



# AS TextMagic

Generating cash via SMS

## Initiation of Coverage Report

20<sup>th</sup> Dec 2021

AS LHV Pank was the Global Lead Manager for the IPO of TextMagic on Nasdaq First North Tallinn in December 2021.

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# Investment Summary

## Generating cash via SMS

AS TextMagic (together with subsidiaries hereinafter referred to as 'TextMagic' or the 'Group', as a parent company referred to as 'AS TextMagic' or the 'Company') is engaged in the provision of text messaging services internationally, enabling its clients to send information via a SMS platform. The activities of TextMagic were initiated in 2001 with the founding of TextMagic Ltd. in the UK. In 2007, the current CEO and core shareholder, Mr Priit Vaikmaa, joined TextMagic Ltd. as a manager and concluded a management buyout (MBO) in 2013. The Group, in its current form, exists only from September 2021, following the restructuring process and transfer of the holdings in the subsidiaries by the core shareholders to the newly established parent company, AS TextMagic. The current and operating product of TextMagic is an application-to-person (A2P) SMS platform, which permits sending of notifications, alerts, reminders, order confirmations, carrying out SMS marketing campaigns, surveys, 2-way chats and 2-factor authentication. During the past four years, from 2016 until the end of 2020, the number of active customers expanded at a CAGR of 39% to reach 25.6 thousand, with the number of messages sent rising at a CAGR of 47% to exceed 172m for the last year. In terms of markets, the US has become the major market for the Group in recent years, accounting for over 68% of total revenues during the twelve-month period until the end of Q3 2021, followed by the UK with 18%, and Australia with over 5%. TextMagic is also working on the development of a new product, customer engagement platform – Touchpoint. The new platform connects various communication channels and is attempting to cover the needs and preferences of more customers and should be launched in 2023. TextMagic raised EUR 2.5m in gross proceeds (estimated net proceeds – EUR 2.25m) from the recent IPO, followed by the admission to trading of the shares on the Nasdaq Baltic First North alternative market on 15<sup>th</sup> December 2021.

The generally high level of effectiveness and a wide range of potential use cases for A2P messaging is supported by its strong engagement rates compared to other communication mediums. As per Gartner Research, SMS has an open rate of 98%, with 95% of SMS being read within 3 minutes of being received and a response rate of 45%. As Touchpoint is a significant enhancement of TextMagic's current

product, the Group also faces different competition and challenges. The increasing adoption of customer engagement solutions to reduce customer churn rate, increasing use of e-commerce and m-commerce platforms, and increasing focus on delivering enhanced customer engagement through omnichannel are significant factors projected to drive the growth of the market.

Following the successful IPO, hereby, we are initiating the coverage on the stock, while our financial projections and equity valuation of TextMagic are prepared on a post-money basis, considering the net proceeds raised. We have approached the valuation of TextMagic using a combination of the income and market approaches. For the income approach, we used the Discounted Cash Flow model. For the market approach, we used a peer group valuation, which considers several peer group trading multiples for 2021-2023E. We see the income approach as more suited for the valuation of TextMagic and assigned a 70% weight to DCF-based valuation in the total value, leaving the peer valuation weight at 30%. Overall, we initiate the coverage on the stock with the fair value range (FVR) at EUR 8.00-9.00 per share. As the existing product already generates positive cash flows, the Group did not have an urgent need for additional funding to finance its growth and development ambitions, but the successful IPO enables to facilitate stock options to attract more talents and speed up the development process of the new customer engagement platform, bringing more value to all shareholders and customers. We believe that the core attraction of the investment case of TextMagic is the easy scalability of its existing and planned software platforms, allowing it to aggressively target global markets for rapid expansion. There is a huge potential on the global A2P SMS as well as the customer engagement market to be exploited if TextMagic can offer competitive and reliable solutions for its growing customer base. The key risk factors to our valuation include a slower and more expensive than anticipated development process and an unsuccessful launch of the new Touchpoint platform, stiff competition in the primary markets from larger competitors, potential changes in the regulatory environment concerning the A2P SMS market, and weaker than projected growth and margins for its core A2P SMS platform.

