Verve Group: Continues to gain market share

Verve Group **Research Update** 2024-11-29 07:25 **Updated** 2024-11-29 07:26

Redeye updates its view on Verve Group following its Q3 2024 report, which showed strong growth, as indicated by the preliminary organic growth figure of 31%. Although the margin was somewhat softer than expected, the new acquisition, Jun Group, seems to be off to a good start, with accelerated organic growth. With 80% of Verve's total revenues coming from the US, we expect continued solid underlying market ahead. Redeye has revised its estimates and valuation following the report.


Anton Hoof


Tomas Otterbeck

Q3 2024: Strong top line but somewhat softer margins than expected

Since Verve had already disclosed its organic growth figure of 31% for the quarter, expectations were relatively high going into the report, and with margins coming in on the softer side, we were not surprised by the share price reaction on the reporting day. However, adjusting for the high expectations, we believe the report was still strong, with both sales and adjusted EBITDA growing 45% y/y, while operational cash flow increased by 94%, supported by working capital changes, reducing the net debt ratio to 2.6x at the end of the quarter.

A rare (and hidden) asset

Verve is one of the few assets in the Nordics to gain access to the fast-growing adtech space. Since Verve underwent a name change (previously MGI) and pivoted from being a gaming company to primarily focusing on adtech, we believe Verve is still a relatively hidden asset among Nordic investors. Through Verve, investors gain exposure to the ongoing shift from offline to online marketing, while being invested in a market-leading player in its niche with high organic growth, margins, and cash conversion. Given Verve's diversified customer base, the company also faces relatively low operational risk, making it an attractive case in a market that is otherwise quite hard to get exposure to in the Nordics.

Estimate changes and valuation

On the back of the report, we are making relatively minor adjustments, increasing our sales estimates for 2024e-2026e by 4%, while raising our Adj EBITDA forecast by 5% for 2024e and 4% for 2025e-2026e. We expect Verve to exceed its 2024e revenue guidance of EUR400-420m but to be at the higher end of its Adj EBITDA guidance of EUR125-135m. We increase our Base Case from SEK40 to SEK45 and fair value range from SEK18–SEK60 to SEK20-65.

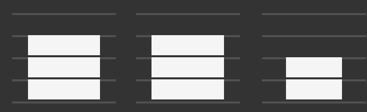
Key financials

EURm	2022	2023	2024e	2025e	2026e
Net Sales	324.4	322.0	423.3	520.5	568.2
Sales Growth	28.7%	-0.8%	31.5%	23.0%	9.2%
EBITDA	84.8	128.4	126.6	176.8	194.5
EBIT	26.6	99.0	87.8	129.2	144.9
EBIT Margin	8.2%	30.7%	20.7%	24.8%	25.5%
Net Income	-20.4	46.1	27.8	62.1	77.6
EV/Sales	1.6	1.3	2.5	2.1	1.8
EV/EBITDA	6.3	3.3	8.5	6.2	5.3
EV/EBIT	20.1	4.3	12.2	8.5	7.1

REDEYE

REDEYE QUALITY RATING

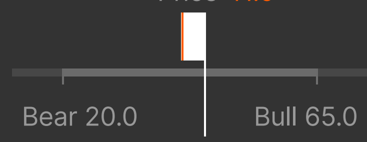
3 3 2



People Business Financials

FAIR VALUE RANGE

Price 41.0



Base 45.0

MOMENTUM

KEY STATS

Market Cap	7.6 BSEK
Entprs. Value (EV)	11.4 BSEK
Net Debt (2024e)	333.4 MEUR
30 Day Avg Vol	389 K
Shares Outstanding	186.4M
Price / Earnings	23.6x
PEG	N/A
Dividend Yield	N/A

Data from 2024-11-29 07:27

IMPORTANT INFORMATION

All information regarding limitation of liability and potential conflicts of interest can be found at the end of the report.

