

Advertly

Sector: Technology

Momentum accelerates

Redeye provides an update on Advertly ahead of its Q1'22 report. We upgrade our forecast slightly and includes the new share counts.

Sales taking off

Net sales accelerated the previous quarter, and we expect the sequential improvement to continue into Q1'22. Additionally, the daily ad request reached 130 million in Q4'21. Advertly expects the daily ad request to reach 1 billion by the year-end, suggesting that the market is finally ready for take-off.

Growing customer base

Advertly's business momentum has proceeded into 2022 with its latest customers signings of SLG, Livewire and Adsmovil. Expanding the geographic reach while also accelerating the market adoption. Furthermore, we believe there is potential to expand the revenue streams on additional platforms to sign additional customers while also expanding its footprint on existing ones.

Valuation

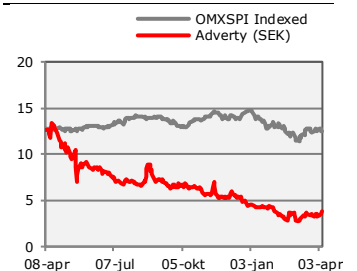
We believe the momentum is accelerating and expect sales to grow rapidly in the upcoming periods. However, the recent share issuance causes a dilution of the outstanding shares. We update our valuation range due to previous events. Our new base case stands at SEK 9 (12), which we derive from a DCF model.

Key Financials (SEKm)	2021	2022E	2023E	2024E
Revenues	5	26	52	85
Revenue growth	593%	447%	98%	65%
EBITDA	-22	-21	-6	7
EBIT	-22	-21	-7	5
EBIT Margin (%)	-463%	-82%	-14%	6%
Net Income	-22	-21	-6	4
EV/Revenue	19.8	3.8	2.1	1.3
EV/EBITDA	neg	neg	neg	15.2
EV/EBIT	neg	neg	neg	21.3

FAIR VALUE RANGE

BEAR	BASE	BULL
3.0	9.0	17.0

ADVT VERSUS OMXS30



REDEYE RATING



KEY STATS

Ticker	ADVT
Market	First North
Share Price (SEK)	3.8
Market Cap (SEKm)	119
Net Debt 2022E (SEKm)	-5
Free Float (%)	72%
Avg. daily volume ('000)	50

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Q4'21 Review

Advertly delivered a solid report. Sales came in at SEKm 2.9, 95% higher than our estimates, while EBIT was also better than our forecast. Currently, Advertly delivers approximately 130 million ad requests per day and expects this to reach over one billion requests per day at year-end, illustrating that the market for in-play ads is finally accelerating. Currently, USA is Advertly's largest market.

Deviation table

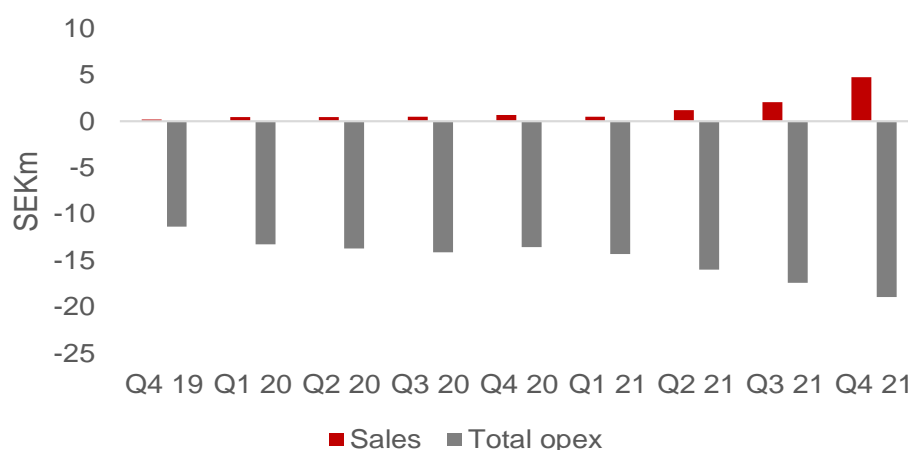
Advertly SEK m	Q4'20	Q4'21	Q4'21e	Diff (%)
Net Sales	0.2	2.9	1.5	95%
OPEX	-3.6	-5.1	-5.7	-11%
EBITDA	-4.5	-5.2	-5.7	n.a
D&A	0.0	-0.1	-0.1	n.a
EBIT	-4.5	-5.2	-5.7	n.a

Source: Redeye research

Net sales grew 202% sequentially. One explanation for the acceleration is a higher ratio of direct campaigns from advertisers and other partners. Direct campaigns are more suitable for the in-play format compared to those sold on the open programmatic market.

Furthermore, the CPM (Cost-Per-Mille) is generally higher than programmatic ads. Hence, it increases the revenue for Advertly while also enhancing the visibility and ROI for the advertisers. Advertly is planning to increase the number of direct campaigns further going forwards, something we deem positive as it comes with a higher price while also decreasing the project risk. One of Advertly's most difficult cost posts to predict is its "COGS" consisting of game publishers' fees. Commonly, this is a fixed base. Depending on the sale cycle, different projects tend to be volatile.

Advertly: Net sales & Opex LTM



Source: Redeye Research

Operating costs were a tad lower than we expected. The primary reasons for this were lower personnel costs. Advertly hired two new employees during the quarter and had 25 employees at the year-end. Despite increasing the number of co-workers increased by 39% compared to 2020, the personnel costs remained almost the same.

Right issue

In December, Advertly announced that it intended to complete the right issue at a subscription price of SEK 4.25 SEK/share. Advertly will receive SEKm 31.1 after transaction costs, and the number of shares will increase to 31.81 million, which equals a dilution of 28.8%. The net proceeds will be used for repayments of loans (10%), Working capital needs (50%), game developers (15%), hiring key employees (15%), and further IT developments within its SDK offerings. On a proforma basis, we estimate that the cash position amounts to SEKm 37.2.

Change of CEO

Moreover, on the 14th of March, Advertly announced its changing CEO. The board of directors believes that the company needs a CEO of more international experience with a proven track record of delivering commercial success.

As of the 1st of April, Jonas Söderqvist is the new CEO of Advertly. Mr. Söderqvist has been a board member of Advertly since 2020 and has more than 20 years of experience in the media sector. Recently, he was regional director of the Nordics at PubMatic, where he successfully managed to four-fold the revenues. We believe Mr. Söderqvist's network and vast experience to be a good fit for Advertly. Additionally, he is already well-informed about the company mitigates risks.

Growing customer base

Advertly's customer base is spread across advertisers and media agencies. Furthermore, Advertly work closely with suppliers that act as partners.

The customer base can access Advertly's in-game advertising solution through direct campaigns or via the programmatic platform. In the programmatic platform, advertisers use DSPs (Demand-side-platform) while Advertly uses SSPs (supply-side-platform) to interact.

Commonly, DSPs are advertisers aiming to enhance their advertising targeting by publishing their brands on more accurate platforms to increase their ROI. In contrast, publishers use SSPs to increase their advertising revenues. Advertising revenues are commonly very margin accretive as it comes without direct costs (platform fees).

Furthermore, the advertisements are smoothly incorporated into the game using the in-play solution and do not harm the user experience. Hence, it is a win-win-win situation. Advertisers enhance their ROI on marketing initiatives, game suppliers receive an additional revenue stream, while consumers get a more seamless user experience.

Advertly has recently expanded its customer base across all segments. Previously signed agreements with Wolves Interactive, Blayze Games, and Super League Gaming (SLG) expand the number of game publishers and games with Advertly's in-game solution in new markets and game genres.

Wolves interactive is a leading Turkish developer of mobile racing games. Its global hit Motorbike-traffic racer reached 10m downloads since launch in 2018 and took place in a real-world setting. We believe racing games are well suited for in-play advertising and consider the integration to be seamless. Furthermore, Wolves interactive do also creates puzzle, arcade, and VR/AR games which indicates that there are possibilities to increase the in-play ad solution on existing game platforms.