Key Numbers (EURm)	2019/pf*	2020/pf*	2021E/pf	2022E	2023E	2024E	2025E	2026E
Revenue	5.5	7.9	10.1	12.1	16.3	21.1	25.8	30.9
EBITDA	2.2	3.3	4.2	4.8	6.4	8.5	10.4	12.6
Operating Profit	1.8	2.8	0.8	1.5	2.5	2.9	5.3	7.8
Net Profit	1.6	2.4	0.8	1.5	2.5	2.7	4.9	7.1
Total Assets	3.4	5.7	58.4	59.9	62.6	64.9	68.5	73.3
Net Debt	(1.0)	(1.4)	(6.5)	(8.7)	(12.3)	(17.3)	(24.1)	(31.3)
Total Equity	2.2	3.9	55.1	56.6	59.1	61.2	64.7	69.4
CAPEX	0.7	1.8	2.6	2.6	2.9	2.6	1.9	2.3
EV/Revenue (x)	-	-	7.6	6.3	4.7	3.6	3.0	2.5
EV/EBITDA (x)	-	-	18.5	16.1	11.9	9.1	7.4	6.1
P/E (x)	-	-	99.8	55.3	33.9	31.0	17.1	11.7
P/Book (x)	-	-	1.5	1.5	1.4	1.4	1.3	1.2

Source: LHV for estimates; pf - pro forma figures; \*Monday Media OÜ figures used  
Market ratios are based on the share price of EUR 9.80 (17<sup>th</sup> Dec 2021).

# Company Overview

## Summary Description

TextMagic AS provides text messaging services internationally, enabling its clients to send information via a SMS platform. The activities of TextMagic were initiated in 2001 with the founding of TextMagic Ltd. in the UK. However, the Group as it exists and operates today was formed only in 2021 as a result of a restructuring process. The current and operating product of TextMagic is an application-to-person (A2P) SMS platform, which permits sending of notifications, alerts, reminders, order confirmations, carrying out SMS marketing campaigns, surveys, 2-way chats, and 2-factor authentication. TextMagic is also working on the development of a new product, customer engagement platform – Touchpoint. The new platform connects various communication channels and is attempting to cover the needs and preferences of more customers. The new platform is planned to be launched in 2023. The controlling shareholder of the Company is Mr Priit Vaikmaa, who currently acts as a CEO and a sole member of the management board.

## History

The history of TextMagic dates back to 2001 when TextMagic Ltd. was founded by Dan Houghton. In 2007, the current CEO and core shareholder, Mr Priit Vaikmaa, joined TextMagic Ltd. as a manager. Following a management buyout (MBO) in 2013, Mr Priit Vaikmaa became a sole shareholder of TextMagic Ltd. In 2014, TextMagic expanded its activities to the US market, while the annual sales of TextMagic Ltd. exceeded EUR 1m by 2015. TextMagic started to develop a new customer engagement platform Touchpoint in 2020. The Group in its current form was created only in September 2021, following the transfer of subsidiaries to the current parent company as a payment in kind. The major milestones of the Group can be listed as follows:

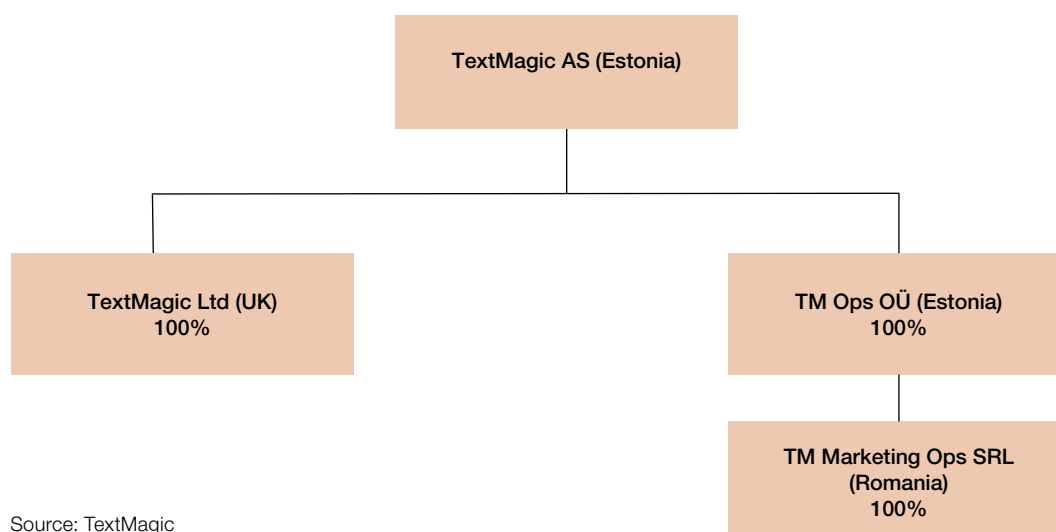
- » 2001 – Founding of TextMagic Ltd by Dan Houghton
- » 2007 – Priit Vaikmaa joins TextMagic as a manager
- » 2013 – MBO performed by Priit Vaikmaa
- » 2014 – TextMagic expands to the US market
- » 2015 – Annual sales exceed EUR 1m
- » 2017 – Annual sales exceed EUR 2m; TextMagic mobile app is launched

- » 2020 – TextMagic starts development of a new platform – Touchpoint
- » 2021 – Restructuring of the Group completed in September
- » 2023 – Expected launch of the new platform Touchpoint

## The Group's Structure

As indicated above, the Group in its current form exists only from September 2021, following the restructuring process and transfer of the holdings in the subsidiaries by the core shareholders to the newly established parent company, AS TextMagic. Essentially, AS TextMagic is a brand-new company, registered with the Estonian Commercial Register only on 21<sup>st</sup> April 2021, and it operates under the laws of the Republic of Estonia in the form of a public limited company. The shares of AS TextMagic are admitted to trading on the Nasdaq Baltic First North alternative market. Currently, the Group consists of AS TextMagic, two fully-owned subsidiaries of the parent company, i.e. TextMagic Ltd and TM Ops OÜ, as well as a fully owned subsidiary of TM Ops OÜ, TM Marketing Ops Srl, the latter being registered in Romania. In September 2021, substantial restructuring of the Group was performed by transferring the shareholdings in TextMagic Ltd. and TM Ops OÜ to AS TextMagic as a non-monetary contribution by its shareholders. Prior to the transfer of the shares, both TextMagic Ltd. and TM Ops OÜ were owned in similar proportions by the following shareholders: Monday Media OÜ (fully owned by Priit Vaikmaa) – 90%, Merkatiko OÜ (fully owned by Kärtu Vaikmaa) – 5%, and Edly OÜ (fully owned by Eduard Tark) – 5%. As a result of the transfer of the shares, AS TextMagic became a 100% owner of TextMagic Ltd. and TM Ops OÜ. In addition to the transfer of the shares of the mentioned subsidiaries, Monday Media OÜ also transferred to AS TextMagic an A2P SMS marketing software 'TextMagic', a customer engagement software 'Touchpoint', 'TextMagic' trademarks, and 'textmagic.com' and 'touchpoint.com' domains.

