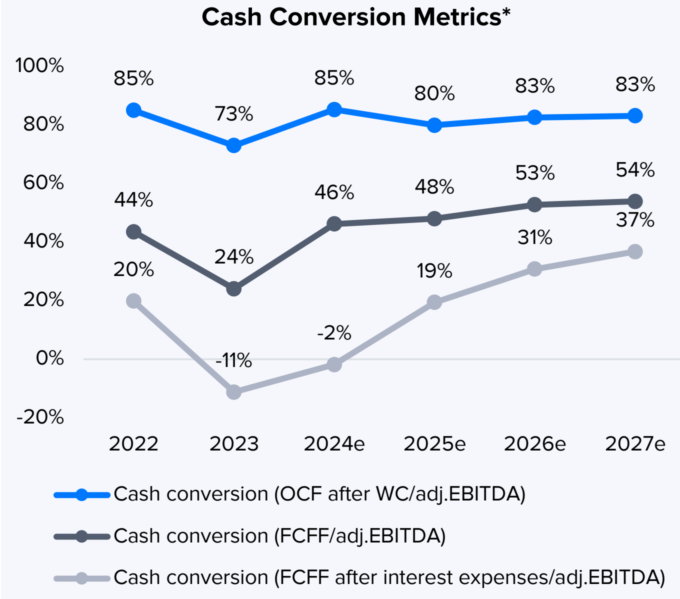
Estimates (6/6)

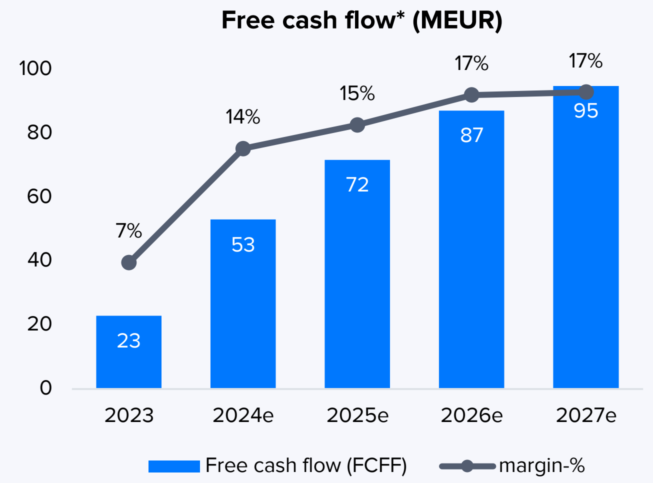
Cash flow and investments

In terms of cash flow, Verve demonstrates strong underlying cash conversion capabilities. However, the impact of contingent consideration and high financing costs on cash generation can be seen by examining the adjacent cash conversion metrics. Over the past five years, Verve's free cash flow margin has averaged 8%, well below its adjusted EBITDA of 25.8% and adjusted EBIT of 18.8% over the same period. As a software media platform, Verve typically experiences cash tie-ups as it grows. However, the securitization program initiated in late 2022 has proven effective in managing working capital, reducing the company's operating requirements and freeing up additional cash flow. The acquisition of Jun Group improves the overall cash flow margins of the combined group, given Jun Group's strong cash conversion profile, and we expect Verve to achieve an FCF margin in the range of 15-17% in the coming years.

In the short to medium term, we expect Verve's annual investments to be in the range of 48-53 MEUR, including additional expected CAPEX of around 3-4 MEUR following the acquisition of the Jun Group, and to increase moderately in the long term. Maintenance CAPEX is expected to represent approximately 20% of these investments, with the remainder being expansion CAPEX. At this level, Verve's free cash flow generation is solid, especially when the remaining contingent consideration is settled. However, in the short term, we expect that Verve will have to use a mix of generated cash flows and its current cash position to service interest payments and to settle contingent considerations (40 MEUR of cash payments in 2025). This is expected to prevent Verve from meaningfully increasing its outstanding cash and reduce its debt position in the coming years.

However, over time, we anticipate that the absence of contingent considerations in combination with more favorable terms on outstanding bonds when refinancing will not only strengthen Verve's cash position and enable significant debt reduction but also support strong EPS growth.





Source: Inderes

*FCFF is adjusted for M&A CAPEX and earn-outs in 2024 and only earn-outs in 2025-2026.

Income statement

Income statement	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue	**324**	**68.8**	**76.2**	**78.3**	**98.7**	**322**	**82.5**	**85.4**	**94.1**	**130**	**392**	**482**	**526**	**567**
EBITDA (excl. NRI)	93.2	19.1	21.3	23.1	31.7	95.2	22.0	23.6	26.7	42.3	115	149	165	176
EBITDA	**84.8**	**17.4**	**20.0**	**63.7**	**27.3**	**128**	**20.2**	**22.6**	**23.7**	**40.1**	**107**	**149**	**165**	**175.9**
Depreciation	-58.1	-6.4	-7.2	-8.3	-7.6	-29.5	-7.9	-7.9	-8.8	-10.9	-35.5	-44.0	-50.9	-55.7
EBIT (excl. NRI)	**76.6**	**15.2**	**16.6**	**18.4**	**26.8**	**76.9**	**16.6**	**18.2**	**21.0**	**35.7**	**91.5**	**122**	**132**	**138**
EBIT	**26.6**	**11.0**	**12.8**	**55.4**	**19.7**	**99.0**	**12.3**	**14.7**	**15.0**	**29.2**	**71.2**	**105**	**114**	**120**
Net financial items	-38.0	-10.5	-12.7	-12.8	-14.1	-50.1	-14.1	-14.0	-13.5	-13.5	-55.1	-42.7	-36.3	-30.2
PTP	**-11.3**	**0.6**	**0.1**	**42.6**	**5.6**	**48.9**	**-1.9**	**0.7**	**1.5**	**15.7**	**16.0**	**62.6**	**78.0**	**90.0**
Taxes	-9.1	0.0	1.4	-3.4	-0.7	-2.7	2.5	-0.2	-0.4	-3.9	-2.0	-15.6	-19.5	-22.5
Minority interest	0.1	0.3	0.2	0.0	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net earnings	**-20.3**	**0.82**	**1.7**	**39.3**	**4.9**	**46.7**	**0.6**	**0.5**	**1.1**	**11.8**	**14.0**	**46.9**	**58.5**	**67.5**
EPS (adj.)	**0.19**	**0.03**	**0.03**	**0.01**	**0.08**	**0.15**	**0.03**	**0.02**	**0.04**	**0.11**	**0.20**	**0.34**	**0.41**	**0.46**
EPS (rep.)	**-0.13**	**0.01**	**0.01**	**0.25**	**0.03**	**0.29**	**0.00**	**0.00**	**0.01**	**0.07**	**0.08**	**0.25**	**0.31**	**0.36**