Blayze games is a US-based FPS (First-person-shooter) mobile game developer with a game portfolio of three games. Two of its top games, "Bullet Force" and "Forward Assault" will include Advertly's in-play ads. In total, these two games have reached more than 30 million downloads.

We are also pleased to see that existing customers increase the number of games with Advertly's in-game solution. The implementation usually takes no longer than one month, depending on the game. We believe there is ample room for Advertly to grow on existing customers to support profitability as the integration and lead-time are shorter. Furthermore, according to Advertly, only 10% of the largest game publishers use in-play ads, supporting the long-tail growth opportunities.

The recent agreement with Super League Game (SLG) gains access to Roblox platforms, offering Advertly's in-game advertising in more than 150 games on the platform. Roblox has ~200 million monthly players on its platform, illustrating the potential. The established partnership will be active in the Nordics, USA, and selected countries in Latin America.

Super League builds and operates a network of games, monetization tools, and content channels across gaming platforms. The solutions provide incomparable access to an audience consisting of players in the largest online environments, fans of hundreds of thousands of gaming influencers, and viewers of gameplay content across major social media and digital video platforms.

SLG acquired the Roblox-focused ad-tech firm Bloxbiz in 2021 for USD 17.5m. The purpose is to enhance monetization through ads for the Roblox creators. At the end of 2021, Bloxbiz ad technologies reached 25 million monthly players on the Roblox platform. We believe this could increase by applying Advertly's in-game solution. The agreement follows a partnership model, where SLG will take a share of the net revenue.

Furthermore, Advertly has also secured the right to work with Super League in USA and Latin America. Super League reached over 75 million monthly players across its metaverse platforms at the end of December. The company has access to some of the world's strongest gaming IPs. Further agreements across its game portfolio could expand revenues at low incremental costs.

Third-party media agreements

Recent partnerships with Adsmovil, and Livewire further show that Advertly increases its worldwide reach. The established partners will operate as resellers, which speeds up the market adoption and acceleration and limits the risk. The gross margin will be lower for those agreements. However, to our understanding, the resellers will pay a minimum fee each month, which protects the downside in case of slow momentum in the market.

Adsmovil is a leading AdTech company located across Latin America, North America, and Europe, while Livewire is a leading gaming marketing company in the Asia Pacific. Expanding the reach while entering new markets.

Top Tier DSP and SSP base

Advertly already has a top-tier customer base on its sale-side platform. Such as Azerion, Smart Adserver, Verizon Media, Smaato, and Inmobi. In total, 130 million ads request is deployed daily.

New potential customers

In an update, Advertly stated that several large game publishers and Ad-tech players are in discussions to include Advertly's in-play solution. For instance, it mentioned that two Letter Of Intents had been agreed upon with two large Ad-tech firms, which are likely to contribute in 2023 if successful.

There are also possibilities that major game publishers are implementing Advertly's in-game solution during the year. According to management, testing phases are ongoing and could be live at the end of this year. We believe one of those major game publishers to be Playrix or Voodoo. Voodoo recently reached 5 billion downloads in total. Suggesting potential ahead.

Advertly's offering

Advertly integrates and places seamless in-game advertising solutions. The process is made smoothly and does not harm the user experience. The in-game ads are either placed as in-game or in in-menu format.

In-play ads are placed seamlessly into virtual worlds, and they do not require any interactions from the player or any call-to-action. In-play ads help brands reach their target audience in a context where it makes sense for the brand, building brand recognition. It could be seen as billboards or posters placed in virtual worlds, which also track views. Content is crucial for in-play ads. Otherwise, the user experience could be negatively affected.

The in-menu ad format is an entirely new brand advertising format invented by Advertly. It enables contextually relevant standardized IAB display banner ads to be displayed in between the gameplay, integrated at the game design level. In-menu ad units are placed seamlessly into the game menus, making them non-intrusive as the ads are blended in with the user interface. The user experience is not negatively affected compared to traditional in-app ads, which disrupt the user experience.

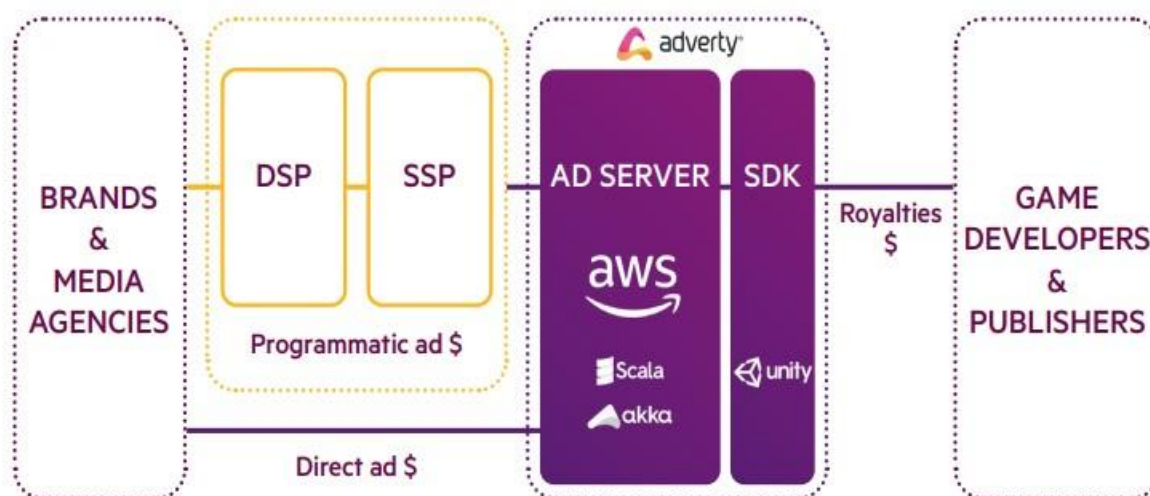
Advertly helps its customer to reach a massive under-monetized market. Advertisers enhance their reach while improving their ROI. Suppliers are increasing their ad revenues, and consumers are getting a smoother user experience. Furthermore, generation z spends more time on their phones. However, a trend used by generation z is to use ad-blockers, making it

harder for advertisers to reach customers. The benefit of Advertys model is that an ad-blocker cannot avoid its ad inventory.

Advertys's in-play ads can be bought through a programmatic platform or via direct campaigns. Advertys's ad inventories are standardized and follow IAB standards, which is essential since advertising agencies buy ad spaces programmatically from DSP platforms. Programmatic advertising needs to be standardized so that the ads can be sold and implemented in the publisher's game instantaneously.

Furthermore, Advertys has also integrated its Unity software development kit (SDK) in Unity's asset store, enabling publishers and developers easy access to activate seamless in-game ads directly through their development environment.

Advertys: Business model



Source: Company data, Redeye research

Revenue model

Advertys has two major revenue streams, either through direct campaigns or through its programmatic platform. The programmatic platform also consists of private market-places. The direct campaigns exclude revenue sharing on the programmatic platform. However, on the programmatic platform, Advertys receives a take-rate. The SSP takes approximately 15-20% of the ad revenues. Advertys and the game publishers split the remaining revenue. Commonly, Advertys takes a 30-50% rev-share, depending on the customer size. Advertys charges its advertisers based on the CPM model, which charges the customer per thousand impressions.

Direct campaigns

Direct campaigns are regular B2B campaigns, concluded by a mutual agreement by advertisers and publishers. This is done outside the programmatic platforms. Thus, the targeting is more efficient, and the CPM (price) is generally higher. Supporting cash flows at healthy margins for less risk.

