Verve Group: Another strong quarter and more to come

Verve Group **Research Update** 2024-09-02 07:25 **Updated** 2024-09-02 07:26

Redeye updates its view on Verve Group following its Q2 2024 report, which was in line with the strong preliminary figures. The company continues to gain market share, and we are confident it will further improve its market position after attending the CMD, where several interesting insights were shared regarding product investments and ongoing market trends.

Anton Hoof

Q2 2024 - Accelerated organic growth

Verve reported another strong quarter, and net sales increased 26% organically while coming in 13% above our estimates. In terms of profitability, the company demonstrated the scalability of the business, and Adj EBITDA came in at EUR29m (21), with a margin of 30% (28). This was 23% above our estimates of EUR23.6m. Adj EBIT (excl PPA) came in at EUR23.2m (16.6), yielding a margin of 24% (22). Overall, we consider the report to be strong, both in terms of growth and margins.

CMD – An organic growth story

We attended Verve's Capital Markets Day, which was held on the reporting day. Our main takeaway is that organic growth will be the primary focus going forward, while privacy-first solutions remain the biggest trend in the market, despite Google's pivot regarding cookie deprecation. It is also clear that Verve will benefit from a market tailwind in the foreseeable future, as advertising spend will follow consumers who are spending more and more time on the open internet compared to walled gardens such as Meta and Google.

Estimate changes and valuation

In conjunction with the preliminary Q2 figures, we raised our estimates, and since the report contained no surprises, we have made limited estimate revisions based on the full Q2 report. Management stated that July and August have started strongly, and we expect Verve to enter the strong H2 season with good momentum. We reiterate our fair valuation range of SEK18–SEK60, with a base case of SEK40, corresponding to 7x EV/Adj EBIT for 2025.

Key financials

EURm	2022	2023	2024e	2025e	2026e
Net Sales	324.4	322.0	408.8	502.3	548.0
Sales Growth	28.7%	-0.8%	27.0%	22.9%	9.1%
EBITDA	84.8	128.4	122.0	169.6	186.5
EBIT	26.6	99.0	84.8	123.0	137.9
EBIT Margin	8.2%	30.7%	20.7%	24.5%	25.2%
Net Income	-20.4	46.1	29.2	57.5	72.4
EV/Sales	1.6	1.3	2.0	1.7	1.4
EV/EBIT	20.1	4.3	9.6	6.9	5.7

REDEYE

REDEYE QUALITY RATING

People	Business	Financials
3	3	2

FAIR VALUE RANGE

Price 34.1

Bear 18.0 Bull 60.0

Base 40.0

TIMELINESS

10

KEY STATS

Market Cap	6.3 BSEK
Entprs. Value (EV)	10.1 BSEK
Net Debt (2024e)	331.0 MEUR
30 Day Avg Vol	332 K
Shares Outstanding	186.4M
Price / Earnings	19.1x
PEG	N/A
Dividend Yield	N/A

Data from 2024-09-02 07:27

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Q2 2024 review

Verve delivered another strong quarter and followed up a Q1 with an even stronger Q2, growing 26% organically (adjusted for fx), up from 21% in Q1 and 16% in Q4. Sales in the quarter were primarily driven by a 33% y/y increase in software clients and a 24% increase in ad impressions. This indicates that CPM levels were relatively stable y/y and could, therefore, remain a growth driver when demand picks up.

Net sales came in at EUR96.6m, 13% higher than our estimate of EUR85.7m. On a segment basis, DSP accounted for c7% of sales, and the SSP accounted for c93% of sales. Including intersegment revenues, DSP accounted for 15% of sales and grew 59% y/y.

Looking at profitability, Adj EBITDA came in at EUR29m (21), with a margin of 30% (28). This was 23% above our estimates of EUR23.6m. Adj EBIT (excl PPA) came in at EUR23.2m (16.6), yielding a margin of 24% (22).

Verve Group

(EUR m)	Q4 22	Q1 23	Q2 23	Q3 23	Q4 23	Q1 24	Q2'24a	Q2 24e	Diff %	Diff (Abs)
Net Sales	**92.9**	**68.8**	**76.2**	**78.3**	**98.7**	**82.5**	**96.6**	**85.7**	**13%**	**10.9**
Total Operating costs	-66.4	-51.3	-56.2	-14.6	-71.4	-62.3	-68.5	-62.9	**10%**	**-5.6**
Adj EBITDA	**31.5**	**19.0**	**21.3**	**23.1**	**31.7**	**22.0**	**29.1**	**23.6**	**23%**	**5.5**
EBITDA	26.5	17.4	20.0	63.7	27.3	20.2	28.1	22.9	**23%**	**5.2**
D&A	-34.9	-6.4	-7.2	-8.3	-7.6	-7.9	-8.5	-7.5	**13%**	**1.0**
D&A less PPA	-3.5	-3.9	-4.7	-4.7	-4.9	-5.4	-6.0	-5.0	**20%**	**1.0**
Adj EBIT	**28.1**	**15.1**	**16.6**	**18.4**	**26.8**	**16.6**	**23.2**	**18.6**	**24%**	**4.6**
EBIT	-8.4	11.0	12.8	55.4	19.7	12.3	19.6	15.4	**28%**	**4.2**
Net financials	-14.8	-10.5	-12.7	-12.8	-14.1	-14.1	-12.9	-14.0	**-8%**	**-1.1**
Net Profit	-29.1	0.4	1.5	39.2	4.9	0.6	6.3	1.0	**511%**	**5.3**
Adj Net Profit	**2.3**	**3.1**	**4.0**	**2.2**	**7.5**	**5.0**	**8.8**	**4.3**	**104%**	**4.5**
Adj EPS	**0.01**	**0.02**	**0.02**	**0.01**	**0.05**	**0.03**	**0.05**	**0.01**	**400%**	