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Q3 2024 review

With the already disclosed organic growth figure of 31% for the quarter, all eyes were on Jun Group's contribution to the group and margin development. Regarding the former, we think the report delivered positive news, while the latter was on the softer side, explaining the share price reaction on the reporting day. Net sales came in at EUR113.7m, 8% higher than our estimate of EUR104.9m. The growth was driven by the acquisition of Jun Group (consolidated from 1 August), strong customer intake, privacy-first targeting solutions, and full-screen video ads. The number of software clients increased by 45% (up from 33% in Q3). The high demand for Verve's privacy-first targeting solutions is particularly evident in the 51% growth on iOS, where the deprecation of identifiers is more significant compared to Android. Organic growth amounted to 31%, while inorganic growth (mainly the acquisition of Jun Group) amounted to 14%.

Looking at profitability, Adj EBITDA amounted to EUR33.6m, 3% higher than our expectations of EUR32.5m, while Adj EBIT came in at EUR25.2m, 4% lower than our expectations of EUR26.3m. The deviation stems from higher D&A than expected, whereas EUR2.3m of total D&A was related to an impairment related to an unsuccessful launch of the games division.

Verve Group

(EUR m)	Q1 23	Q2 23	Q3 23	Q4 23	Q1 24	Q2 24	Q3'24a	Q3 24E	Diff %	Diff (Abs)
Net Sales	**68.8**	**76.2**	**78.3**	**98.7**	**82.5**	**96.6**	**113.7**	**104.9**	**8%**	**8.8**
Adj EBITDA	**19.0**	**21.3**	**23.1**	**31.7**	**22.0**	**29.1**	**33.6**	**32.5**	**3%**	**1.1**
EBITDA	17.4	20.0	63.7	27.3	20.2	28.1	36.2	31.7	**14%**	**4.5**
D&A	-6.4	-7.2	-8.3	-7.6	-7.9	-8.5	-11.7	-10.1	**16%**	**-1.6**
D&A less PPA	-3.9	-4.7	-4.7	-4.9	-5.4	-5.9	-8.4	-6.2	**36%**	**-2.2**
Adj EBIT	**15.1**	**16.6**	**18.4**	**26.8**	**16.6**	**23.2**	**25.2**	**26.3**	**-4%**	**-1.1**
EBIT	11.0	12.8	55.4	19.7	12.3	19.6	24.5	21.6	**13%**	**2.9**
Net financials	-10.5	-12.7	-12.8	-14.1	-14.1	-12.9	-14.6	-12.0	**22%**	**-2.6**
Net Profit	0.4	1.5	39.2	4.9	0.6	6.3	7.6	7.3	**4%**	**0.3**
Adj Net Profit	**3.1**	**4.0**	**2.2**	**7.5**	**5.0**	**8.8**	**10.9**	**12.0**	**-9%**	**-1.1**
Adj EPS	**0.02**	**0.02**	**0.01**	**0.05**	**0.03**	**0.05**	**0.04**	**0.06**	**-38%**	**0.0**

Source: Redeye Research (Forecasts)