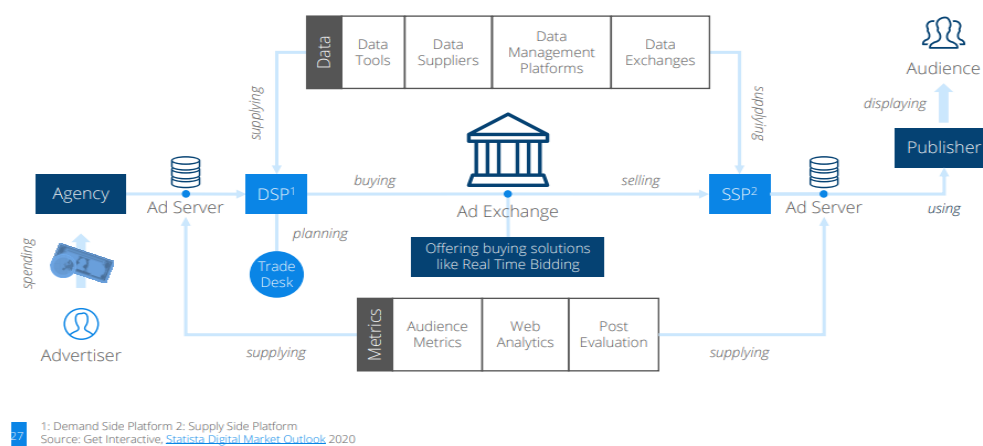
Programmatic campaigns

Programmatic advertising is the process of automated buying and selling of ad inventory in real-time using a software platform rather than buying ads directly from a publisher. The platform enables programmatic buying and selling by using sophisticated machines and algorithms to purchase and sell ad inventories in real-time. The transaction is completed within 100 milliseconds. Programmatic advertising reduces the need for human involvement as it enables brands and agencies to buy ad impressions via a complex ecosystem.

The process starts with a consumer visiting a website or an app. The publisher's ad server announces via the supply-side platform (SSP) that ad space is available for purchase, called ad request. The ad request is sent to the ad exchange and sends information regarding the user to the demand-side platform (DSP).

The programmatic advertising process

How programmatic advertising works



Source: Statista & Redeye Research

The DSP communicates to advertisers via an ad server that there is available ad space directed at the type of consumers they are trying to reach and the current bid price. Advertisers then place bids on the most attractive ads through a DSP, and the highest bidder wins the ad inventory.

Advertisers use the DSPs to help reach their targeted audience, while publishers use the SSPs to sell ad space on ad exchanges. The publisher provides detail about the user (search history, cookies). Advertisers can then decide if they want to bid on the specific impression and for what price. Hence, programmatic advertising is much more scalable and enables advertisers to reach their respective audiences at lower costs.

Technology

Patent BrainImpression

Advertly has developed its own proprietary technology for determining ad viewability and ad impressions. The technology known as BrainImpression could define when an ad is considered as seen by the user within a complex computer-generated graphical environment such as two and three-dimensional games. The decision method is based on the ad size, time in view, and position on display for the user. The patent covers the full range of screens used for gaming, such as mobile, VR/AR headsets, smart glasses, tablets, computer screens, and televisions. Viewability is one of the most important KPI's in marketing. Having a leading position in this space creates a first-mover advantage.

The ad viewability helps both the Internet Advertising Bureau (IAB) and leading third-party ad verifications, such as Oracle Moat, define these potential industry-wide standards, making it harder for competitors to compete around the ad-viewability technology.

The data can be extracted, and the publishers and advertisers can get real-time on how many impressions the ad has received and how long consumers view ads. This is possible due to Advertly's Unity SDK.

SDK integration

The Advertly SDK for Unity is a plug-in app for developers that enables drag-and-drop of ad surfaces into virtual environments, enabling game developers quick and easy onboarding processes. It is critical that the SDK integration is painless and consist of a small file size. Applications over specific sizes require a wifi connection to download them. Something publishers want to avoid.

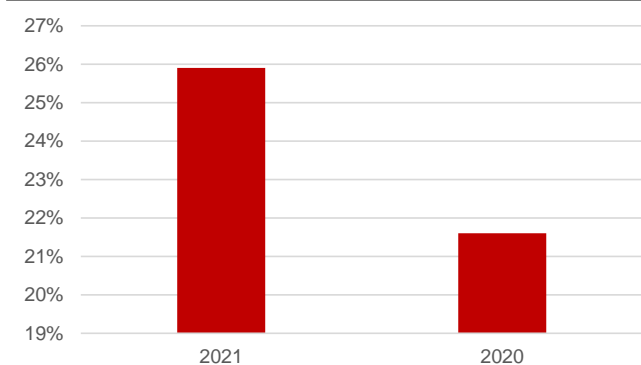
Advertly's SDK is supported by Unity, both for 3D and 2D games. It is also possible for game developers to use Advertly's pre-modeled ad furniture in its new 4.0 development. Hence, its SDK system creates versatility for game developers, enabling rapid integration. One of the key aspects of having its SDK included in Unity's asset store is that developers could directly access Advertly's advertisement technology when developing the game. One of its competitive advantage going forward.

Market Outlook

According to Technavio, the in-game advertising market is expected to reach USD 3.54 billion in 2025, compared to USD ~1.7 billion in 2020. Equivalent to an annual CAGR of 16%. Supported by strong underlying growth for the mobile market. This will encourage advertisers to invest further in-game advertising, reaching larger audiences with diversified demography and geography. Additionally, increased partnerships between game publishing enterprises and advertisers will support the underlying market growth. APAC will see the most robust growth on a geographic basis, driven by a high mobile adoption rate.

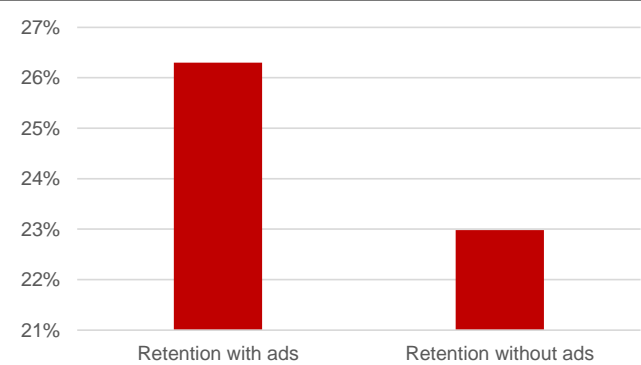
Data from Unity suggest that gamers are accepting more in-game ads. It could also be seen that the ads viewership increased in 2021 compared to 2020, but are still at a 26% penetration rate. More importantly, according to Unity, Advertising improves the retention rate, one key aspect of reaching profitability.

Number of players watching Ads - In Unity games



Source: Unity

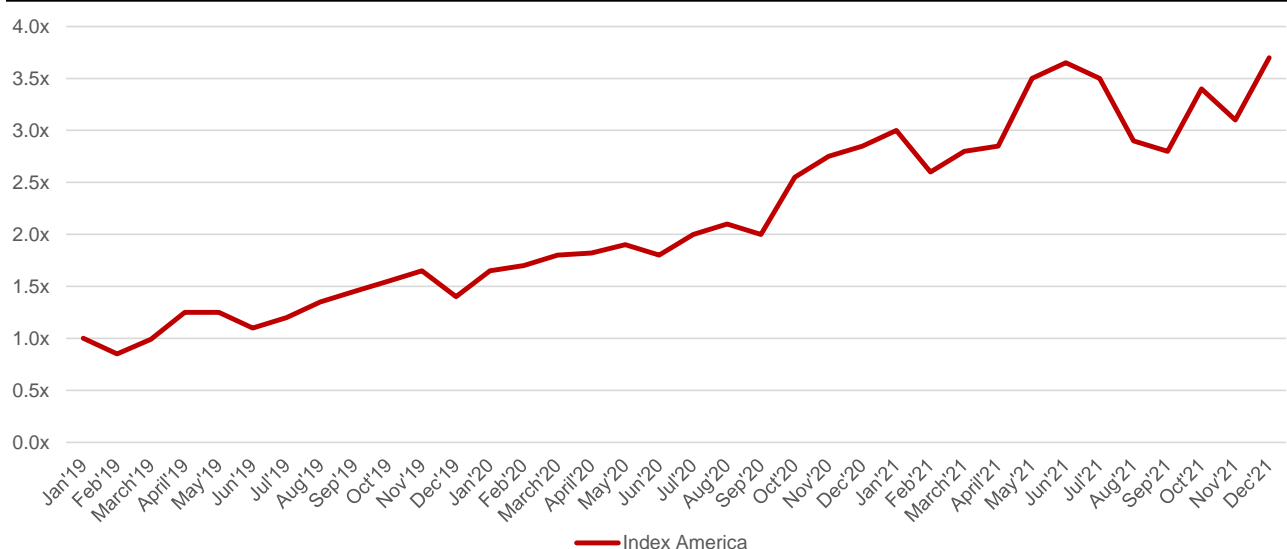
Retention rate - In Unity games



Source: Unity

The graph below illustrates the number of ad revenues in Unity games indexed from 2019 and onwards. Suggesting that the ad revenues are continuously increasing. Supporting the market growth for in-game advertising solutions going forward.