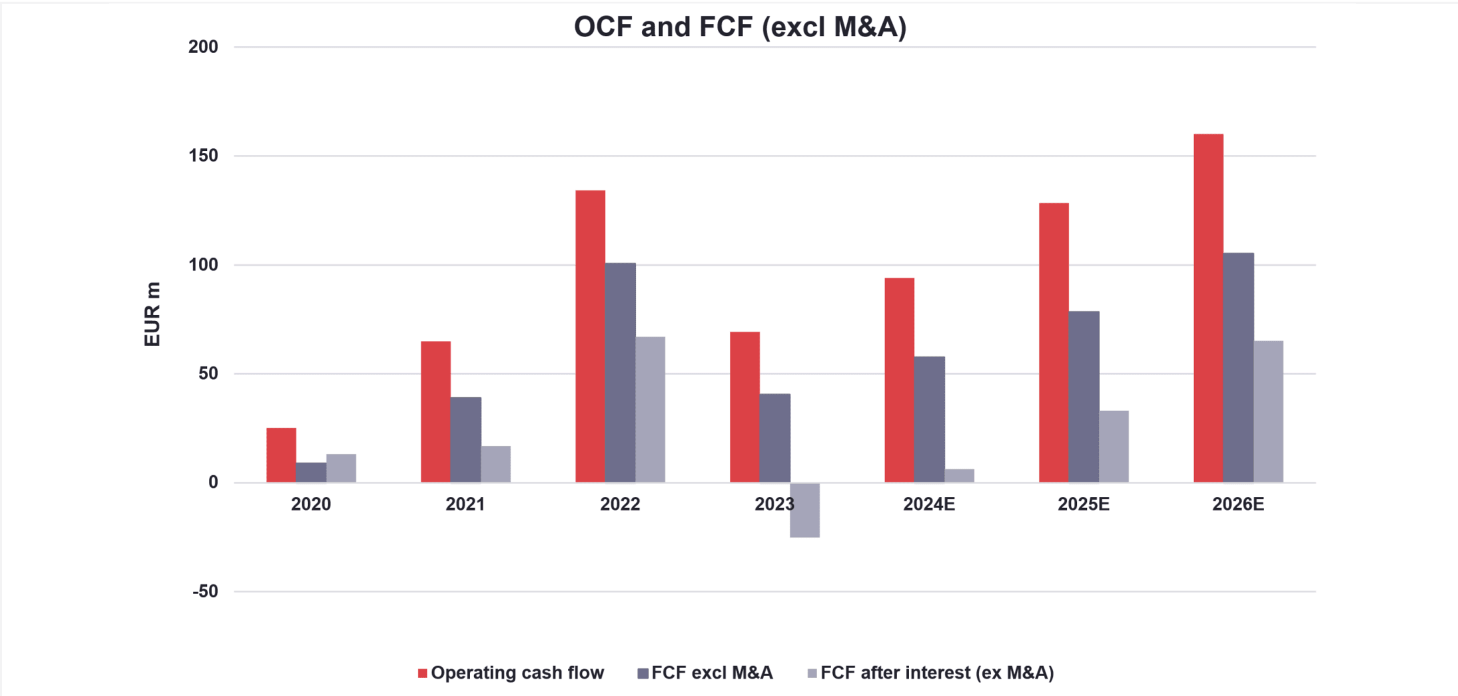
Source: Redeye Research (Forecasts)

As we stated in conjunction with the preliminary Q2 figures, we think that Verve Group is once again at the forefront with its product portfolio, successfully maintaining a high pace of customer intake while delivering scalable growth. With the Jun Group acquisition, improved bond terms, and the increased 2024 guidance, we believe the share will continue to perform well despite the approximately >190% YTD increase so far.