Key figures	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue growth-%	28.7 %	4.4 %	-2.4 %	-10.6 %	6.3 %	-0.8 %	20.0 %	12.1 %	20.2 %	31.5 %	21.7 %	23.0 %	9.2 %	7.8 %
Adjusted EBIT growth-%	39.5 %	11.4 %	1.0 %	-0.3 %	-4.6 %	0.5 %	9.7 %	10.0 %	13.7 %	33.4 %	19.0 %	33.6 %	8.0 %	4.5 %
EBITDA-%	26.1 %	25.3 %	26.2 %	81.4 %	27.7 %	39.9 %	24.5 %	26.5 %	25.2 %	30.9 %	27.2 %	31.0 %	31.4 %	31.0 %
Adjusted EBIT-%	23.6 %	22.0 %	21.8 %	23.5 %	27.1 %	23.9 %	20.2 %	21.3 %	22.3 %	27.5 %	23.4 %	25.4 %	25.1 %	24.3 %
Net earnings-%	-6.3 %	1.2 %	2.3 %	50.1 %	5.0 %	14.5 %	0.7 %	0.6 %	1.2 %	9.1 %	3.6 %	9.7 %	11.1 %	11.9 %

Source: Inderes

Estimate revisions*	2024e	2024e	Change	2025e	2025e	Change	2026e	2026e	Change
MEUR / EUR	**Old**	**New**	**%**	**Old**	**New**	**%**	**Old**	**New**	**%**
Revenue	392	392	0%	482	482	0%	526	526	0%
EBITDA	107	107	0%	149	149	0%	165	165	0%
EBIT (exc. NRIs)	91.5	91.5	0%	122	122	0%	132	132	0%
EBIT	71.2	71.2	0%	105	105	0%	114	114	0%
PTP	16.0	16.0	0%	63.3	62.6	-1%	78.5	78.0	-1%
EPS (excl. NRIs)	0.20	0.20	0%	0.35	0.34	-1%	0.41	0.41	-1%
DPS	0.00	0.00		0.00	0.00		0.00	0.00	

Source: Inderes

*Verve's subsequent bond issue of 65 MEUR in Q3'24 had a minor impact on our short- to long-term estimates, as we had already accounted for lower interest expenses over time due to the refinancing of existing bonds at more favorable terms and anticipated rate cuts.

Valuation and recommendation (1/4)

Investment view and recommendation

In many ways, 2023 was a challenging year for the advertising market. The uncertain macroeconomic environment led to reduced advertising budgets and lower CPMs, which significantly slowed Verve's revenue growth. For a growth company like Verve's, this was not appreciated by investors for obvious reasons. The highly leveraged balance sheet did not help either. The share price took a nosedive, falling about 40% for the year. However, with signs of a rebounding advertising market starting in late 2023 and a return to double-digit revenue growth, the stock has also rebounded and is up about 116% year-to-date. Given the recent surge in the share price, we believe that the risk/reward ratio has moderated somewhat at the current market valuation. Consequently, we revise our recommendation to Accumulate (was Buy) while increasing the target price to SEK 29 (previously SEK 28).

Valuation methods used

To derive a valuation for Verve, we favor an FCF-based valuation method such as DCF as Verve's income statement includes several non-cash and non-recurring charges. We also believe that a DCF calculation better captures the differences between reported results and cash flows in the coming years. However, we also rely on a relative valuation to assess how Verve is priced relative to a number of peers operating in different subsegments of the ad tech industry. We believe it is appropriate to consider Verve's adjusted earnings figures, as a relatively large annual amortization of the PPA (around 10 MEUR) weighs on reported earnings. In particular, we find the adjusted EV/EBIT, EV/FCF and adjusted P/E useful for valuation purposes. Of these, we prefer the adjusted EBIT and FCF/EV multiples as they take into account Verve's significant net debt.

Multiple-based valuation

Verve's median adjusted EV/EBIT ratio over the last five years is 15.3x, and the corresponding figures for the adjusted P/E ratio and the adjusted EV/S ratio are 13.2x and 2x, respectively. The average ratios are 12.3x, 13x and 2.1x, respectively. Thus, the current share price is trading at a significant discount to historical levels. Given the elevated debt levels and stagnant growth over the same period, we believe it is reasonable for Verve to trade at valuation multiples below historical levels. Furthermore, we do not see the stock returning to historical valuation levels in the near term, especially in the current interest rate environment. In addition, we expect earnings growth to slow in the coming years, which, all else equal, justifies lower valuation multiples.

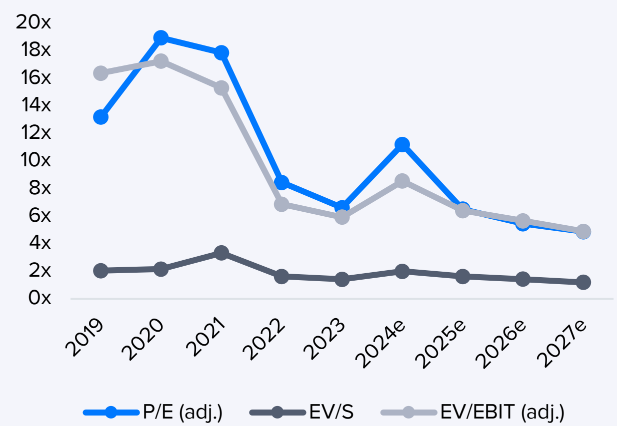
Based on our estimates, Verve trades at an adjusted EV/EBIT multiple of 8.5x for 2024[1]. However, as this multiple does not include the full impact of Jun Group, we believe it is reasonable to look at 2025 and onwards. Corresponding multiples for 2025 and 2026 amount to 6.4x and 5.7x, which are very low in absolute figures. Our estimated adjusted P/E as well as EV/S multiples for 2025-2026 stands at 6.5x and 5.4x and 1.6x and 1.4x, respectively. In the adjusted figures we have adjusted for PPA amortization, hence, the unadjusted earnings multiples therefore naturally make Verve look more expensive than it is (P/E 2025: 8.9x and EV/EBIT 2025: 7.4x), which we view to be somewhat unfair as earnings are weighed down by additional non-cash items (PPA) other than normal D&A.

To assess how Verve is priced relative to FCF generated, we can look at a cash flow-based multiple, such as EV/FCF. Verve's 2025 and 2026 EV/FCF multiples, adjusted for earn-outs, are 10.9x and 9x, respectively, which we believe demonstrates that Verve's adjusted earnings multiple does not reflect cash flows very well.

Valuation	2024e	2025e	2026e
Share price (EUR)	2.23	2.23	2.23
Number of shares, millions	172.8	186.4	186.4
Market cap (MEUR)	415	415	415
EV (MEUR)	782	782	747
P/E (adj.)	11.2	6.5	5.4
P/E	27.5	8.9	7.1
P/FCF	neg.	13.2	6.7
P/B	1.0	0.9	0.8
P/S	1.1	0.9	0.8
EV/Sales	2.0	1.6	1.4
EV/EBITDA	7.3	5.2	4.5
EV/EBIT (adj.)	8.5	6.4	5.7
Payout ratio (%)	0.0 %	0.0 %	0.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %

Source: Inderes

Development of valuation multiples



[1] In addition to PPA amortizations, 2024 as well as historical figures are also adjusted for non-recurring costs.