Ad revenue in America - in Unity games



Source: Unity, redevye research

Furthermore, data from SensorTower showed that ad spending for game marketing grew by 41% y/y in q1 2022.

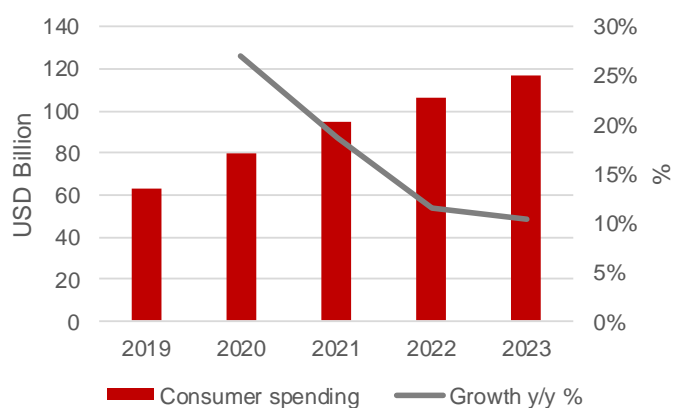
The gaming market is the world's largest entertainment market. However, it only attracts 5 percent of the advertising dollars that social media does, even though the audience size of gaming makes up ~86 percent of the audience size of social media. We believe advertisers have vast opportunities to shift their focus into the gaming space going forward.

Mobile market

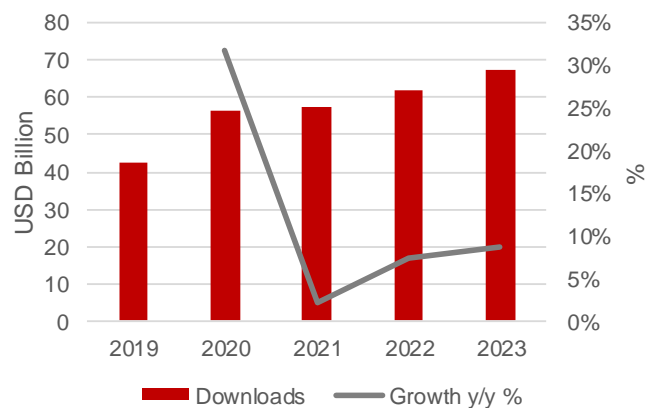
According to Sensor Tower, the mobile market is expected to grow by a CAGR of 13.5% until 2023 and reach USD 117 billion. The strongest growth market will be Europe (Germany, Italy, Netherlands) and Southeast Asia (Malaysia, Thailand, Philippines).

Furthermore, according to Statista, the advertisement investments via mobile devices is expected to reach USD 131 billion in 2025, up from USD 33 billion in 2020.

Mobile Consumer spending globally



Mobile downloads globally



Source: Sensor Tower

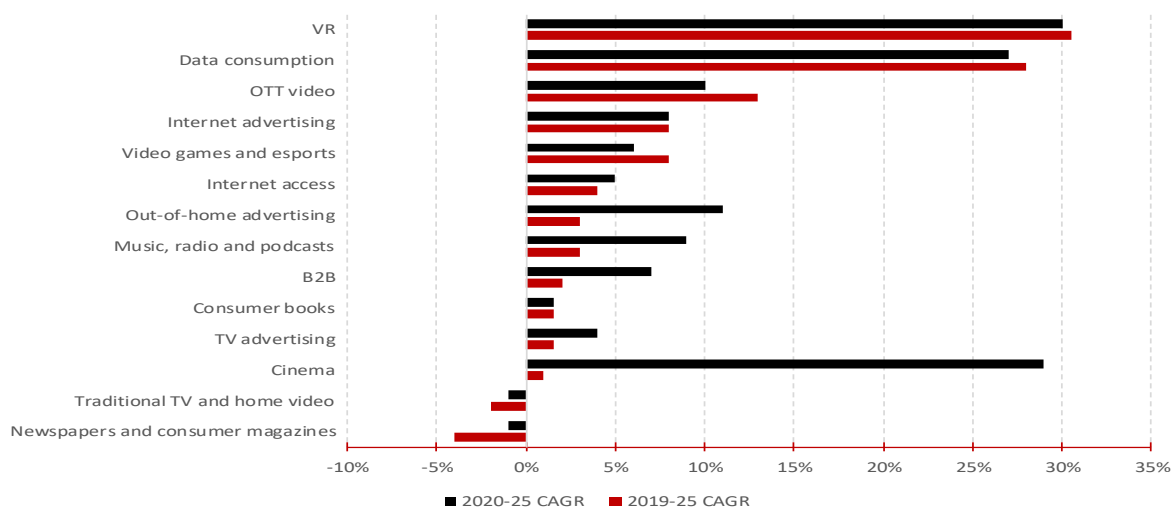
Source: Sensor Tower

VR market extends the reach

We believe in-game advertising to be specifically attractive and relevant in the growing VR/AR market. According to Grand View Research, the VR/AR market is expected to be worth USD 69.6 billion in 2028, equivalent to a CAGR of 18%. PWC also shares this view and expects the global VR market to amount to USD 6.9bn by 2025, a CAGR of 30%. The uptake in the market is primarily explained by smaller, lighter VR headsets that are standalone (no requirement for a PC) at a consumer-friendly price point, as well as an increase in the content of high quality. Therefore, standalone headsets are easier to use, cheaper, and more giftable than previous generations of VR.

Furthermore, the 5G development comes with high reliability and bandwidth, but more importantly, low latency can pose an exciting application for VR hardware as games could be streamed to a screen without any need for expensive and bulky hardware. Driving down the cost and weight of VR headsets while simultaneously increasing performance as the games can be run on a high-performance PC or in a data center. However, the software will need to follow as lack of content will hinder hardware sales growth. Both markets will have to grow in parallel, creating a positive spiral