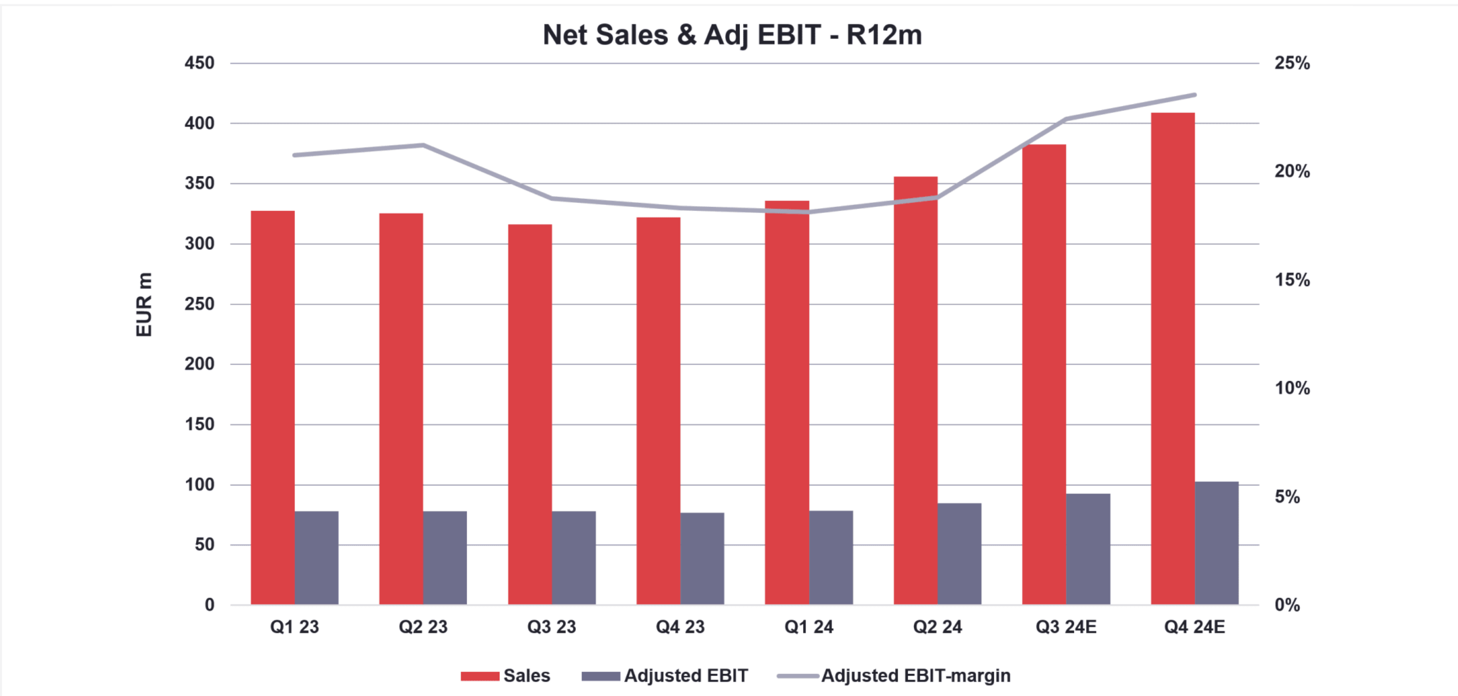
Looking at the net expansion rate (which indicates how much sales come from existing customers compared to one year ago), it amounted to 109%, aligning with 110% in Q1. The KPI bottomed out in Q2 2023 at 82%. A figure above 100% means that existing customers are spending more compared to one year ago. Given the pent-up demand and several large events in H2 2024 (including the US election), we anticipate that advertising budgets will continue to increase throughout the year. Coming to churn, Verve reported a retention rate of 98%, a new three-year high. This figure highlights the company's strong value proposition, as it has maintained a low churn rate among its customer base.