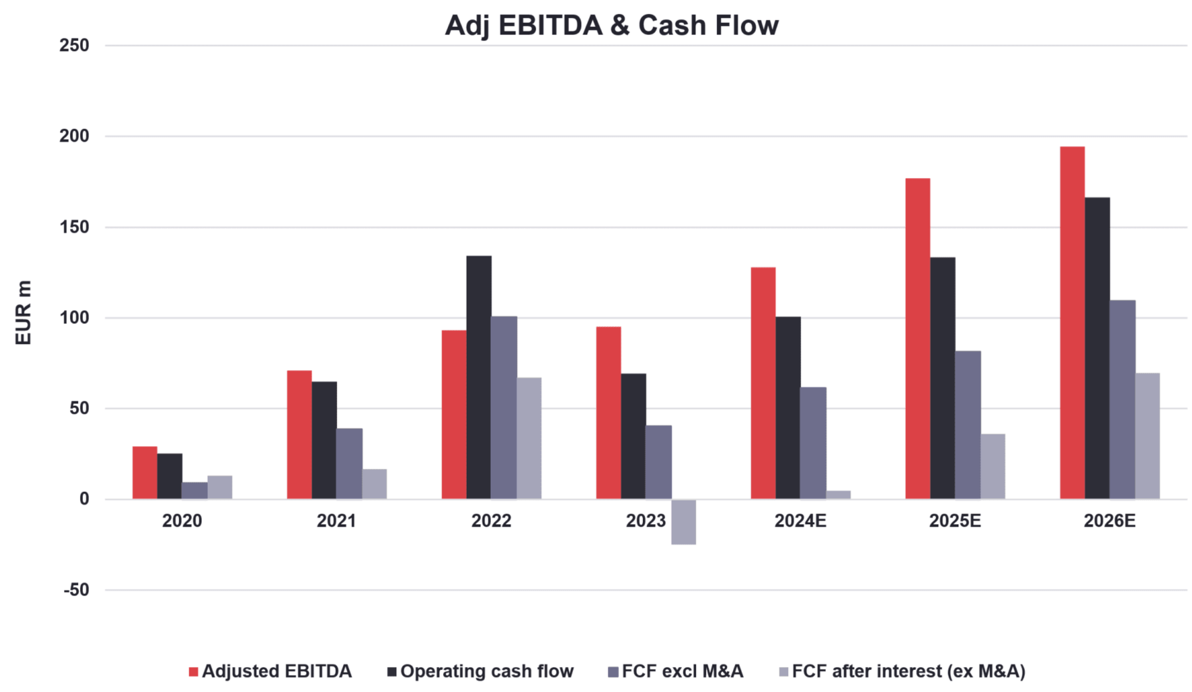
Overall, we think the report is solid, with Verve continuing to gain market share and outpacing the market. Growth is the most important metric for Verve in our view, as the company has a strong return on capital. Therefore, growth is the best way to increase intrinsic value. The organic growth has now increased from 21% in Q1 to 26% in Q2 and now 31% in Q3. As we have previously argued, this growth is of high quality, driven by Verve's ability to attract new customers and enhance its product offerings, factors that are likely to sustain growth over time as new customer ramp-ups typically take time, and long-term trends such as Privacy-First Targeting and Full-Screen video ads are expected to persist.

Jun Group appears to have had a strong start within the group, with organic growth expanding from 2% in Q2 2024 to 7% in Q3 and 13% in October. Margins also seem to be holding up well, with an EBITDA margin of 49%. Management stated in the conference call that there have not yet been any major revenue synergies since the acquisition, but these are expected to materialize in 2025. As such, the 13% y/y growth seems to reflect underlying improvement in Jun Group, which is encouraging.

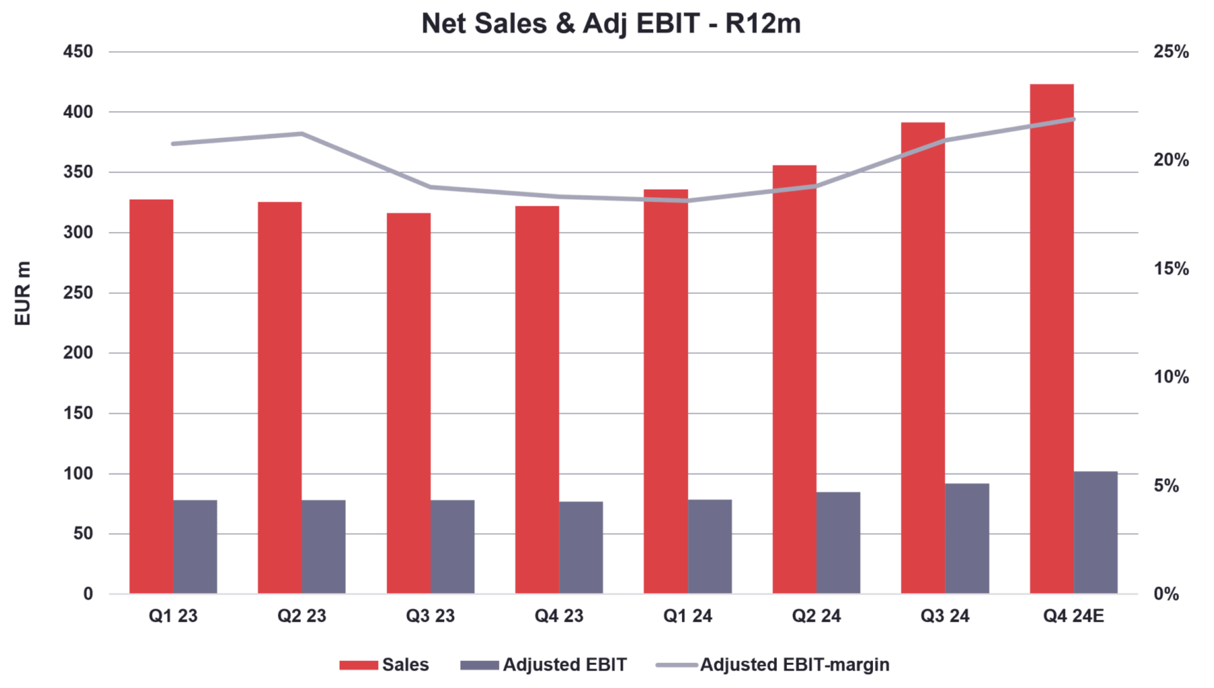
The share price reaction on the reporting day should be viewed in light of the high expectations coming into the report, following the solid organic growth figure that had already been disclosed by the company. Hence, adjusting for these high expectations, we believe the report was still strong and does not change our mid- or long-term view of the case.