Global compound annual growth rate by segment

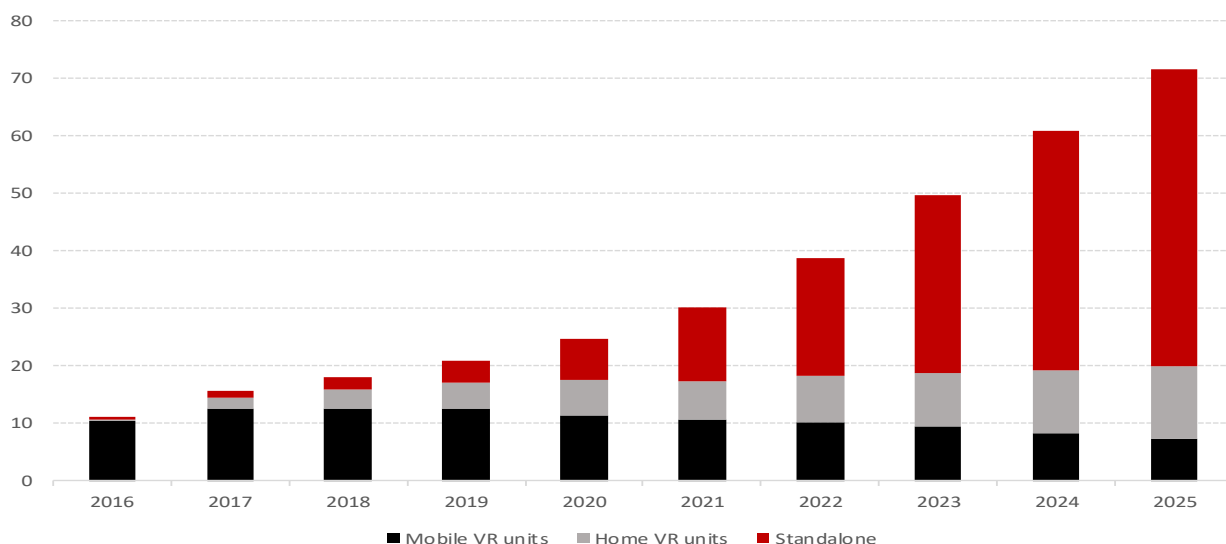


Source: PwC Global Entertainment & Media Outlook 2021-2025

An additional critical development going forwards is the haptics (use of touch sensation). Haptics enables users to touch things in virtual environments and get instant feedback, enhancing the user experience. Haptics could be applied in various areas and widens the user base. Apart from entertainment, VR and AR could impose major business benefits due to improved training and innovation, reduced risk, and faster go-to-market implementation.

The biggest growth is expected to come from the standalone headset market, PwC expects that it will triple by 2025. The installed base of VR headsets is expected to reach 70 million in 2025, of which ~50 million headsets are expected to be standalone and ~12 to be home VR.

Total VR unit installed base by category, 2016-2025 (millions)

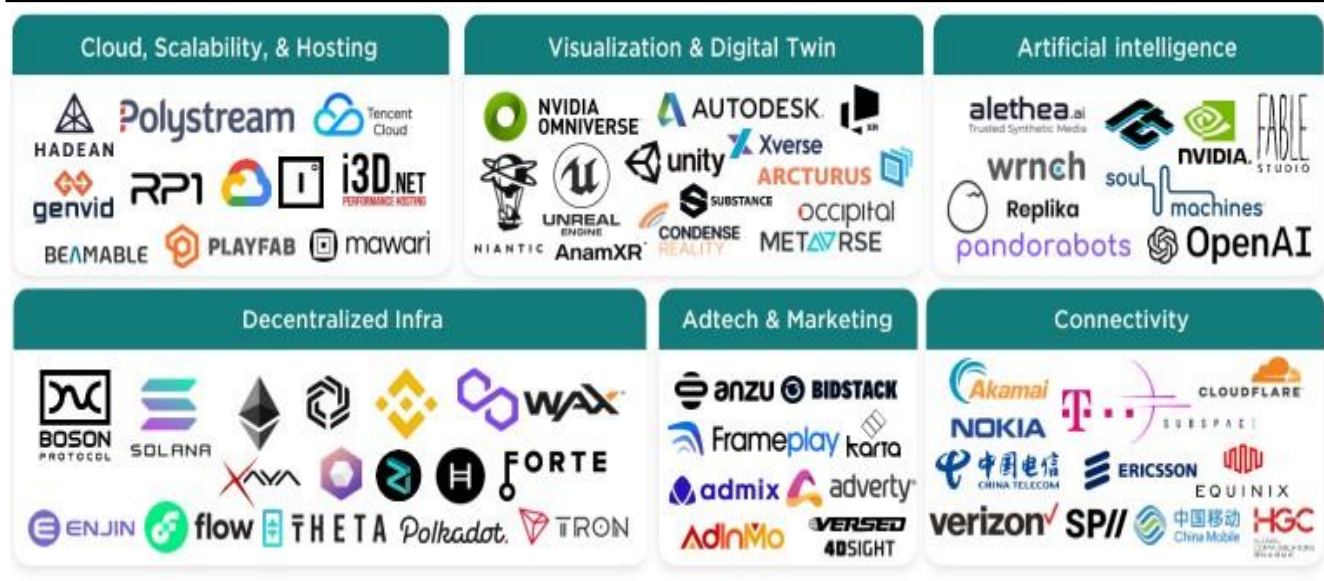


Source: PwC Global Entertainment & Media Outlook 2021-2025

Many companies would like to capitalize on the growing VR/MR/AR market, which is expected to be the next big computational platform. Therefore, the space is expected to grow at an explosive rate as all the major tech giants are entering the space within a few years. Meta is currently the clear market leader within VR headsets. However, other major players such as Sony, Apple, Microsoft, Google, Samsung, Huawei, Valve, HTC, and Snap are all trying to enter the universe.

Furthermore, there are many important aspects to consider in the growing Metaverse market, especially the infrastructure behind. The metaverse is highly dependent on cloud scalability, visualization, A.I., connectivity, and Ad-tech / marketing to ensure user experience and monetization.

Adverty: Metaverse infrastructure players



Source: Newzoo, Redeye research

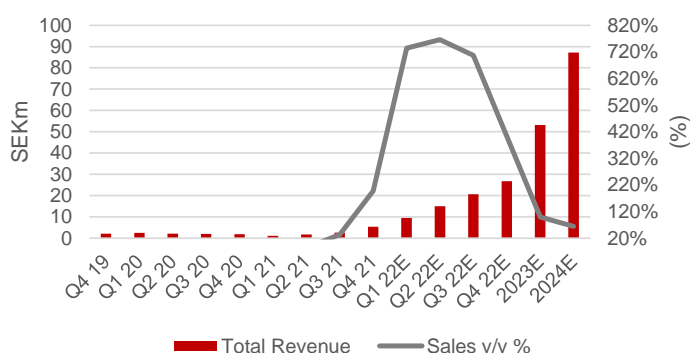
Financial forecast

Sales in Q4'21 finally accelerated and reached SEK 3m (0.2). We believe the momentum should persist sequentially in the upcoming quarters. In Q1'22, we forecast net sales of SEK 4.2m and Adj EBITDA of SEK -2.8m, excluding one-off items related to the right issue.

In 2022, we forecast sales to reach SEK 26m and expect a 21-24'e sales CAGR of 154%. Supported by newly signed game publishers, third-party agreements, and a higher share of direct campaigns. Extending the reach and accelerating market adoption. Furthermore, we believe Advertly could expand its offering with new revenue streams that provides optionality on the upside.

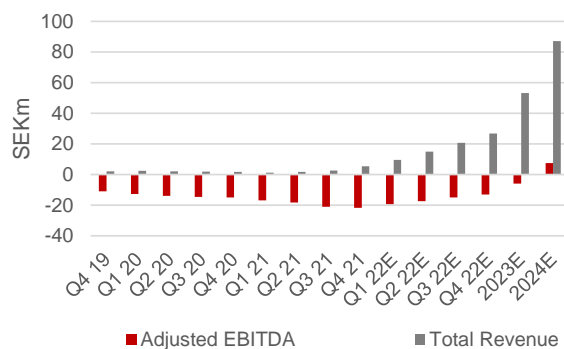
The in-game advertising market is still in the very early days, and we expect Advertly to grow over a long-time. Furthermore, the growing metaverse universe will also support the growth runway. We believe Advertly's in-game solution is well suited for the metaverse universe, and its highly developed technology proves that it is a player to count on. The uncertainty ahead is still very high regarding sales and profitability. However, based on the massive investments in the market, the clear benefits of applying the in-game solutions, and Advertly's strong customer base, make us optimistic for the coming years.