Valuation and recommendation (2/4)

We believe current multiples are somewhat compressed, and if Verve returns to strong revenue growth while maintaining relatively stable margins, as we estimate, we believe a potential multiple expansion is warranted. In addition, we are somewhat conservative in our revenue estimates, and if Verve were to show increasing evidence of its ability to gain additional market share in an ID/cookie-less environment, there would be further upside potential in the stock through higher earnings estimates and valuation multiples.

Peer group

To evaluate how Verve valuation compares to other similar companies, we have assembled a peer group of listed ad software companies. Although selected peer companies differ in terms of positioning within the ad tech value chain, size, stage of development, growth and profitability profile, we believe it offers valuable insights into what an indicative valuation range for Verve could be, as they share similar revenue drivers and cost structure.

Verve's earnings multiples are significantly lower than those of its peer group. The peer group's median EV/EBIT multiples for 2025 and 2026 are 25.1x and 16.3x, respectively. The corresponding P/E multiples are 22.7x and 18.6x. However, we note that there is a high variation in the multiples among the peers, which affects the median value.

As shown on the next page, Verve is expected to grow revenues and adj. EBITDA at a similar pace to its peers from 2024 to 2026, while maintaining a higher average adj. EBIT margin over the same period. However, Verve is expected to lag its peers in terms of EBIT CAGR. It is important to note that our estimates include inorganic revenue growth, which inflates the CAGR numbers.

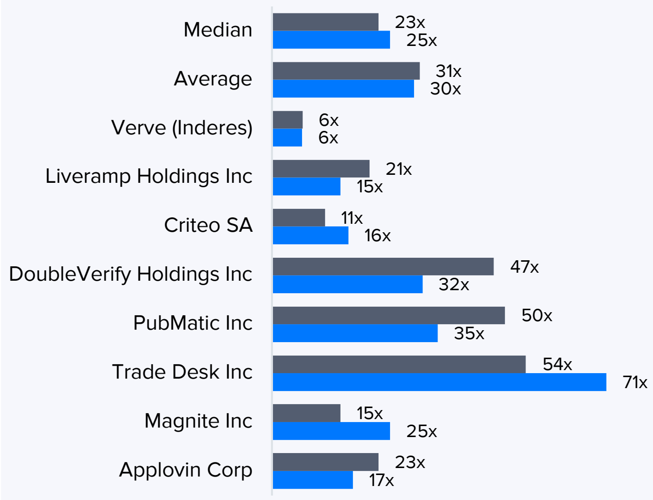
Therefore, we don't rely on these numbers as much, as the actual organic revenue growth is lower, around 10%, which we believe provides a more comparable and realistic view of the company's underlying growth potential.

In addition, the peer group has significantly lower debt levels than Verve. Given the organic growth, high leverage and the fact that EBIT growth is the main driver of the EV/EBIT multiple, we believe that a valuation gap between Verve and its peers is justified and appropriate. However, we believe the current discount to Verve is too steep. Given Verve's improved earnings quality and enhanced ability to reduce debt, we believe a higher valuation multiple for the company is appropriate.

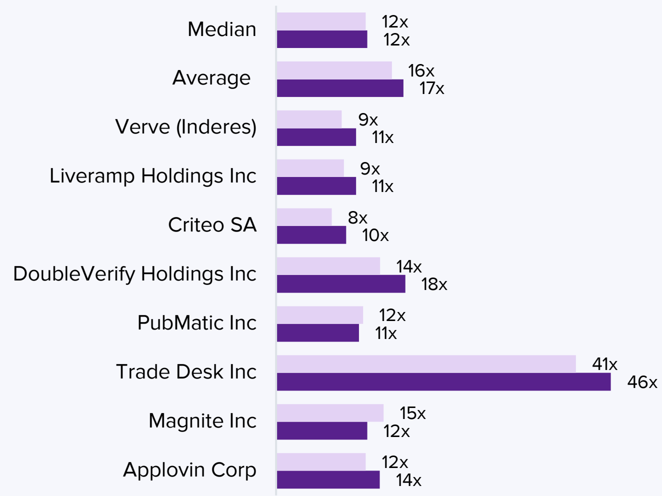
In addition, we believe the FCF multiple is more reasonable to look at, although the range is still wide, and we also believe it demonstrates that Verve does not deserve a dramatic multiple expansion based on its cash flow generation capabilities and the aforementioned comparisons with respect to financial projections.

If we were to apply the median FCF multiple to Verve's estimated FCF (excluding earn-outs) for 2025e, we would look at a share price of around SEK 32, corresponding to an EV/adj. EBIT multiple of around 7.3x. However, if we include earn-outs in the equation, we would see a much lower share price. While an EV/adj. EBIT multiple of 7.3x is still on the low side, we believe that excluding earn-outs paints a somewhat overly rosy picture, although it is not unreasonable. However, given that Verve has lower estimated FCF margins than the peer group median (2025e median: 19%), we believe a slightly lower EV/FCF multiple than the peer group is justified.

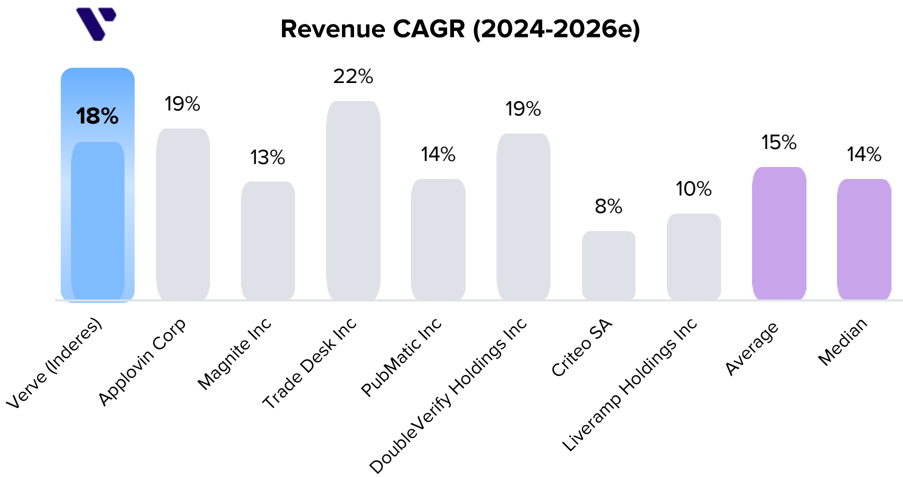
Peer groups valuation multiples (2025e)