Cash flow & Net debt

Operating cash flow was relatively strong, coming in at EUR54m, while free cash flow (excluding M&A but including interest expenses) amounted to EUR29.4m. H2 is typically a strong cash flow period for Verve due to working capital releases, which was evident in Q3, where working capital changes had a positive impact of EUR34.9m. We continue to 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. This should reduce net debt even further (although we do not see the debt level as a problem at these levels).



Verve ended the quarter with net debt of EUR378m, and the net debt / Adj EBITDA ratio stood at 2.6x at the end of the quarter, down from 2.8x in the previous quarter. The company expects the net debt ratio to decrease to 2.4x by the end of Q4 and reach 2x in 2025. Overall, after being the main topic throughout 2023, we believe debt concerns have reduced materially in 2024, and with interest rates expected to come down, we think this issue can now be considered resolved. Moreover, Redeye also believes that Verve should operate with debt to boost returns, as the business is relatively stable and generates strong cash flows.


Net Sales & Adj EBIT - R12m
EUR m
450
400
350
300
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200
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Q1 23
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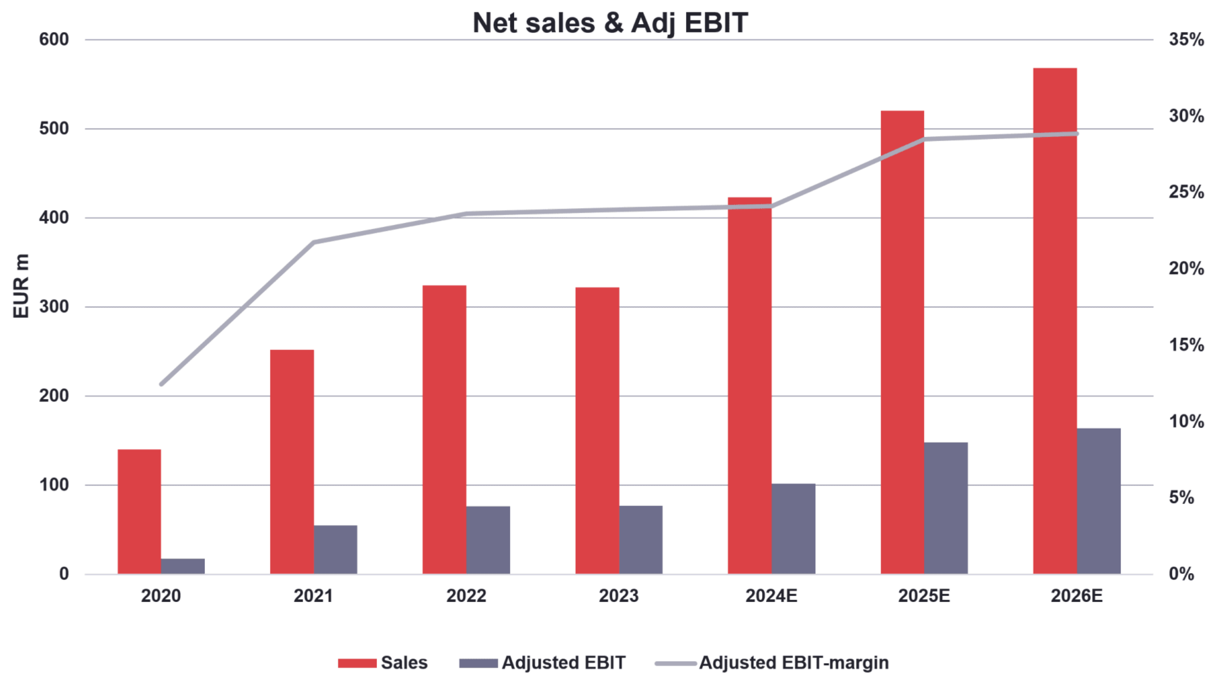
Q3 24
Q4 24E
Sales
Adjusted EBIT
Adjusted EBIT-margin