Advertly: Net sales & Growth y/y % LTM



Source: Redeye Research

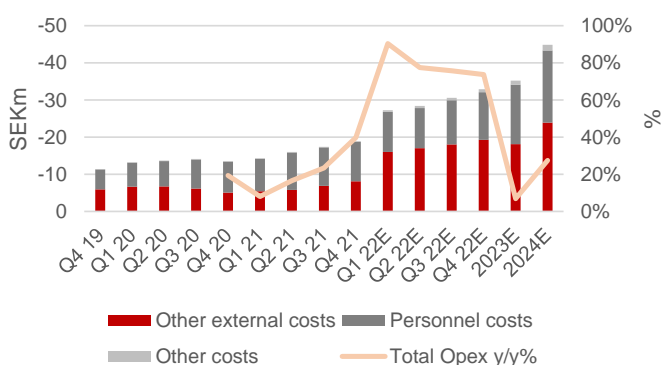
Advertly Sales & EBITDA LTM



Source: Redeye Research

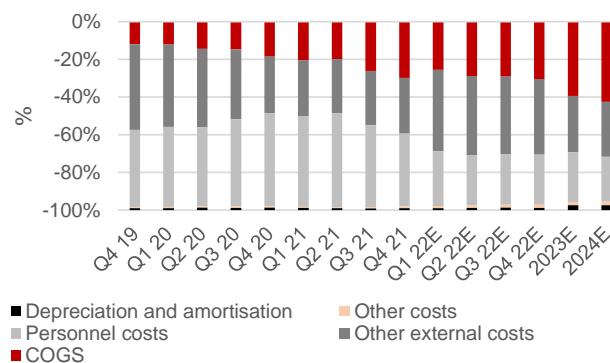
Advertly intends to scale up its organization by hiring employees and establishing a presence in new locations worldwide. Furthermore, additional investments in R&D with a specific focus on its SDK development kit will increase the cost base going forward and hold back profitability. The majority of the cost base is fixed, signaling a high degree of operating leverage. However, that works both ways, and in periods where volume is missing, losses tend to increase faster than revenues and vice versa. We expect Advertly to be profitable in 2024, and believe an improved gross margin to provide upside optionality.

Advertly: Opex and growth y/y% LTM



Source: Redeye Research

Advertly: Cost structure distribution %



Source: Redeye Research

P&L Table and KPI's

Advertly P&L SEK m	Q1'22e	Q2'22e	Q3'22e	Q4'22e	2022'e	2023'e	2024'e
Sales	4.2	6.3	6.6	9.0	26.1	51.7	85.3
<i>Other income</i>	0.2	0.2	0.2	0.2	0.6	1.0	1.0
Total Revenue	4.4	6.5	6.8	9.1	26.7	53.2	87.1
COGS	-2.4	-3.6	-3.7	-5.0	-14.7	-23.9	-34.9
Gross profit	2.0	2.9	3.1	4.1	12.0	29.3	52.3
<i>Other external costs</i>	-9.7	-3.0	-3.0	-3.6	-19.3	-18.1	-23.9
<i>Personell costs</i>	-2.8	-3.1	-3.3	-3.6	-12.8	-16.1	-19.4
<i>Other costs</i>	-0.2	-0.2	-0.2	-0.2	-0.8	-1.0	-1.5
Total opex	-12.7	-6.3	-6.5	-7.4	-32.9	-35.2	-44.8
EBITDA	-10.7	-3.4	-3.4	-3.3	-20.9	-5.9	7.4
<i>Non-recurring</i>	-7.9	0.0	0.0	0.0	-7.9	0.0	0.0
Adjusted EBITDA	-2.8	-3.4	-3.4	-3.3	-13.0	-5.9	7.4
Depreciation and amortisation	-0.1	-0.2	-0.1	-0.1	-0.6	-1.6	-2.1
EBIT	-10.9	-3.6	-3.6	-3.4	-21.4	-7.5	5.3
Net finance	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PTP	-10.9	-3.6	-3.6	-3.4	-21.4	-7.5	5.3
<i>Tax</i>	0.0	0.0	0.0	0.0	0.0	1.6	-1.1
Net income	-10.9	-3.6	-3.6	-3.4	-21.4	-5.9	4.2
EPS	-0.34	-0.11	-0.11	-0.11	-0.67	-0.19	0.13

Source: Redeye research

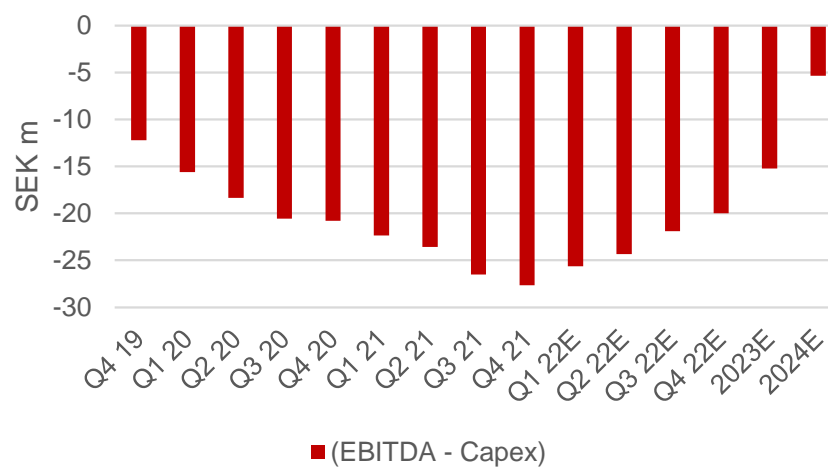
Growth %							
Net Sale y/y	4068%	685%	591%	208%	447%	98%	65%
Gross Profit y/y	-307%	-1436%	-290%	-4159%	-518%	143%	79%
EBITDA y/y	101%	-37%	-41%	-37%	-4%	-72%	-226%
EBIT y/y	102%	-35%	-40%	-35%	-3%	-65%	-171%
Other External costs y/y	442%	52%	52%	50%	137%	-6%	32%
Personnel costs y/y	9%	-2%	48%	40%	22%	25%	21%
Total OPEX y/y	189%	22%	52%	45%	74%	7%	27%

Source: Redeye research

Cash position

On a proforma basis after the recent right issuance, we expect Adverty to have a cash position of SEK~37m. Adverty has no outstanding debt, and its business model is asset-light. Why we expect high cash conversion when profitable, we do believe the recent right issue will cover its operations for 2022. However, depending on the market development and dynamics, we would not rule out further capital injection to capitalize on the market potential.