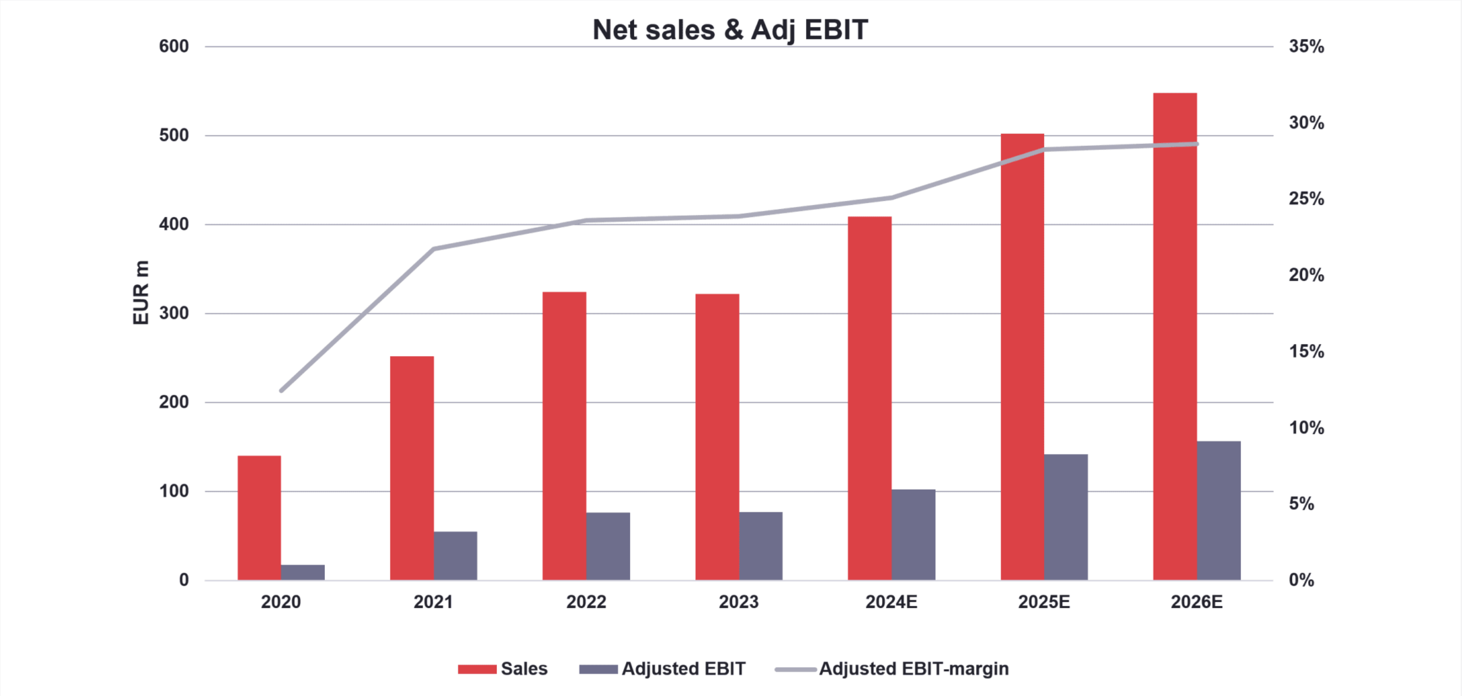
Cash flow & Net debt

Operating cash flow was relatively strong, coming in at EUR18.4m, while free cash flow continues to be harmed by interest expenses and amounted to EUR-4.9m. We expect improved cash conversion going forward due to the consolidation of Jun Group, lower interest expenses from better terms on the new bond and interest rate cuts from central banks, and a positive working capital effect, as Verve typically releases capital in H2. Improving free cash flow (including interest expenses) is vital in our view, as we believe the relatively high net debt has been the primary reason behind the valuation discount compared to peers.



MGI ended the quarter with net debt of EUR300m versus EUR319m in Q1, and the net debt / Adj EBITDA ratio landed at 2.8x by the end of the quarter, down from 3.2x. As stated above, the cash flow H1 is typically negatively impacted by working capital build-up. Hence, we expect to see stronger cash conversion in the second half of the year.




Net sales & Adj EBIT
EUR m
600
500
400
300
200
100
0
35%
30%
25%
20%
15%
10%
5%
0%
2020
2021
2022
2023
2024E
2025E
2026E
Sales
Adjusted EBIT
Adjusted EBIT-margin