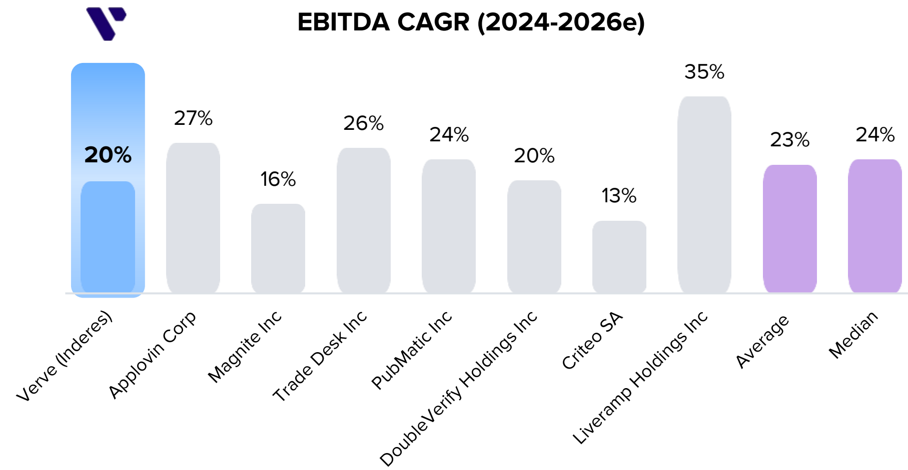


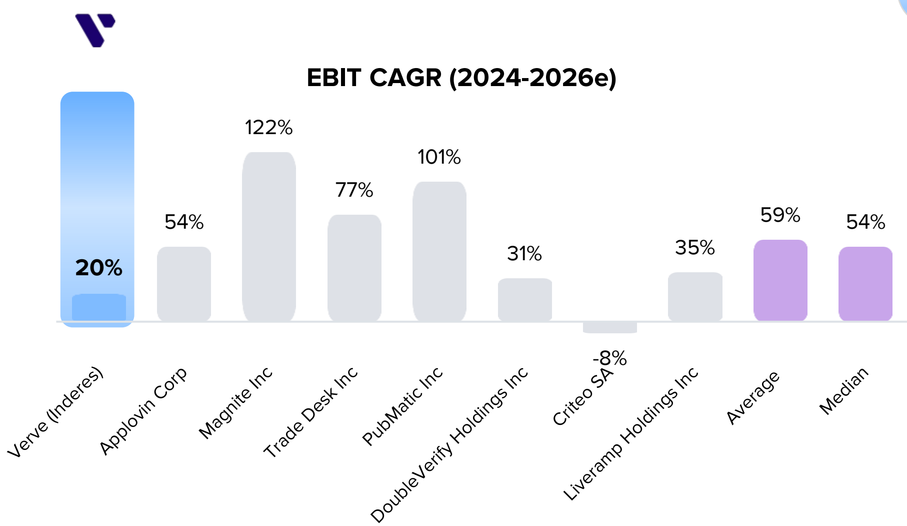
Peer groups EV/FCF multiples (2025e-2026e)

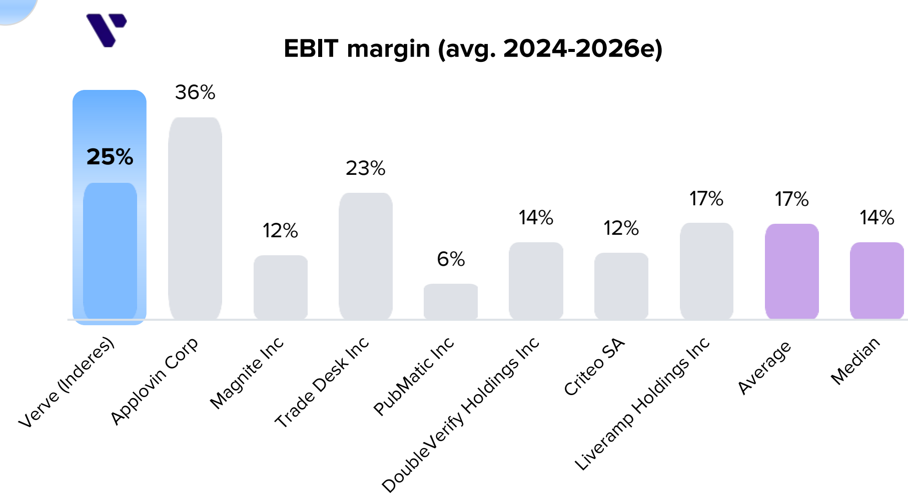


Verve vs. Peers: *At a glance*









Valuation and recommendation (3/4)

DCF model

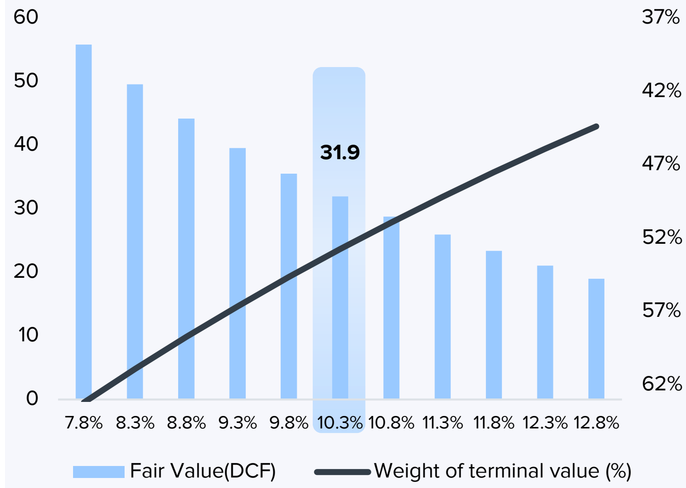
We believe a discounted cash flow model is more appropriate to value Verve as it better reflects the long-term value creation of the business. It also takes into account the impact of investments and cash payments related to contingent considerations.

According to our DCF model, Verve's fair value is SEK 31.9 per share, approx. 27% above yesterday's closing price. Our model assumes that Verve's revenues will grow by 21.7% in 2024, of which 13.9% is organic, which is at the midpoint of the company's target range. In 2025-2026, we expect organic growth to slightly outpace the global programmatic advertising market, but M&A effects to boost total growth in 2025. After 2026, our revenue growth estimate starts to decline to the terminal growth estimate of 2%. In terms of profitability, we expect an adjusted EBIT margin between 25% and 17% (company target 20-25%). Our adjusted EBIT margin is expected to increase from the 2023 numbers to ~25% in 2025-2026 and then slowly decline to 17% as we approach the terminal period. These conservative assumptions reflect a more mature phase of the company's lifecycle, balancing growth and profitability as the business stabilizes.

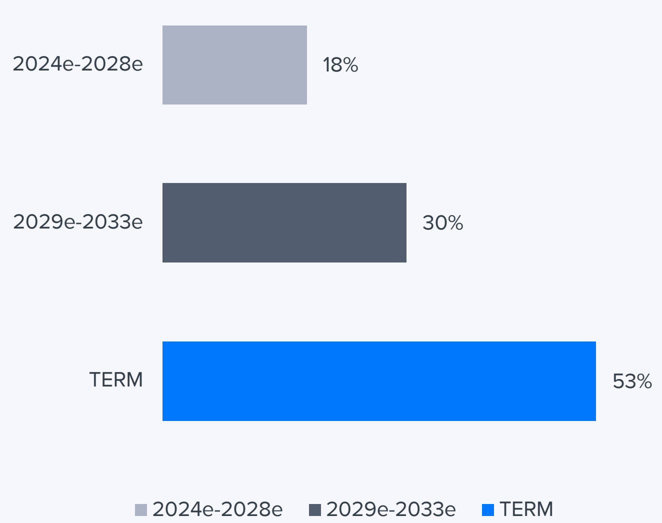
For our discounted cash flow (DCF) valuation, we used a weighted average cost of capital (WACC) of 10.3%, with a higher cost of equity of 11.1%. Our base case assumptions are consistent with the estimates described in the previous section.