Net sales & Adj EBIT
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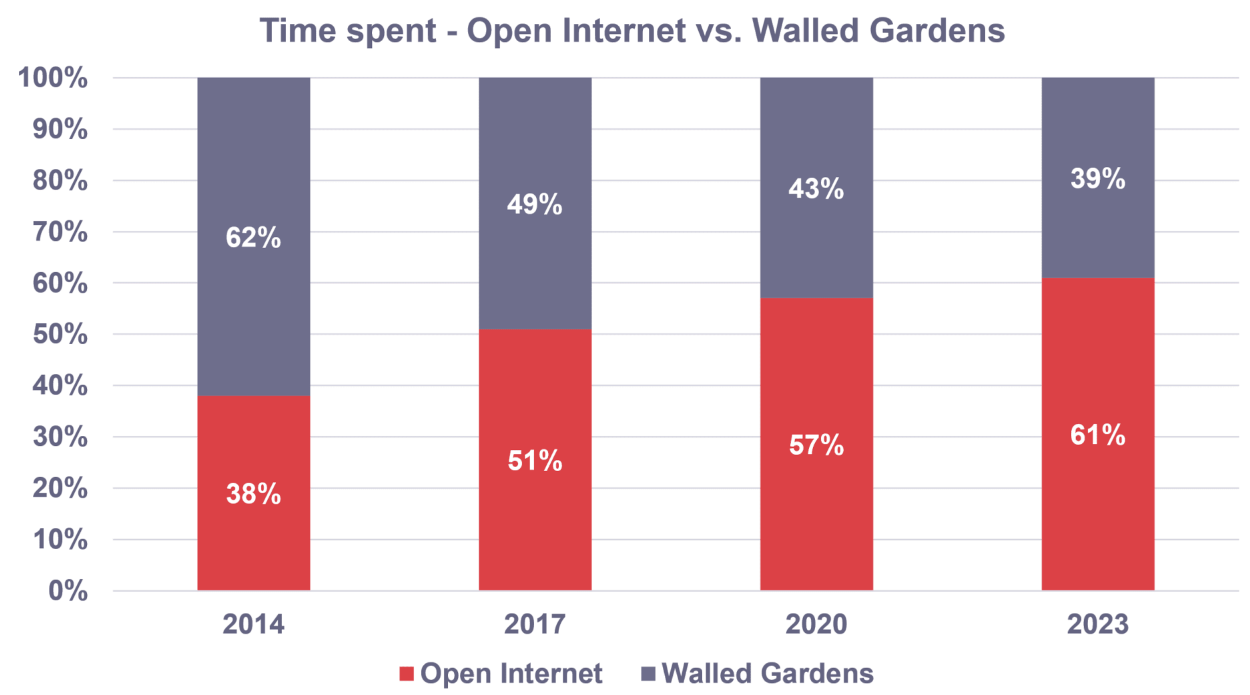
2025E
2026E
Sales
Adjusted EBIT
Adjusted EBIT-margin