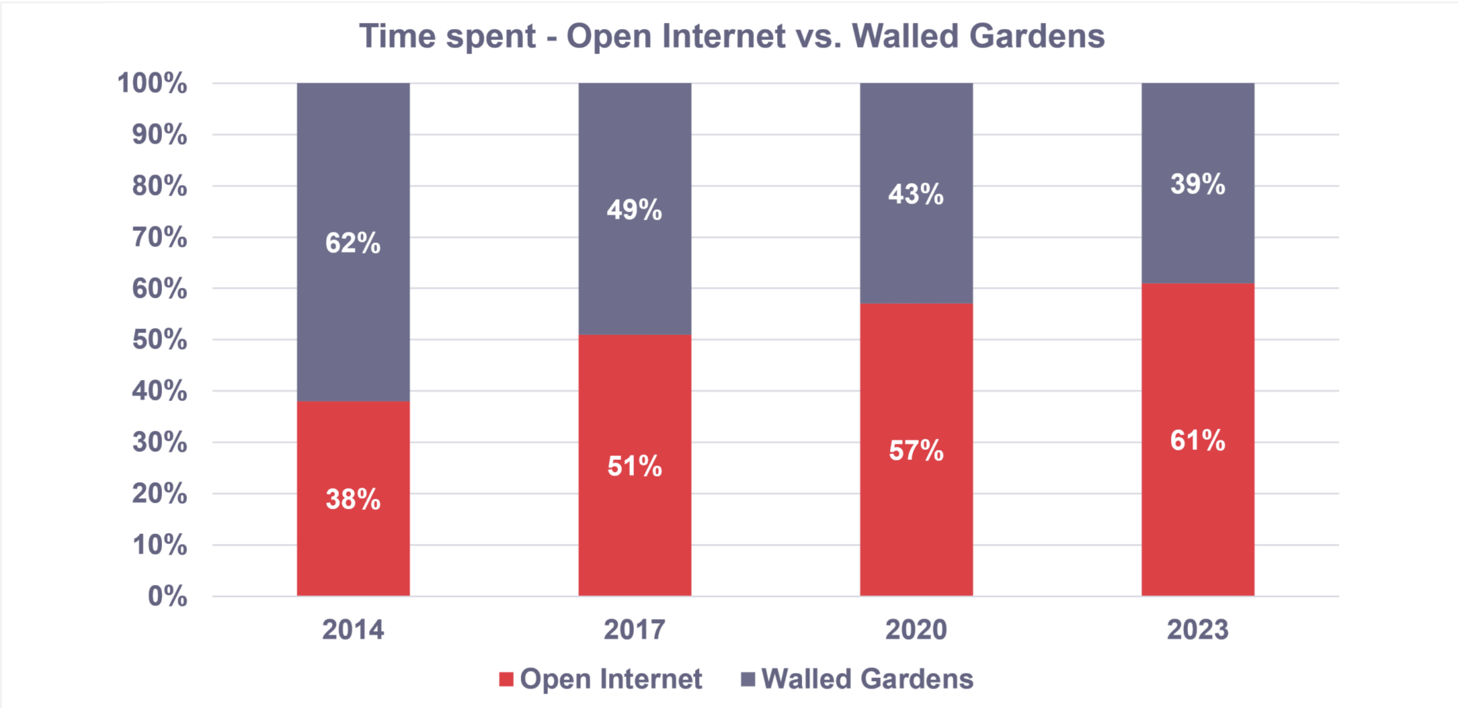
Capital Markets Day 2024

Verve hosted its capital markets day on the same day as its Q2 report, just as it did a year ago. However, aside from the timing, there were notable differences, particularly in investor sentiment leading up to the CMD, which makes sense given the circumstances. For example, while the company lowered its full-year guidance in Q2 of the prior year, it has revised it upward this time. Organic growth has also seen a dramatic increase, from 1% in Q2 of the prior year to 26% this year. Additionally, the company made an opportunistic acquisition in Q2, a move that seemed unlikely a year ago.

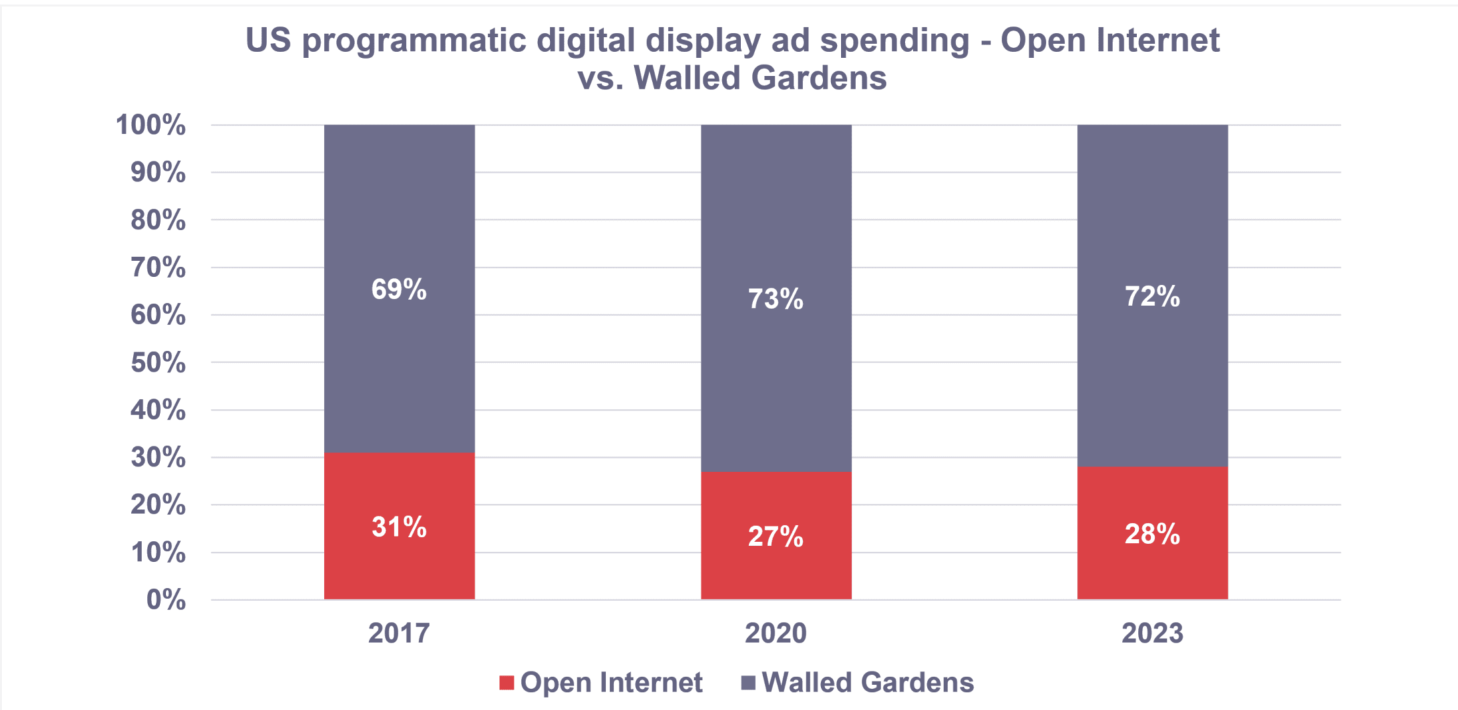
We can also see that many expectations from the 2023 CMD have materialized over the year, with significant growth in CTV, where players such as Netflix, Disney, and Warner Bros. Discovery have increased their ad inventories. Meanwhile, the cookie-less future remains a top concern, especially after Google's surprising pivot away from its cookie deprecation strategy, which caught some industry participants off guard.