During the restructuring process, the shareholdings and other assets, as non-monetary contributions, were transferred to AS TextMagic, which were appraised by the Management Board, and the appraisal value decided by the Management Board did not deviate notably from the outcome of an independent appraisal conducted by LHV Pank AS, while the appraisal was independently audited by Grant Thornton Baltic OÜ. The respective appraisal was conducted using three internationally recognised valuation methods: the discounted cash flow method (DCF), the guideline public company method (GPCM), and the guideline transactions method (GTM). The assets were appraised using each of the methods, and the overall



Source: TextMagic

valuation represented a weighted average, with the DCF being attributed 60% of the total weight, and the results obtained via GPCM and GTM 20% of the total weight each. In total, the value of the transferred assets was set at EUR 52.1m, including the value of intangible assets of EUR 51.7m. The breakdown of the appraised value of the assets transferred during the process is not available at this stage. As Monday Media OÜ also contributed other assets in the process, apart from its shareholdings in the two subsidiaries, following the restructuring process, the shareholdings of the three shareholders in the Company were different compared to the holdings in the two subsidiaries and looked as follows: Monday Media OÜ – 92.2%, Merkatiko OÜ – 3.9%, and Edly OÜ 3.9%. However, please note that, prior to the IPO, Monday Media OÜ entered into two option agreements with other shareholders of the Company, whereunder the options were issued, granting a right to acquire 88,000 shares each from Monday Media OÜ (in total 176,000 shares of AS TextMagic) after a three-year vesting period. Such option agreements technically restored the same shareholder structure at the parent company level that was valid for the two subsidiaries prior to the restructuring process, effectively reducing the shareholding of Monday Media OÜ to 90% while increasing the respective holdings of Merkatiko OÜ and Edly OÜ to 5% each.

TextMagic Ltd. continues to function as the company through which the business activities of TextMagic are performed, so it is the client-facing entity. Since the United Kingdom is a well-known jurisdiction both for its general stability as well as its legal and commercial environment, having a UK company as the client-facing entity makes TextMagic more visible, attractive, and trustworthy for clients all over the world. It also minimises questions about the origin of the company and fears about impacts of the environment of the jurisdiction of its location on its services. Overall, that helps to extend the ease of acceptability of services of TextMagic and thereby also increase the client base. TM Ops OÜ, an Estonian private limited liability company, is a company providing back-office services for other Group companies. TM Marketing Ops SRL is the new entity of the Group. It was established to provide marketing and support services to other TextMagic companies.

AS TextMagic has entered into a licensing agreement with TextMagic Ltd. Under the licensing agreement, the Company grants to TextMagic Ltd. a worldwide and non-exclusive right to use the intellectual property owned by TextMagic AS (software, trademarks, domains) in the business activity of TextMagic Ltd. and TextMagic Ltd. undertakes to pay the Company an annual license fee calculated in accordance with instructions stipulated under the transfer pricing policy prepared by AS PricewaterhouseCoopers. TM Ops OÜ provides TextMagic with several back-office services. According to the transfer pricing policy, TM Ops OÜ is characterised as a limited risk back-office services provider, while the remuneration payable to TM Ops OÜ for the provision of services is based on a cost-plus principle. Although the Company has not entered into any agreements with its direct shareholders, the ultimate beneficial owners of shareholders are fulfilling various roles in TextMagic, as described later in this report.

## The IPO

During the recent IPO, with the subscription period lasting from 29<sup>th</sup> November to 9<sup>th</sup> December 2021, a total of 500,000 new ordinary shares were offered for sale. The offer price was set at EUR 5.00 per share. The IPO turned out very successful, as altogether 15,410 investors subscribed a total of 9,896,434 shares for EUR 49.5m, i.e. the offer was oversubscribed by 19.8 times. Such oversubscription of nearly 20 times is a new record for the Nasdaq Baltic First North. The median number of shares subscribed for was 120, while the average number of shares subscribed for was 642, strongly influenced by a few very large subscription orders. The shares were allocated