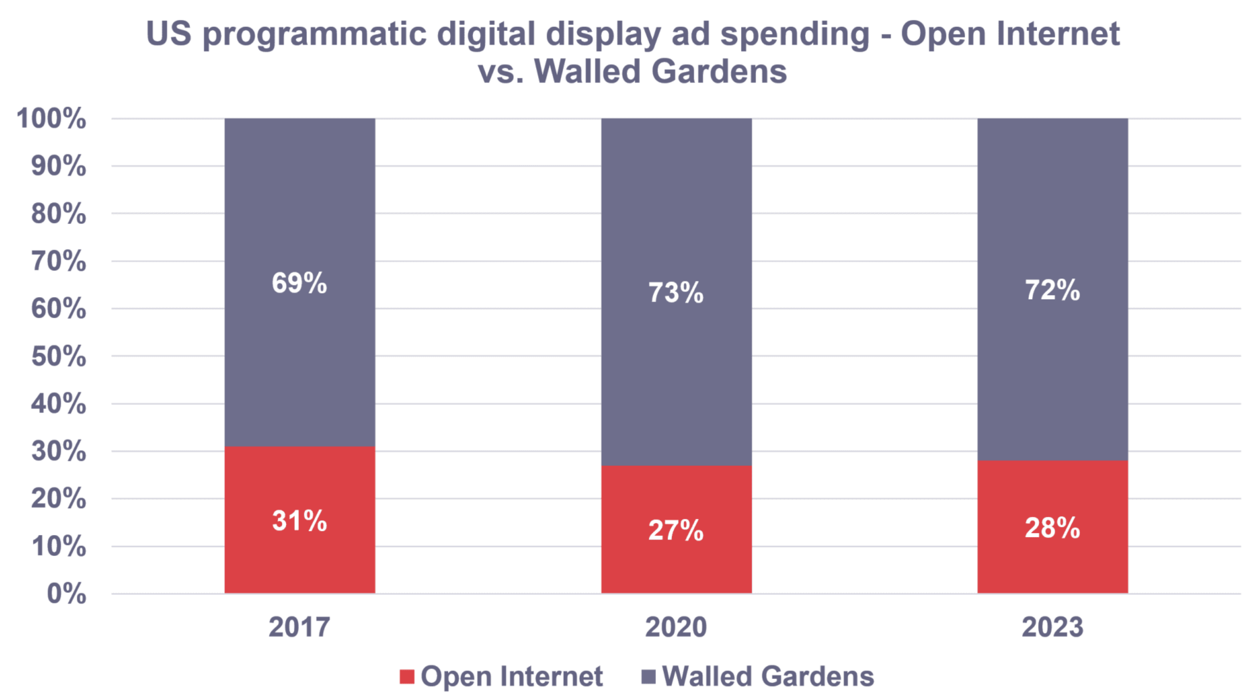
Open Internet vs Walled Gardens

As Verve highlighted in its recent CMD, there is a 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.

We addressed this subject in our previous research update, but we believe it’s important to highlight this phenomenon again, as many investors may not be aware of these changes. Moreover, it's worth noting that Verve has demonstrated strong organic growth, despite programmatic ad spending still being primarily allocated to Walled Gardens. Therefore, when this trend reverses (which it should at some point) it could serve as an additional growth driver for Verve.



Source: GlobalWebIndex



Source: eMarketer

Estimate changes

On the back of the report, we are making relatively minor adjustments, increasing our sales estimates for 2024e-2026e by 4%, while raising our Adj EBITDA forecast by 5% for 2024e and 4% for 2025e-2026e. We expect Verve to exceed its 2024e revenue guidance of EUR400-420m but to be at the higher end of its Adj EBITDA guidance of EUR125-135m, where we remain conservative with our margin estimates for Q4. We expect organic growth to slow in Q4 due to tougher comparables, but we still anticipate solid top-line growth, thanks to the contribution from Jun Group, which will also have a positive impact in H1 2025, as the company was consolidated on 1 August 2024.