Adverty: (EBITDA-Capex) LTM



Source: Redeye Research

Peer Tables

Company name	EV	EV/S			EV/EBITDA			EV/EBIT		
		2022	2023	2024	2022	2023	2024	2022	2023	2024
Mobile / Casual Gaming										
Stillfront	13,360	2.0x	1.8x	1.7x	5.3x	4.7x	4.3x	6.4x	5.6x	5.2x
G5 Entertainment	1,687	1.2x	1.1x	1.1x	4.1x	3.8x	3.5x	6.4x	5.8x	5.1x
MTG	18,152	3.3x	3.1x	2.9x	13.1x	11.6x	10.7x	22.6x	19.1x	17.1x
Zynga	95,019	3.2x	2.9x	2.8x	13.6x	11.8x	11.0x	15.0x	13.5x	13.2x
Ten Square	2,360	1.5x	1.4x	1.3x	6.8x	6.4x	7.2x	5.6x	4.9x	4.2x
Com2us	9,266	1.5x	1.3x	1.1x	9.8x	7.8x	7.1x	12.2x	9.0x	7.2x
Rovio	4,063	1.2x	1.2x	1.2x	8.3x	6.8x	6.4x	11.3x	8.5x	7.6x
Roblox	228,335	7.9x	6.6x	5.9x	45.5x	35.4x	28.1x	74.0x	57.5x	45.2x
Playtika	88,381	3.3x	3.1x	2.9x	9.3x	8.5x	8.2x	14.3x	12.5x	11.5x
Median	13,360	2.0x	1.8x	1.7x	9.3x	7.8x	7.2x	12.2x	9.0x	7.6x
Average	51,180	2.8x	2.5x	2.3x	12.9x	10.8x	9.6x	18.6x	15.1x	12.9x
Ad-Tech										
Magnite	20,726	4.1x	3.4x	2.6x	12.6x	10.0x	7.3x	neg	>100	16.2x
Applovin	184,370	5.3x	4.3x	3.6x	18.6x	13.6x	10.6x	56.0x	26.2x	17.0x
The Trade Desk	311,234	20.7x	16.4x	13.4x	55.1x	44.0x	35.8x	>100	85.8x	48.3x
PubMatic	12,074	4.5x	3.6x	2.9x	12.2x	9.6x	7.6x	28.4x	19.9x	13.1x
Viant	870	0.5x	0.4x	0.2x	2.9x	1.9x	1.3x	5.6x	6.5x	1.8x
Iron Source	36,899	4.8x	3.8x	3.0x	14.9x	11.3x	8.7x	20.3x	14.8x	10.8x
Zendesk	139,857	8.7x	7.0x	5.6x	86.7x	59.3x	38.8x	>100	73.3x	46.8x
Azerion	3,451	0.7x	0.6x	0.5x	4.8x	3.5x	2.8x	6.6x	4.5x	3.4x
Bidstack	151	1.4x	na	na	neg	na	na	neg	na	na
Anzu	4,928	na	na	na	na	na	na	na	na	na
Media & Games Invest	2,687	0.9x	0.7x	0.6x	3.1x	2.5x	2.1x	4.1x	3.3x	3.0x
Median	12,074	4.3x	3.6x	2.9x	12.6x	10.0x	7.6x	13.4x	17.3x	13.1x
Average	65,204	4.7x	3.7x	3.0x	19.2x	14.1x	10.4x	11.0x	21.3x	14.6x
Peer Group Median	12,717	3.1x	2.7x	2.3x	11.0x	8.9x	7.4x	12.8x	13.1x	10.4x
<i>Source: Factset</i>										
Adverty	111.7	3.9x	2.2x	1.4x	neg	neg	15.8x	neg	neg	22.2x
Company name	EV	Sales growth			EBITDA margin			EBIT margin		
		2022	2023	2024	2022	2023	2024	2022	2023	2024
Mobile / Casual Gaming										
Stillfront	13,360	24.0%	8.6%	7.6%	37.2%	38.5%	38.9%	30.8%	32.4%	32.2%
G5 Entertainment	1,687	5.3%	5.5%	4.7%	28.8%	29.7%	31.0%	18.8%	19.7%	21.3%
MTG	18,152	2.4%	7.8%	6.6%	25.6%	26.7%	27.1%	14.8%	16.2%	17.0%
Zynga	95,019	13.0%	10.1%	5.9%	23.7%	24.8%	25.2%	21.5%	21.7%	20.9%
Ten Square	2,360	-0.4%	9.4%	9.9%	22.5%	22.0%	17.9%	27.6%	28.6%	30.1%
Com2us	9,266	40.8%	16.0%	20.1%	15.6%	17.0%	15.6%	12.5%	14.8%	15.2%
Rovio	4,063	9.7%	2.1%	4.5%	14.7%	17.6%	18.1%	10.9%	14.2%	15.1%
Roblox	228,335	14.1%	19.5%	12.7%	17.3%	18.7%	20.8%	10.7%	11.5%	13.0%
Playtika	88,381	9.6%	7.6%	6.7%	35.5%	36.1%	35.4%	23.1%	24.6%	25.2%
Median	13,360	9.7%	8.6%	6.7%	23.7%	24.8%	25.2%	18.8%	19.7%	20.9%
Average	51,180	13.2%	9.6%	8.7%	24.6%	25.7%	25.5%	19.0%	20.4%	21.1%
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Applovin	184,370	34.0%	21.9%	20.8%	28.3%	31.9%	33.9%	9.4%	16.5%	21.1%
The Trade Desk	311,234	34.8%	26.2%	22.4%	37.6%	37.4%	37.5%	11.4%	19.2%	27.8%
PubMatic	12,074	23.9%	23.2%	23.5%	36.7%	38.0%	38.9%	15.8%	18.3%	22.5%
Viant	870	18.4%	20.5%	92.9%	18.3%	22.8%	17.3%	9.5%	6.8%	12.7%
Iron Source	36,899	49.3%	26.9%	24.9%	32.3%	33.5%	35.0%	23.7%	25.6%	28.0%
Zendesk	139,857	29.5%	24.9%	23.8%	10.1%	11.8%	14.5%	7.6%	9.5%	12.1%
Azerion	3,451	40.1%	20.1%	17.9%	15.5%	17.7%	18.8%	11.3%	13.7%	15.3%
Bidstack	151	233.3%	na	na	-75.6%	na	na	-76.7%	na	na
Anzu	4,928	na	na	na	na	na	na	na	na	na
Media & Games Invest	2,687	17.4%	16.4%	14.2%	28.0%	29.2%	30.4%	20.9%	22.3%	21.8%
Median	12,074	31.7%	21.9%	23.5%	28.2%	31.9%	33.9%	10.4%	16.5%	21.1%
Average	65,204	46.0%	18.2%	24.6%	14.9%	23.3%	23.9%	2.1%	12.1%	16.1%
Peer Group Median	12,717	20.7%	15.3%	15.1%	25.9%	28.3%	29.6%	14.6%	18.1%	21.0%
<i>Source: Factset</i>										
Adverty	111.7	447%	98%	65%	neg	neg	8.5%	neg	neg	6.1%

Valuation

We value Advertly on a DCF model, and apply a Wacc of 12% in all our scenarios. We provides our key assumptions below

Bear Case 3.0 SEK

Sales CAGR 22-26'e: 20%
Sales CAGR 27-36'e: 8%

Avg EBITDA margin 24-36: 14%

Terminal Growth rate: 2%
Terminal EBITDA margin: 20%

Base Case 9.0 SEK

Sales CAGR 22-26'e: 57%
Sales CAGR 27-36'e: 12%

Avg EBITDA margin 24-36: 18%

Terminal Growth rate: 2%
Terminal EBITDA margin: 25%

Bull Case 17.0 SEK

Sales CAGR 22-26'e: 60%
Sales CAGR 27-36'e: 14%

Avg EBITDA margin 24-36: 22%

Terminal Growth rate: 2%
Terminal EBITDA margin: 30%

Sensitivity analysis

Value per share		Long-term EBITDA margin				
		20.0%	22.5%	25.0%	27.5%	30.0%
Wacc	13%	5.7	6.6	7.5	8.4	9.4
	12%	6.9	7.9	9.0	10.1	11.1
	11%	8.3	9.6	10.8	12.1	13.4

Source: Redeye research

Investment Case

The largest entertainment industry in the world

The in-game advertising market is still largely untapped today. Gaming is a massive market, with nearly 2.7 billion people worldwide playing games today, representing over a third of the world's population.

It is only a matter of time before advertisers start looking at the gaming space more seriously, which is now the world's largest form of entertainment. But still, it only attracts 5 percent of the advertising dollars that social media does, even though the audience size of gaming makes up 75 percent of the audience size of social media. Mobile gaming is the largest gaming segment today and is forecasted to grow faster than the gaming market overall, and hence is a market that Advertly focuses on.

Win-Win-Win situation

Advertly's seamless and non-intrusive ad formats, In-Play and In-Menu, enable advertisers to enhance their advertising targeting by publishing their brands on more accurate platforms. Furthermore, game suppliers increase their advertising revenues, which is generally very margin attractive. Lastly, consumers gain an improved player experience that feels more reality-based. This results in a win-win-win situation for all parties.

First mover advantage

Advertly is leading the charge when it comes to in-game advertising. They have built their own proprietary technology platform. They are building strong relationships with publishers, Supply-Side Platforms (SSPs) companies, Demand-Side Platforms (DSPs), and companies on the technical front. The inclusion of their Unity Software Development Kit (SDK) in Unity's Asset Store is an excellent example of this, leading to significant competitive advantages in the long run. They are the first and leading provider of seamless and programmatic in-game ad solutions.