Broadly speaking, our model projects Verve to grow at around 15% per year over the medium term and at mid-single-digit rates over the long term. We also expect profitability to decline slightly over time, eventually stabilizing slightly below the low end of the company's target range. In the accompanying calculations, we illustrate how different levels of the cost of capital affect the share price and the weight of the terminal value in the overall valuation. We believe that this demonstrates the appropriateness of a cash flow-based valuation methodology, as the proportion of cash flows attributed to the terminal period (53%) is at a reasonable level, indicating that a significant portion of Verve's value is expected to be generated in the near to medium term.

Sensitivity of DCF to changes in the WACC-%



Cash flow distribution



Valuation and recommendation (4/4)

Scenario analysis

Predicting Verve's performance over a five-to-ten-year horizon is inherently challenging due to the complex and rapidly evolving digital advertising landscape. The impending obsolescence of identifiers and third-party cookies will significantly impact demand and pricing dynamics. As a result, our baseline case estimates reflect a relatively conservative outlook for Verve's future performance.

That said, Verve has the potential for even greater revenue growth, and we could see Verve sustain mid-double-digit revenue growth, within the company's target range for organic growth, over an extended period of time if the company proves highly successful in leveraging its first-party data and ID-less targeting solutions to gain significant market share. Conversely, there are risks that more innovative and effective technology solutions will emerge, that dominant players (walled gardens) will use their extensive first-party data and financial muscles to gain greater market share, or that new regulatory challenges will emerge, all of which could significantly slow Verve's revenue growth.

To capture these varying scenarios and provide a comprehensive valuation, we have constructed three different scenarios to illustrate the potential returns of Verve's stock based on different assumptions about its revenue and profitability by 2027.

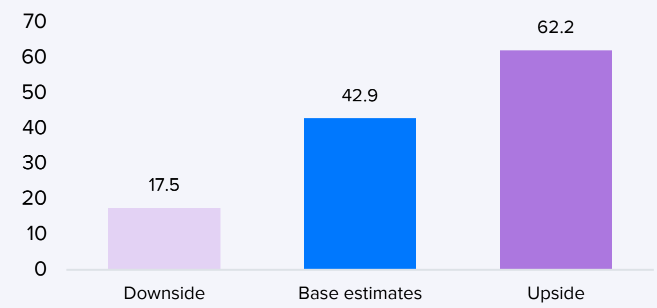
In our baseline forecast, we expect Verve's 2027 revenue to grow to 567 MEUR. The adjusted EBIT margin is expected to be about 24%, resulting in an adjusted EBIT of 138 MEUR. By assuming an EV/EBIT multiple of 7x, the company's EV would be 966 MEUR. Deducting the estimated net debt, we get an equity value of 707 MEUR or SEK 42.9 per share. This would equate to a 21% annual return. Overall, we think these estimates are quite reasonable with the adj. EBIT margin being lower than previous years and in-line with the company's target of 20-25%. The EV/EBIT multiple used is also at the lower end of the peer group.

In the downside scenario, we expect the revenue to come in at about 15% lower and amount to 482 MEUR. This corresponds to a revenue growth of roughly 11% per year between 2024-2027 (incl. M&A effects). In this scenario, we also lowered the adjusted EBIT margin to 20% and used an EV/EBIT multiple of 6x. With these assumptions we get an equity value of 288 MEUR or SEK 17.5 per share. This corresponds to a negative 10% yearly return. This scenario entails that revenue growth slows markedly and profitability decreases from the current level while the low multiples of today persist.

In the upside scenario, we assume a 10% increase in sales to 624 MEUR in 2027 and an adjusted EBIT margin one percentage point higher than in the base case. We also use a slightly higher EV/EBIT multiple of 8x. Under these assumptions, the equity value increases to 1,025 MEUR, or SEK 62.2 per share. This scenario highlights the upside potential if Verve achieves a robust annual growth rate of 18%, maintains an EBT margin at the upper end of its target range and benefits from higher valuation multiples.

Scenarios by 2027e	Downside	Base estimates	Upside
Revenue 2027e (MEUR)	482	567	624
Adj.EBIT %	20%	24%	25%
Operating profit (adj.) (MEUR)	98.1	138.0	158.1
x pricing multiple (EV/Adj.EBIT)	6x	7x	8x
EV (MEUR)	**588**	**966**	**1,265**
- Net debt (2027e)	300	259	240
Equity value (MEUR)	**288**	**707**	**1,025**
Per share (EUR)	*1.5*	*3.8*	*5.5*
Per share (SEK)	*17.5*	*42.9*	*62.2*
Potential	-28%	77%	156%
Annual return	-10%	21%	37%

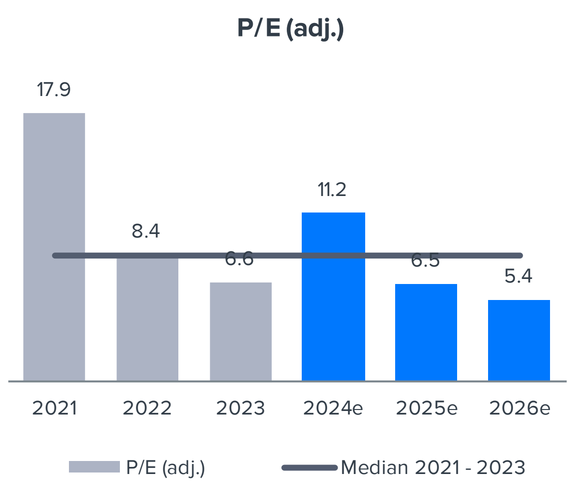
Potential share price in 2027e in different scenarios (SEK)