Estimate Revisions

	New estimates			Old estimates			Diff (%)		
EURm	**2024e**	**2025e**	**2026e**	**2024e**	**2025e**	**2026e**	**2024e**	**2025e**	**2026e**
Net Sales	**423**	**520**	**568**	**409**	**502**	**548**	**4%**	**4%**	**4%**
Total Costs	-297	-344	-374	-287	-333	-362	3%	3%	3%
Adj EBITDA	**128**	**177**	**195**	**126**	**170**	**186**	**1%**	**4%**	**4%**
EBITDA	127	177	195	122	170	186	4%	4%	4%
D&A	-39	-48	-50	-37	-47	-49	4%	2%	2%
D&A less PPA	-26	-29	-31	-24	-28	-30	9%	4%	4%
Adj EBIT	**102**	**148**	**164**	**103**	**142**	**157**	**-1%**	**4%**	**4%**
Amortization (PPA)	-13	-19	-19	-13	-19	-19	-5%	0%	0%
EBIT	88	129	145	85	123	138	4%	5%	5%
Net financials	-56	-45	-40	-51	-45	-40	10%	0%	0%
EBT	32	84	105	34	78	98	-6%	8%	7%
Net Profit	28	62	78	29	58	72	-5%	8%	7%
Adj Net Profit	**43**	**81**	**97**	**46**	**77**	**91**	**-6%**	**6%**	**6%**
Adj EPS	**0.2**	**0.4**	**0.5**	**0.2**	**0.4**	**0.5**	**-5%**	**7%**	**7%**

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

Financial estimates

Financial estimates

EURm	**2022**	**2023**	**Q1'24**	**Q2'24**	**Q3'24**	**Q4'24e**	**2024e**	**2025e**	**2026e**
Net Sales	**324**	**322**	**82**	**97**	**114**	**130**	**423**	**520**	**568**
Total Costs	-240	-194	-62	-68	-78	-88	-297	-344	-374
Adj EBITDA	**95**	**95**	**22**	**29**	**34**	**43**	**128**	**177**	**195**
EBITDA	85	128	20	28	36	42	127	177	195
D&A	-58	-29	-8	-8	-12	-11	-39	-48	-50
D&A less PPA	-17	-18	-5	-6	-8	-6	-26	-29	-31
Adj EBIT	**77**	**77**	**17**	**23**	**25**	**37**	**102**	**148**	**164**
o/w PPA	*-41*	*-11*	-3	-3	-3	-5	*-13*	*-19*	*-19*
EBIT	27	99	12	20	24	31	88	129	145
Net financials	-38	-50	-14	-13	-15	-14	-56	-45	-40
EBT	**-11**	**49**	**-2**	**7**	**10**	**17**	**32**	**84**	**105**
Net Profit	-20	46	1	6	8	13	28	62	78
Adj Net Profit	**21**	**57**	**5**	**9**	**11**	**19**	**43**	**81**	**97**
Adj EPS	**0.13**	**0.36**	**0.03**	**0.05**	**0.06**	**0.10**	**0.24**	**0.44**	**0.52**
Segments									
Net Sales DSP	32	32	4	7	22	27	61	122	138
Net Sales SSP	292	292	78	90	91	103	362	399	430
Margins									
Adj EBITDA margin %	29.3%	29.5%	26.7%	30.1%	29.5%	33.0%	30.2%	34.0%	34.2%
Adj EBIT margin %	23.6%	23.9%	20.2%	24.0%	22.2%	28.3%	24.1%	28.5%	28.8%
Net margin %	-6.3%	14.3%	0.7%	6.5%	6.7%	10.2%	6.6%	11.9%	13.7%
Adj Net margin %	6.5%	17.8%	6.0%	9.1%	9.6%	14.4%	10.3%	15.6%	17.0%

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

Valuation

Peer valuation

Given that Verve's major revenue stems from its advertising platform. We argue that globally listed ad-tech peers are the most relevant peers.