Our main takeaways from this year’s CMD are the management team’s strong confidence in its growth potential and market position (which is supported by recent success in gaining market share). The company has maintained a strong position in in-app advertising, particularly on iOS, where it has gained market share. We think this validates Atom (Verve’s privacy-first targeting solution) as Verve has concentrated on iOS for Atom due to Apple’s phase-out of identifiers, a trend that Google is expected to follow on Android. Moreover, while continuing to excel in in-app advertising, Verve is evidently also targeting growth in other areas, such as Connected TV (CTV) and audio.

Another key highlight from the CMD is the growing trend of consumers spending more time outside of Walled Gardens (such as Google, Meta, and Apple), even though these Walled Gardens still capture the majority of ad spend. This dynamic is expected to shift, with ad spending gradually following consumer behavior. As Verve enhances its targeting solutions, it is well-positioned to benefit from this transition to the Open Internet. The shift toward the Open Internet is largely driven by the rise of streaming services and digital audio (such as podcasts), which are emerging ad channels where Verve aims to establish a strong presence.



Source: GlobalWebIndex



Source: eMarketer

Overall, we believe the company's equity story has shifted from being a roll-up in the adtech space to focusing on organic growth. This includes continuing to leverage synergies within the group, investing in new targeting solutions, and expanding into new channels and markets. However, the company acknowledges that scale remains important in the industry and emphasizes that it would like to improve the balance between the demand and supply side (a balance that has improved with the Jun Group acquisition). As such, further opportunistic acquisitions (like the Jun acquisition) in the future would not be surprising. However, such acquisitions should not be necessary to drive growth, given the strong organic outlook for the business.

Estimate changes

In conjunction with the preliminary Q2 figures, we raised our sales estimates for 2024e-2026e by 6%, and our adj. EBITDA estimates by 7% for 2024e and 9% for 2025e-2026e. Since the report contained no surprises, we have made limited estimate revisions based on the full Q2 report.

Estimate Revisions

	New estimates			Old estimates			Diff (%)		
EURm	**2024e**	**2025e**	**2026e**	**2024e**	**2025e**	**2026e**	**2024e**	**2025e**	**2026e**
Net Sales	**409**	**502**	**548**	**409**	**506**	**537**	**0%**	**-1%**	**2%**
Total Costs	-287	-333	-362	-285	-329	-355	1%	1%	2%
Adj EBITDA	**126**	**170**	**186**	**128**	**177**	**182**	**-1%**	**-4%**	**3%**
EBITDA	122	170	186	123	177	182	-1%	-4%	3%
D&A	-37	-47	-49	-37	-47	-48	0%	0%	1%
D&A less PPA	-24	-28	-30	-24	-28	-29	0%	-1%	2%
Adj EBIT	**103**	**142**	**157**	**104**	**149**	**153**	**-1%**	**-5%**	**3%**
Amortization (PPA)	-13	-19	-19	-13	-19	-19	0%	0%	0%
EBIT	85	123	138	86	130	134	-2%	-6%	3%
Net financials	-51	-45	-40	-52	-45	-40	-2%	0%	0%
EBT	34	78	98	35	85	94	-1%	-9%	4%
Net Profit	29	58	72	30	63	69	-4%	-9%	4%
Adj Net Profit	**46**	**77**	**91**	**47**	**82**	**88**	**-2%**	**-7%**	**3%**
Adj EPS	**0.2**	**0.4**	**0.5**	**0.3**	**0.4**	**0.5**	**-2%**	**-7%**	**3%**

Source: Verve Group (Historical data), Redeye Research (Forecasts)