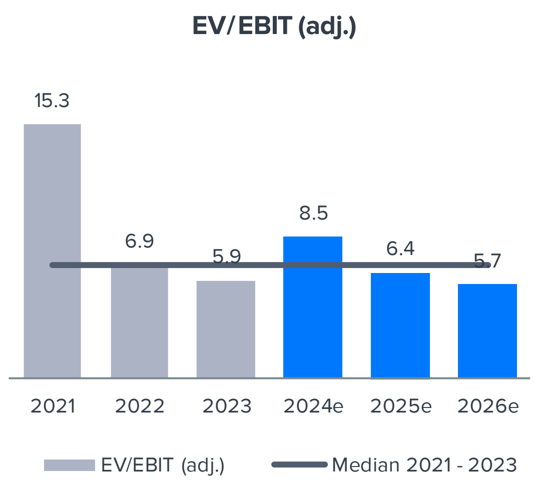


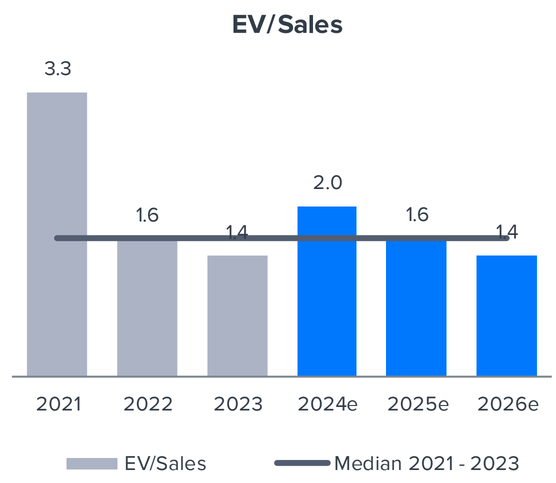
Valuation table

Valuation	2021	2022	2023	2024e	2025e	2026e	2027e
Share price (EUR)	4.30	1.60	1.02	**2.23**	**2.23**	**2.23**	**2.23**
Number of shares, millions	141.7	156.2	159.2	**172.8**	**186.4**	**186.4**	**186.4**
Market cap (MEUR)	644	255	163	**415**	**415**	**415**	**415**
EV (MEUR)	840	525	456	**782**	**782**	**747**	**675**
P/E (adj.)	17.9	8.4	6.6	**11.2**	**6.5**	**5.4**	**4.9**
P/E	37.9	neg.	3.5	**27.5**	**8.9**	**7.1**	**6.2**
P/FCF	neg.	neg.	3.9	**neg.**	**13.2**	**6.7**	**4.4**
P/B	2.1	0.8	0.5	**1.0**	**0.9**	**0.8**	**0.7**
P/S	2.6	0.8	0.5	**1.1**	**0.9**	**0.8**	**0.7**
EV/Sales	3.3	1.6	1.4	**2.0**	**1.6**	**1.4**	**1.2**
EV/EBITDA	11.8	5.6	4.8	**7.3**	**5.2**	**4.5**	**3.8**
EV/EBIT (adj.)	15.3	6.9	5.9	**8.5**	**6.4**	**5.7**	**4.9**
Payout ratio (%)	0.0 %	0.0 %	0.0 %	**0.0 %**	**0.0 %**	**0.0 %**	**0.0 %**
Dividend yield-%	0.0 %	0.0 %	0.0 %	**0.0 %**	**0.0 %**	**0.0 %**	**0.0 %**

Source: Inderes







Peer group valuation

Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		P/B
Company	**MEUR**	**MEUR**	**2024e**	**2025e**	**2024e**	**2025e**	**2024e**	**2025e**	**2024e**	**2025e**	**2024e**
Applovin Corp	26,481	29,340	22.1	17.2	13.9	12.0	7.3	6.5	28.9	22.7	19.1
Magnite Inc	1,765	2,043	79.9	25.1	11.2	9.8	3.6	3.3	16.6	14.6	2.5
Trade Desk Inc	45,031	43,721	105.9	71.2	47.6	39.2	19.6	16.3	64.6	54.0	18.9
PubMatic Inc	955	794	98.5	35.3	9.3	7.6	2.9	2.6	88.0	49.6	3.4
DoubleVerify Holdings Inc	3,191	2,886	44.7	32.1	15.3	12.6	4.7	3.9	64.7	47.2	2.9
Criteo SA	2,046	1,752	14.6	16.3	5.5	5.5	1.7	1.7	10.3	11.3	1.9
Liveramp Holdings Inc	1,978	1,634	17.3	14.6	16.2	13.2	2.7	2.5	21.7	20.8	2.2
Verve (Inderes)	**415**	**782**	**8.5**	**6.4**	**7.3**	**5.2**	**2.0**	**1.6**	**11.2**	**6.5**	**1.0**
Average			**54.7**	**30.3**	**17.0**	**14.3**	**6.1**	**5.2**	**42.1**	**31.4**	**7.3**
Median			**44.7**	**25.1**	**13.9**	**12.0**	**3.6**	**3.3**	**28.9**	**22.7**	**2.9**
Diff-% to median			***-81%***	***-75%***	***-47%***	***-56%***	***-45%***	***-51%***	***-61%***	***-71%***	***-65%***

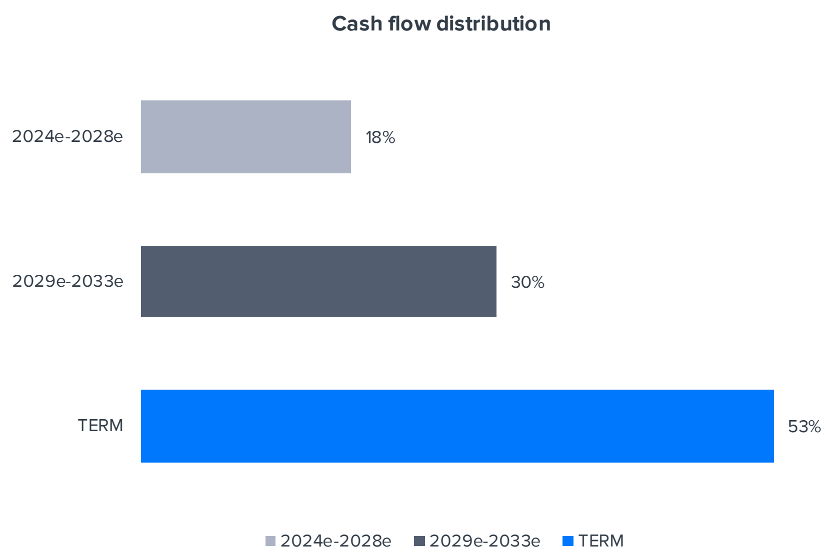
Source: Refinitiv / Inderes

DCF calculation

DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	TERM
Revenue growth-%	-0.8 %	21.7 %	23.0 %	9.2 %	7.8 %	7.0 %	6.0 %	5.0 %	4.0 %	3.0 %	2.0 %	2.0 %
EBIT-%	30.7 %	18.2 %	21.8 %	21.7 %	21.2 %	20.0 %	20.0 %	19.0 %	17.0 %	17.0 %	17.0 %	17.0 %
EBIT (operating profit)	**99.0**	**71.2**	**105**	**114**	**120**	**121**	**129**	**128**	**119**	**123**	**125**	
+ Depreciation	29.5	35.5	44.0	50.9	55.7	60.3	64.4	68.0	65.9	68.5	62.5	
- Paid taxes	-2.1	-2.0	-15.6	-19.5	-22.5	-23.8	-26.6	-27.0	-25.3	-26.8	-27.9	
- Tax, financial expenses	-2.8	-6.9	-10.7	-9.1	-7.5	-6.5	-5.6	-5.1	-4.5	-4.0	-3.5	
+ Tax, financial income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Change in working capital	-14.1	0.1	-3.7	-0.2	0.4	0.0	0.3	0.3	0.0	0.1	-0.9	
Operating cash flow	**109**	**97.8**	**119**	**136**	**146**	**151**	**161**	**165**	**156**	**161**	**156**	
+ Change in other long-term liabilities	-52.7	40.0	-40.2	-25.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-15.5	-202.8	-47.6	-49.3	-51.4	-53.6	-54.8	-56.2	-58.6	-62.9	-65.6	
Free operating cash flow	**41.3**	**-65.0**	**31.5**	**62.1**	**94.8**	**97.8**	**106**	**108**	**97.0**	**97.9**	**90.1**	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	41.3	-65.0	31.5	62.1	94.8	97.8	106	108	97.0	97.9	90.1	1101
Discounted FCFF		**-61.9**	**27.2**	**48.6**	**67.2**	**62.8**	**62.0**	**57.2**	**46.4**	**42.4**	**35.4**	**432**
Sum of FCFF present value		820	882	854	806	739	676	614	557	510	468	432