Verve trades at discounts of c50% 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, trading at multiples of c-7-13x EV/EBITDA in 2025e. Both grew by around 13% in Q4, with Adj EBITDA margins of 26% and 34%, respectively. This can be compared to Verve's organic growth of 31% and an Adj EBITDA margin of around 30%. Hence, we believe the discount is unjustified.

Peer Table

EURm		EV/EBITDA			EV/EBIT			P/E		
Company name	**EV**	**2024**	**2025**	**2026**	**2024**	**2025**	**2026**	**2024**	**2025**	**2026**
Magnite	2,567	16.2	13.4	11.8	neg	52.0	37.7	neg	>100	75.7
Apploving	111,828	80.1	44.6	34.3	>100	64.4	46.1	>100	83.3	57.7
Trade Desk	60,346	84.2	61.7	50.8	>100	>100	98.2	>100	>100	>100
Pubmatic	643	9.3	7.5	6.9	>100	>100	>100	78.5	61.9	71.0
Viant Technology	387	14.4	9.3	7.7	17.6	10.7	8.6	neg	>100	98.0
LiveRamp	1,674	16.4	12.5	10.1	17.3	12.7	10.4	>100	>100	47.2
Criteo	2,171	7.7	6.4	6.1	10.8	8.0	7.3	12.2	9.2	9.0
Median		*16.2*	*12.5*	*10.1*	*17.3*	*12.7*	*24.1*	*45.4*	*61.9*	*64.4*
Average		*32.6*	*22.2*	*18.3*	*15.2*	*29.6*	*34.7*	*45.4*	*51.5*	*59.8*
Verve Group	1,043	8.2	5.9	5.4	10.2	7.0	6.4	23.9	10.7	8.6
Discount (-) / Premium (+) vs Median		*-50%*	*-53%*	*-47%*	*-41%*	*-44%*	*-74%*	*-47%*	*-83%*	*-87%*

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 new valuation range is between SEK20-65 (18-60), and our base case stands at SEK45 (40). Corresponding to an EV/Adj EBIT multiple of 7x in 2025e.

Valuation scenarios

	Bear case	**Base case**	**Bull case**
Valuation per share	**20**	**45**	**65**
Revenue CAGR 2024-2029	8%	10%	12%
Revenue CAGR 2030-2039	2%	3%	5%
EBIT-margin 2024-2039	20%	24%	26%
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	465.7	556.9	608.0
Cost of Revenue	130.4	61.8	162.3	210.8	230.1
Operating Expenses	109.3	131.8	134.4	132.9	143.5
EBITDA	84.8	128.4	126.6	176.8	194.5
Depreciation	3.0	18.2	25.9	28.6	30.7
Amortizations	55.1	11.2	12.8	19.0	19.0
EBIT	26.6	99.0	87.8	129.2	144.9
Shares in Associates	0.0	0.0	0.0	0.0	0.0
Interest Expenses	38.0	51.3	61.5	45.2	40.0
Net Financial Items	-37.9	-50.1	-55.7	-45.2	-40.0
EBT	-11.3	48.9	32.2	84.0	104.8
Income Tax Expenses	9.1	2.7	4.4	21.8	27.3
Net Income	-20.4	46.1	27.8	62.1	77.6

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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Disclaimer

Important information

Redeye AB ("Redeye" or "the Company") is a specialist financial advisory boutique that focuses on small and mid-cap growth companies in the Nordic region. We focus on the technology and life science sectors. We provide services within Corporate Broking, Corporate Finance, equity research and investor relations. Our strengths are our award-winning research department, experienced advisers, a unique investor network, and the powerful distribution channel redeye.se. Redeye was founded in 1999 and since 2007 has been subject to the supervision of the Swedish Financial Supervisory Authority.
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CONFLICT OF INTERESTS

Anton Hoof owns shares in the company : No.
Tomas Otterbeck owns shares in Verve Group.
Redeye performs/has performed services for Verve Group and receives/has received compensation from these Companies in connection with this.