Financial estimates

Financial estimates

EURm	**2022**	**2023**	**Q1'24**	**Q2'24**	**Q3'24e**	**Q4'24e**	**2024e**	**2025e**	**2026e**
Net Sales	**324**	**322**	**82**	**97**	**105**	**125**	**409**	**502**	**548**
Total Costs	-240	-194	-62	-68	-73	-83	-287	-333	-362
Adj EBITDA	**95**	**95**	**22**	**29**	**32**	**43**	**126**	**170**	**186**
EBITDA	85	128	20	28	32	42	122	170	186
D&A	-58	-29	-8	-8	-10	-11	-37	-47	-49
D&A less PPA	-17	-18	-5	-6	-6	-6	-24	-28	-30
Adj EBIT	**77**	**77**	**17**	**23**	**26**	**37**	**103**	**142**	**157**
o/w PPA	*-41*	*-11*	-3	-3	*-4*	*-5*	*-13*	*-19*	*-19*
EBIT	27	99	12	20	22	31	85	123	138
Net financials	-38	-50	-14	-13	-12	-12	-51	-45	-40
EBT	**-11**	**49**	**-2**	**7**	**10**	**20**	**34**	**78**	**98**
Net Profit	-20	46	1	6	7	15	29	58	72
Adj Net Profit	**21**	**57**	**5**	**9**	**12**	**20**	**46**	**77**	**91**
Adj EPS	**0.13**	**0.36**	**0.03**	**0.05**	**0.06**	**0.11**	**0.25**	**0.41**	**0.49**
Segments									
Net Sales DSP	32	32	4	7	15	27	53	111	125
Net Sales SSP	292	292	78	90	90	98	356	392	423
Margins									
Adj EBITDA margin %	29.3%	29.5%	26.7%	30.1%	30.9%	34.3%	30.9%	33.8%	34.0%
Adj EBIT margin %	23.6%	23.9%	20.2%	24.0%	25.0%	29.3%	25.1%	28.3%	28.6%
Net margin %	-6.3%	14.3%	0.7%	6.5%	7.0%	12.0%	7.2%	11.5%	13.2%
Adj Net margin %	6.5%	17.8%	6.0%	9.1%	11.4%	16.3%	11.3%	15.2%	16.7%

Source: Verve Group (Historical data), Redeye Research (Forecasts)

Valuation

Peer valuation

Given that MGI's major revenue stems from its advertising platform. We argue that globally listed ad-tech peers are the most relevant peers. MGI trades at discounts of c40-30% versus ad-tech-related peers on EV/EBITDA multiples for 2024-2025e. The most relevant peers, in our opinion, in terms of size and niche, are Pubmatic and Magnite, both trading at multiples of c-6-9x EV/EBITDA in 2025e.

Peer Table

EURm		EV/EBITDA			EV/EBIT			P/E		
Company name	**EV**	**2024**	**2025**	**2026**	**2024**	**2025**	**2026**	**2024**	**2025**	**2026**
Magnite	2,008	11.3	9.8	8.4	63.8	26.0	15.7	49.1	na	na
Apploving	31,647	14.4	12.3	10.8	23.1	19.0	15.3	23.8	19.2	19.2
Trade Desk	45,595	49.8	41.1	32.6	>100	80.4	55.6	99.7	66.3	66.3
Pubmatic	644	8.0	7.1	6.5	>100	72.3	53.4	49.4	37.7	37.7
Viant Technology	212	5.8	5.0	3.7	6.9	5.7	5.5	52.2	28.8	28.8
LiveRamp	1,246	10.2	8.6	6.5	10.7	8.9	6.8	>100	na	na
Criteo	2,304	7.0	6.6	6.2	8.8	8.1	7.5	10.3	9.5	9.5
Median		*10.2*	*8.6*	*6.5*	*10.7*	*19.0*	*15.3*	*49.3*	*28.8*	*28.8*
Average		*15.2*	*12.9*	*10.7*	*22.7*	*31.5*	*22.8*	*47.4*	*32.3*	*32.3*
Verve Group	866	6.9	5.1	4.6	8.4	6.1	5.5	19.4	9.9	7.8
Discount (-) / Premium (+) vs Median		*-33%*	*-40%*	*-29%*	*-21%*	*-68%*	*-64%*	*-61%*	*-66%*	*-73%*

Source: Factset, (Forecasts)

DCF valuation

We apply a WACC of 11.5% in all DCF scenarios, derived from Redeye's Rating model, and we use a tax rate of 20.6%. The discount analysis extends to 2038E. Below, we summarize the key financial assumptions for the scenarios. Our valuation range is between SEK18-60, and our base case stands at SEK40. Corresponding to an EV/Adj EBIT multiple of 7x in 2025e.

Valuation scenarios

	Bear case	**Base case**	**Bull case**
Valuation per share	**18**	**40**	**60**
Revenue CAGR 2024-2029	8%	10%	11%
Revenue CAGR 2030-2039	2%	3%	5%
EBIT-margin 2024-2039	20%	24%	25%
Terminal growth	2%	2%	2%
Terminal EBITDA %	25%	30%	35%

Source: Redeye research

Investment thesis

Case

A leading ad-software platform with synergies

Verve is a leading ad-software platform enabling monetization and user acquisition for app and content developers. Verve operates in two subsegments games and media, of which the combined market is expected to grow in excess of 10% in the coming years. Furthermore, the two subsegments enable large synergies as the games could make its UA more efficient while the media platform retains a higher share of the spending. Furthermore, the games could maximize their ad revenues which come at almost 100% gross margins. In contrast, the media segment could leverage access to first-party data. Thereby, enhancing advertisers' targeting, which makes the platform more competitive. Leading the gain of market share, scale effects, and substantial network effects.