Enterprise value DCF	**820**
- Interest bearing debt	-414.5
+ Cash and cash equivalents	122
-Minorities	-0.2
-Dividend/capital return	0.0
Equity value DCF	**527**
Equity value DCF per share	**2.8**
Equity value DCF per share (SEK)	**31.9**

WACC	
Tax-% (WACC)	25.0 %
Target debt ratio (D/(D+E)	15.0 %
Cost of debt	8.2 %
Equity Beta	1.45
Market risk premium	4.75%
Liquidity premium	1.70%
Risk free interest rate	2.5 %
Cost of equity	**11.1 %**
Weighted average cost of capital (WACC)	**10.3 %**



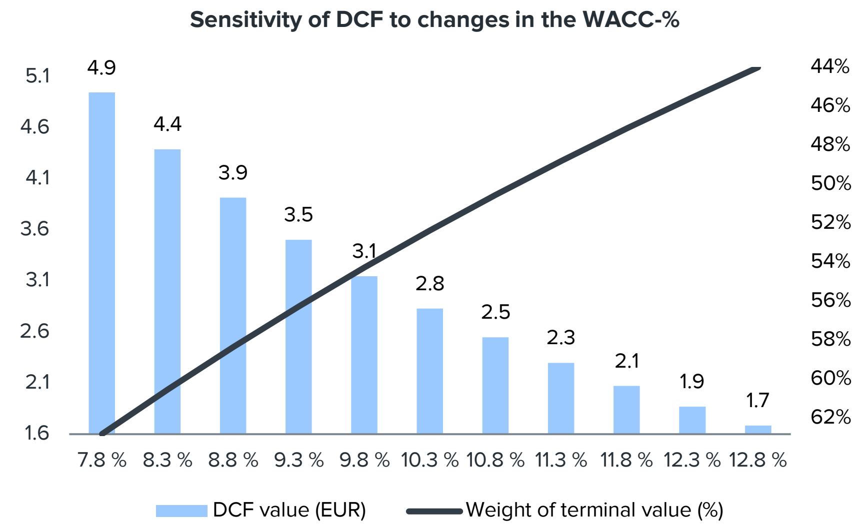
Balance sheet

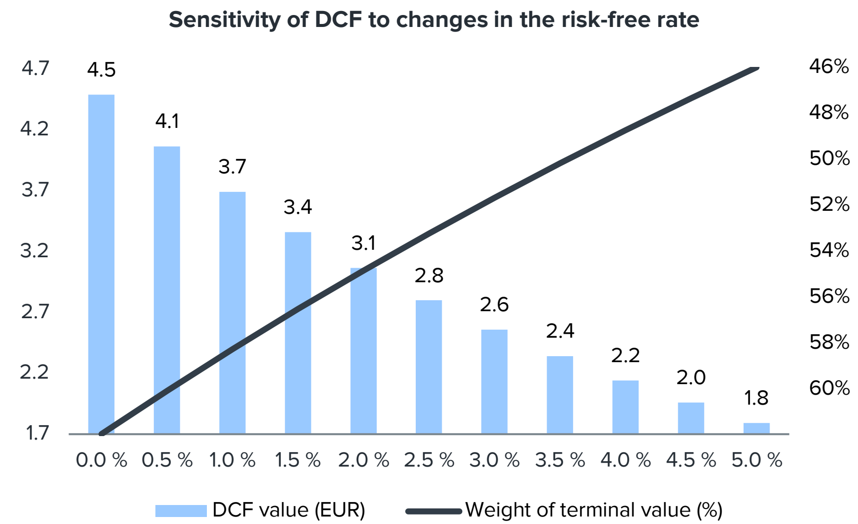
Assets	2022	2023	2024e	2025e	2026e
Non-current assets	**824**	**814**	**981**	**984**	**983**
Goodwill	588	578	672	672	672
Intangible assets	204	219	290	292	290
Tangible assets	5.5	4.0	6.3	7.4	7.7
Associated companies	1.0	1.0	1.0	1.0	1.0
Other investments	0.0	0.0	0.0	0.0	0.0
Other non-current assets	19.2	1.4	1.4	1.4	1.4
Deferred tax assets	6.7	10.5	10.5	10.5	10.5
Current assets	**221**	**194**	**165**	**164**	**191**
Inventories	0.0	0.0	0.0	0.0	0.0
Other current assets	18.8	39.5	0.0	0.0	0.0
Receivables	52.2	32.3	84.2	104	116
Cash and equivalents	150	122	81.0	60.4	75
Balance sheet total	**1045**	**1007**	**1146**	**1148**	**1174**