Scaling up

Advertly is adding more and more games and advertisers to its portfolio. Currently, Advertly delivers approximately 130 million ad requests per day and expects this to reach over one billion daily requests at the end of 2022. Illustrating that the market is accelerating. Furthermore, the company's technology platform has been developed over the years and can support many ads being processed to scale up.

Reaching the unreachable

Millennials and Generation Z spend less time on traditional media outlets and more time on their phones. Especially in-app, which accounts for 90 percent of internet time on smartphones. Mobile advertising is on the rise because of this trend. It is already outpacing desktop advertising as the premiere medium, based on global advertising spend, with over 55 percent of all ad dollars going to mobile advertising.

Catalysts

The in-game advertising market accelerates

Accelerated sales will validate that the in-game advertising market is taking off in its upcoming quarterly reports.

Extends its customer base

The new potential customer wins, such as one of the leading game suppliers or Tech companies, will validate the technology and accelerate market adoption.

Risks

Commercialization

In-game advertising is a market that is in its cradle. Even though the games market attracts growing attention, especially among the younger generations, there is no guarantee that advertising dollars will flow into the in-game advertising market.

Competition

Other in-game advertising companies with an advertising technology platform may start focusing on the mobile games market. Advertly's major competitors support mobile platforms, but they do not focus on the mobile gaming market to a high degree today. This might change since the mobile gaming market represents such a huge opportunity, and Advertly's competitors already have the technology platform to compete. Furthermore, there are also risks that larger infrastructure actors that Unity enters the market.

Customer concentration

There are risks that large customers could cancel contracts with a short notice time period. This would harm Advertly's financial profile.

Summary Redeye Rating

The rating consists of three valuation keys, each constituting an overall assessment of several factors that are rated on a scale of 0 to 1 points. The maximum score for a valuation key is 5 points.

Rating changes in the report

People: 3

The management has a lot of experience in the advertising and mobile gaming industries. The new CEO has more than 20 years of experience in the media sector. Recently, he was regional director of the Nordics at PubMatic, where he successfully managed to four-fold the revenues. We believe Mr. Söderqvist's network and vast experience to be a good fit for Advertly. However, there is still a lot to prove, and we need to see some evidence before we reassess our view. Furthermore, the insiders hold a high portion of the company, so we expect the incentives to be high.

Business: 3

Advertly is a first mover that has proven its market-leading technology. The in-game advertising market is expected to grow at a CAGR of 16% in the coming years. We also have the impression that Advertly could expand its offering on other platforms and extend its revenue streams. However, the uncertainty is still relatively high, but we deem the business model highly scalable.

Financials: 2

The company still has a very low degree of revenue and is loss-making. We expect the revenues to grow during the coming years and forecast the company to be profitable in 2024.

	2021	2022E	2023E	2024E					
INCOME STATEMENT					DCF Valuation Metrics				Sum FCF (SEKm)
Revenues	5	26	52	85	Initial Period (2022–2024)				-45
Cost of Revenues	8	14	22	33	Momentum Period (2025–2036)				163
Gross Profit	-3	12	29	52	Stable Period (2037–)				166
Operating Expenses	19	33	35	45	Firm Value				285
EBITDA	-22	-21	-6	7	Net Debt				-5
Depreciation & Amortization	0	1	2	2	Equity Value				290
EBIT	-22	-21	-7	5	Fair Value per Share				9
Net Financial Items	0	0	0	0					
EBT	-22	-21	-7	5					
Income Tax Expenses	0	0	-2	1	CAPITAL STRUCTURE				
Non-Controlling Interest	0	0	0	0	Equity Ratio	63%	49%	35%	34%
Net Income	-22	-21	-6	4	Debt to equity	0.0	0.0	0.0	0.0
					Net Debt	-5	-21	-10	-6
					Capital Employed	18	28	22	29
					Working Capital Turnover	-0.8	-1.3	-1.9	-2.5
BALANCE SHEET									
Assets					GROWTH				
Current assets					Revenue Growth	593%	447%	98%	65%
Cash & Equivalents	5	21	10	6	Basic EPS Growth	31%	-31%	-72%	439%
Inventories	0	0	0	0	Adjusted Basic EPS Growth	31%	-31%	-72%	-171%
Accounts Receivable	0	2	6	9					
Other Current Assets	4	7	6	5	PROFITABILITY				
Total Current Assets	9	29	23	19	ROE	-91%	-94%	-24%	18%
					ROCE	-120%	-76%	-34%	18%
Non-current assets					ROIC	-169%	-234%	-104%	78%
Property, Plant & Equipment, Net	0	0	0	0	EBITDA Margin (%)	-458%	-80%	-11%	9%
Goodwill	0	0	0	0	EBIT Margin (%)	-463%	-82%	-14%	6%
Intangible Assets	19	26	34	44	Net Income Margin (%)	-463%	-82%	-11%	5%
Right-of-Use Assets	0	0	0	0					
Shares in Associates	0	0	0	0	VALUATION				
Other Long-Term Assets	0	2	6	12	Basic EPS	-1.0	-0.7	-0.2	0.1
Total Non-Current Assets	19	28	39	57	Adjusted Basic EPS	-1.0	-0.7	-0.2	0.1
					P/E	-4.5	-5.5	-20.2	28.4
Total Assets	28	57	62	76	EV/Revenue	19.8	3.8	2.1	1.3
					EV/EBITDA	-4.3	-4.7	-18.4	15.2
Liabilities					EV/EBIT	-4.3	-4.6	-14.6	21.3
Current liabilities					P/B	5.5	4.3	5.5	4.6
Short-Term Debt	0	0	0	0					
Short-Term Lease Liabilities	0	0	0	0	SHAREHOLDER STRUCTURE				
Accounts Payable	2	8	12	15	Niclas Kjellgren		15.7%	15.7%	
Other Current Liabilities	8	21	28	31	Niklas Bakos		10.0%	10.0%	
Total Current Liabilities	10	29	40	47	Avanza Pension		7.6%	7.6%	
					Johan Fagerström		1.7%	1.7%	
Non-current liabilities					Marie Arrestam		1.5%	1.5%	
Long-Term Debt	0	0	0	0					
Long-Term Lease Liabilities	0	0	0	0	SHARE INFORMATION				
Other Long-Term Liabilities	0	0	0	3	Reuters code				ADVT
Total Non-current Liabilities	0	0	0	3	List				First North
					Share price				3.74
Non-Controlling Interest	0	0	0	0	Total shares, million				31.8117
Shareholder's Equity	18	28	22	26					
Total Liabilities & Equity	28	57	62	76	MANAGEMENT & BOARD				
					CEO				Jonas Söderqvist
CASH FLOW					CFO				Anders Rössel
NOPAT	-22	-21	-6	4	Chairman				Joachim Roos
Change in Working Capital	5	15	6	6					
Operating Cash Flow	-17	-8	-2	14	ANALYSTS				
					Redeye AB				
Capital Expenditures	0	0	0	0	Viktor Lindström				Mäster Samuelsgatan 42, 10tr
Investment in Intangible Assets	-6	-7	-9	-13	Danesh Zare				111 57 Stockholm
Investing Cash Flow	-6	-7	-9	-13					
Financing Cash Flow	10	31	0	0					
Free Cash Flow	-22	-15	-11	1					

Redeye Rating and Background 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 long-term 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

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Redeye does not issue any investment recommendations for fundamental analysis. However, Redeye has developed a proprietary analysis and rating model, Redeye Rating, in which each company is analyzed and evaluated. This analysis aims to provide an independent assessment of the company in question, its opportunities, risks, etc. The purpose is to provide an objective and professional set of data for owners and investors to use in their decision-making.

Redeye Rating (2022-04-13)

Rating	People	Business	Financials
5p	32	15	4
3p - 4p	153	135	47
0p - 2p	5	40	139
Company N	190	190	190

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CONFLICT OF INTERESTS

Viktor Lindström. owns shares in the company : No

Danesh Zare owns shares in the company : No

Redeye performs/have performed services for the company and receives/have received compensation from the company in connection with this.