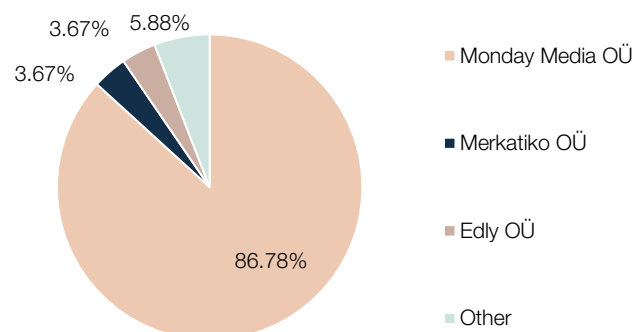
between the investors according to the following principles: a) each investor received a full allocation of up to 35 shares; b) the remaining 2% of the new shares were distributed evenly in proportion to the number of shares subscribed for by each investor. Essentially, the Company sought to maximise its investor base while treating all subscribers equally. The gross proceeds from the IPO were EUR 2.5m, while the net proceeds amount to c.a. EUR 2.25m. The Group has indicated the use of proceeds from the IPO as follows:

- Scale TextMagic to a known brand in the A2P SMS market.
- Recruit more team members to support the growth of TextMagic and to develop Touchpoint.
- Further corporate purposes and establish a working capital buffer.

## Shareholders

As a result of the IPO, the share capital of the Company was increased from EUR 0.80m to EUR 0.85m, with the total number of shares rising by 0.5m from 8.0m to 8.5m. This means that the newly issued shares form 5.88% of the post-IPO share capital of AS TextMagic, and despite a substantial number of shareholders attracted during the IPO process, the volume of free float remains relatively low. Apart from Monday Media OÜ, the holding company of Priit Vaikmaa, other two larger shareholders are Edly OÜ, owned by Eduard Tark, and Merkatiko OÜ, owned by Kärtu Vaikmaa. These two shareholders are actively engaged in the everyday management of the Group, at the same time, they are also members of the Supervisory Board of TextMagic. All three core shareholders have agreed to be subject to lock-up agreements valid for 12 months from the IPO.

TextMagic shareholders as of 14<sup>th</sup> Dec 2021



Source: TextMagic

To motivate and engage the employees and service providers, TextMagic has prepared an option programme according to which the employees, service providers, management board members, and supervisory board members chosen and eligible for the option programme are granted the right to the shares of TextMagic in accordance with the option agreements concluded between the Company and respective employee/service provider. The options are granted annually. The Company has stated that at no time the outstanding options, i.e. the options which are not exercised yet, the exercise of which requires increasing the share capital, do not form more than 5% of the issued share capital. However, the additional options can be granted, which grant the right to acquire existing shares of the Company, covered by the shares currently owned by the core shareholder Monday Media OÜ for up to 5% of the share capital.

## Management and Team

The highest managing body of the Company is the general meeting of shareholders. According to Estonian law, the operational management of the Company is structured in a two-tier system divided between the Management Board and Supervisory Board.

## The Management Board

According to the Articles of Association of TextMagic, the Management Board shall comprise of one to three members, appointed by the Supervisory Board for a term of three years. Currently, the Management Board of AS TextMagic consists of one member – Priit Vaikmaa.

- **Priit Vaikmaa** – He is a sole member of the Management Board and the CEO of the Company. Priit Vaikmaa was born in 1978. He graduated from the Estonian Business School in 2007 with a bachelor's degree in business administration and management. He joined TextMagic Ltd. in 2007 and has been actively engaged in the management and development of TextMagic's services since then. Priit Vaikmaa oversees the overall development of TextMagic and sets the direction and strategy. He has over 20 years of experience in digital services and in starting, running, and growing online businesses. Priit's main areas of competence are SMS, telecommunications, SaaS, web applications, product management, web development, online payments, fraud prevention, user interface, conversion rate optimisation, business development, marketing, sales, web design, internet marketing, leadership, and start-ups.