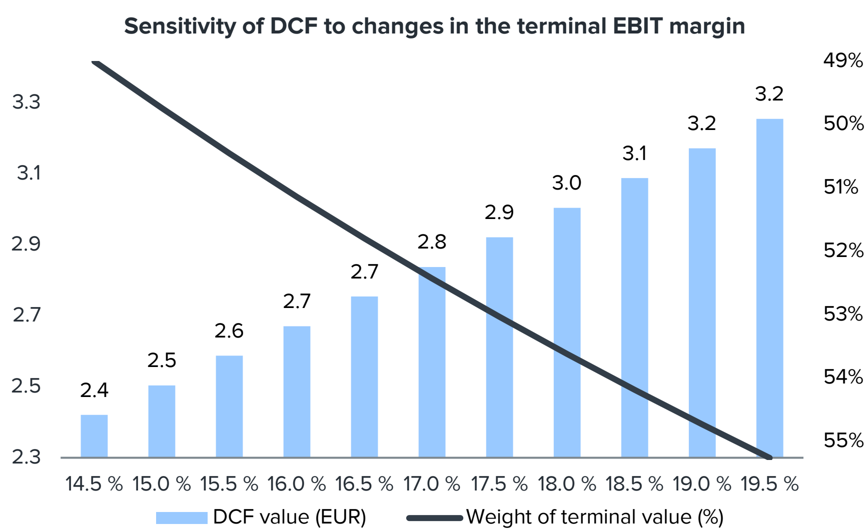
Source: Inderes

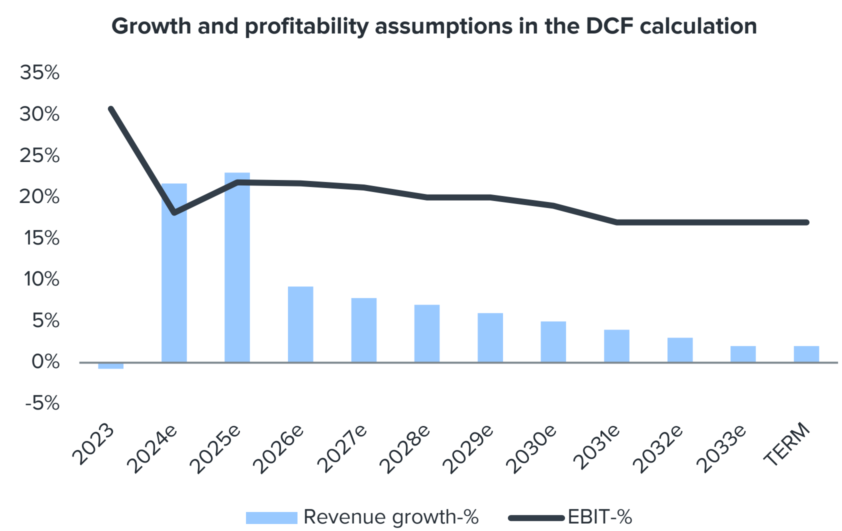
Liabilities & equity	2022	2023	2024e	2025e	2026e
Equity	**322**	**352**	**406**	**453**	**512**
Share capital	159	159	1.6	1.6	1.6
Retained earnings	1.4	48.1	62.1	109	168
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0	0.0
Other equity	162	145	343	343	343
Minorities	-1.2	0.2	0.2	0.2	0.2
Non-current liabilities	**503**	**414**	**521**	**461**	**416**
Deferred tax liabilities	24.4	28.9	28.9	28.9	28.9
Provisions	0.0	0.0	0.0	0.0	0.0
Interest bearing debt	389	348	415	395	375
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	89.6	36.9	76.9	36.7	11.7
Current liabilities	**219**	**241**	**219**	**235**	**246**
Interest bearing debt	31.9	66.5	32.0	32.0	32.0
Payables	90.1	102	114	130	142
Other current liabilities	97.5	72.4	72.4	72.4	72.4
Balance sheet total	**1045**	**1007**	**1146**	**1148**	**1174**

DCF sensitivity calculations and key assumptions in graphs









Source: Inderes. Note that the weight of the terminal value (%) is shown on an inverse scale for clarity.

Summary

Income statement	2021	2022	2023	2024e	2025e
Revenue	252.2	324.4	322.0	**391.8**	**481.9**
EBITDA	65.0	84.8	128.5	**106.6**	**149.3**
EBIT	36.8	26.6	99.0	**71.2**	**105.3**
PTP	14.9	-11.3	48.9	**16.0**	**62.6**
Net Income	16.1	-20.3	46.7	**14.0**	**46.9**
Extraordinary items	-18.1	-49.9	22.1	**-20.4**	**-17.0**

Balance sheet	2021	2022	2023	2024e	2025e
Balance sheet total	934.1	1044.7	1007.0	**1146.1**	**1148.5**
Equity capital	307.5	321.7	352.5	**406.5**	**453.4**
Goodwill	412.0	587.7	578.0	**672.0**	**672.0**
Net debt	195.8	271.3	292.8	**366.0**	**366.6**

Cash flow	2021	2022	2023	2024e	2025e
EBITDA	65.0	84.8	128.5	**106.6**	**149.3**
Change in working capital	82.0	8.6	-14.1	**0.1**	**-3.7**
Operating cash flow	150.2	80.9	109.5	**97.8**	**119.3**
CAPEX	-389.4	-236.3	-15.5	**-202.8**	**-47.6**
Free cash flow	-234.8	-81.8	41.3	**-65.0**	**31.5**

Valuation multiples	2021	2022	2023	2024e	2025e
EV/S	3.3	1.6	1.4	**2.0**	**1.6**
EV/EBITDA	11.8	5.6	4.8	**7.3**	**5.2**
EV/EBIT (adj.)	15.3	6.9	5.9	**8.5**	**6.4**
P/E (adj.)	17.9	8.4	6.6	**11.2**	**6.5**
P/B	2.1	0.8	0.5	**1.0**	**0.9**
Dividend-%	0.0 %	0.0 %	0.0 %	**0.0 %**	**0.0 %**

Source: Inderes

Per share data	2021	2022	2023	2024e	2025e
EPS (reported)	0.11	-0.13	0.29	**0.08**	**0.25**
EPS (adj.)	0.24	0.19	0.15	**0.20**	**0.34**
OCF / share	1.06	0.52	0.69	**0.57**	**0.64**
FCF / share	-1.66	-0.52	0.26	**-0.38**	**0.17**
Book value / share	2.17	2.07	2.21	**2.35**	**2.43**
Dividend / share	0.00	0.00	0.00	**0.00**	**0.00**

Growth and profitability	2021	2022	2023	2024e	2025e
Revenue growth-%	80%	29%	-1%	**22%**	**23%**
EBITDA growth-%	145%	30%	52%	**-17%**	**40%**
EBIT (adj.) growth-%	214%	40%	0%	**19%**	**34%**
EPS (adj.) growth-%	117%	-21%	-18%	**29%**	**72%**
EBITDA-%	25.8 %	26.1 %	39.9 %	**27.2 %**	**31.0 %**
EBIT (adj.)-%	21.8 %	23.6 %	23.9 %	**23.4 %**	**25.4 %**
EBIT-%	14.6 %	8.2 %	30.7 %	**18.2 %**	**21.8 %**
ROE-%	6.6 %	-6.4 %	13.8 %	**3.7 %**	**10.9 %**
ROI-%	7.7 %	3.7 %	13.1 %	**8.8 %**	**12.1 %**
Equity ratio	32.9 %	30.8 %	35.0 %	**35.5 %**	**39.5 %**
Gearing	63.7 %	84.3 %	83.1 %	**90.0 %**	**80.8 %**

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Buy The 12-month risk-adjusted expected shareholder return of the share is very attractive

Accumulate The 12-month risk-adjusted expected shareholder return of the share is attractive

Reduce The 12-month risk-adjusted expected shareholder return of the share is weak

Sell The 12-month risk-adjusted expected shareholder return of the share is very weak

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Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
2022-12-12	Buy	23 kr	16.90 kr
2023-01-03	Buy	26 kr	18.00 kr
2023-06-01	Buy	22 kr	12.70 kr
2023-09-01	Buy	21 kr	15.20 kr
2023-12-01	Buy	16 kr	10.10 kr
2024-03-01	Buy	17 kr	12.09 kr
2024-03-21	Buy	20 kr	16.98 kr
Change of Analyst			
2024-05-08	Accumulate	24 kr	20.85 kr
2024-06-24	Buy	28 kr	18.52 kr
2024-07-05	Accumulate	29 kr	25.25 kr

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