Evidence

Proven scalability

Verve has transformed its business into a leading ad-software platform. In 2023, the number of ad impressions reached ~700 billion, up more than 6x compared to 2020. This is driven by innovative services that cover the customer's entire value chain. Leading to gained market share. Furthermore, the EBITDA margin increased from 10% in 2020 to 29% in 2023. Illustrating the scalable business model.

Challenge

IDFA implementations reduces market activity

Apple's recent IDFA identifier made it harder for advertisers and game publishers to attract consumers and players. Google is planning to implement a similar standard where similar challenges could occur. Thus, this could lead to a market slowdown where Verve's innovative solutions would not materialize in any returns.

Valuation

The media segment should drive the multiple expansion

We forecast a 24-29'e sales CAGR of 10% with an Adj EBITDA margin of ~33%. At our base case, Verve trades at 7x EV/adj EBITA 2025e.

Quality Rating

People: 3

The management team has a solid track record and it has successfully acquired more than 30 companies, whereof the majority has been value creative. Furthermore, the CEO and founder, Remco Westermann, has a substantial stake in the company and has been involved since its inception. Overall, the team is highly experienced in the ad tech industry, and our assessment of them is positive

Business: 3

Verve's operations are fueled by the synergies between its media and gaming divisions. The media segment has become a market leader, and the benefits of these synergies are evident. With recent acquisitions,
increased efficiencies, and a loyal user base, we anticipate sustained growth and margin expansion in the future. The media segment generates network effects as it continues to onboard more publishers and advertisers, and its cost base benefits from economies of scale. Looking ahead, the programmatic advertising and gaming markets are expected to be favorable.

Financials: 2

Although the company has not been consistently profitable in the past, it has recently achieved strong profitability on an EBITDA basis. However, the income statement continues to be impacted by significant interest expenses and amortizations related to prior acquisitions. Consequently, historical earnings growth, return on equity, and return on asset ratios appear subdued when measured based on net income. Nonetheless, Verve's free cash flow, which exceeds its net income, provides a more accurate reflection of its long-term profitability. The company's financial score is also weighed down by its relatively high net debt.

Financials

Income statement

EURm	2022	2023	2024e	2025e	2026e
Revenues	376.6	419.4	435.7	537.5	586.4
Cost of Revenue	130.4	61.8	166.5	200.9	219.2
Operating Expenses	109.3	131.8	120.3	131.8	142.4
EBITDA	84.8	128.4	122.0	169.6	186.5
Depreciation	3.0	18.2	23.8	27.6	29.6
Amortizations	55.1	11.2	13.5	19.0	19.0
EBIT	26.6	99.0	84.8	123.0	137.9
Shares in Associates	0.00	0.00	0.00	0.00	0.00
Interest Expenses	38.0	51.3	53.4	45.2	40.0
Net Financial Items	-37.9	-50.1	-50.5	-45.2	-40.0
EBT	-11.3	48.9	34.3	77.7	97.8
Income Tax Expenses	9.1	2.7	5.0	20.2	25.4
Net Income	-20.4	46.1	29.2	57.5	72.4

Rating definitions

Company Quality

Company Quality is based on a set of quality checks across three categories; PEOPLE, BUSINESS, FINANCE. These are the building blocks that enable a company to deliver sustained operational outperformance and attractive longterm earnings growth.

Each category is grouped into multiple sub-categories assessed by five checks. These are based on widely accepted and tested investment criteria and used by demonstrably successful investors and investment firms. Each sub-category may also include a complementary check that provides additional information to assist with investment decision-making.

If a check is successful, it is assigned a score of one point; the total successful checks are added to give a score for each sub-category. The overall score for a category is the average of all sub-category scores, based on a scale that ranges from 0 to 5 rounded up to the nearest whole number. The overall score for each category is then used to generate the size of the bar in the Company Quality graphic.

People

At the end of the day, people drive profits. Not numbers. Understanding the motivations of people behind a business is a significant part of understanding the long-term drive of the company. It all comes down to doing business with people you trust, or at least avoiding dealing with people of questionable character.
The People rating is based on quantitative scores in seven categories:

- Passion, Execution, Capital Allocation, Communication, Compensation, Ownership, and Board.

Business

If you don't understand the competitive environment and don't have a clear sense of how the business will engage customers, create value and consistently deliver that value at a profit, you won't succeed as an investor. Knowing the business model inside out will provide you some level of certainty and reduce the risk when you buy a stock.
The Business rating is based on quantitative scores grouped into five sub-categories:

- Business Scalability, Market Structure, Value Proposition, Economic Moat, and Operational Risks.

Financials

Investing is part art, part science. Financial ratios make up most of the science. Ratios are used to evaluate the financial soundness of a business. Also, these ratios are key factors that will impact a company's financial performance and valuation. However, you only need a few to determine whether a company is financially strong or weak.
The Financial rating is based on quantitative scores that are grouped into five separate categories:

- Earnings Power, Profit Margin, Growth Rate, Financial Health, and Earnings Quality.

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