## The Supervisory Board

According to the Articles of association of the Company, the Supervisory Board shall consist of three to five members, to be elected for a term of five years. The Supervisory Board is responsible for planning the activities, organising the management and supervising the activities of the Management Board. Currently, the Supervisory Board is composed of three members. Two of the three members – Kärtu Vaikmaa and Eduard Tark are the representatives of the minority shareholders of the Company, and among others, their purpose is to monitor the developments of the Group from the viewpoint of minority shareholders. The third member of the Supervisory Board – Iryna Avdus, is the representative of the employees and service providers of TextMagic. The potential conflict of interest between the role of the member of the Supervisory Board and other roles in TextMagic is managed by defining the duties and liabilities relating to different positions clearly and acknowledging the possible risk of conflict. Following the IPO, TextMagic plans to have an independent member appointed to the Supervisory Board. The appointment is expected within six months of the commencement of trading in the shares on the Nasdaq Baltic First North.

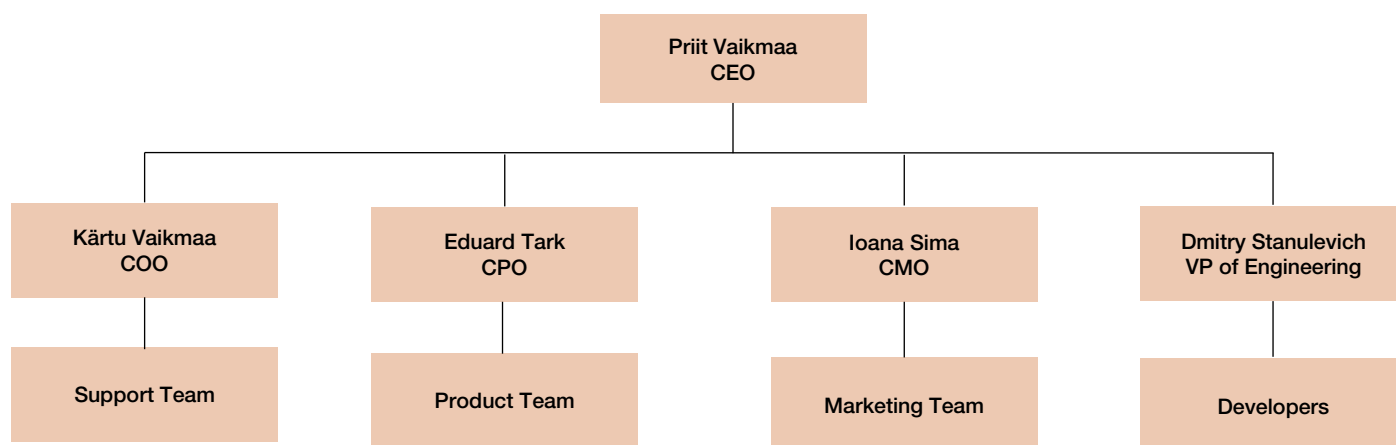
- **Kärtu Vaikmaa** – Chairman of the Supervisory Board, also acts as a Chief Operating Officer (COO). She joined TextMagic in 2018 and started working as a director in TextMagic Ltd. She holds a master's degree in international business administration from the

Estonian Business School. She is responsible for the customer support team. Before joining TextMagic, Kärtu Vaikmaa gained proficiency as a marketing manager at Metro Capital and as a project manager in various Estonian advertising agencies. Kärtu Vaikmaa is the spouse of Priit Vaikmaa. Kärtu Vaikmaa indirectly owns 3.67% of the shares through her company Merkatiko OÜ, while she has signed an option agreement to acquire 88,000 shares of the Company (1.04% of the post-IPO share capital) with the vesting period of three years, without the need to increase the share capital of AS TextMagic.

- **Eduard Tark** – Member of the Supervisory Board, also acts as a Chief Product Officer (CPO). Eduard Tark graduated from Tallinn University of Technology in 2011 with a bachelor's degree in economy – business management and marketing. Eduard joined TextMagic in 2013. Since then, he has risen through the ranks to the position of CPO. He is responsible for the daily management of TextMagic. He is very familiar with the various aspects of the business of TextMagic and has experience and knowledge to contribute to and support the further development of TextMagic. Eduard Tark indirectly owns 3.67% of the shares through his company Edly OÜ, while he has signed an option agreement to acquire 88,000 shares of the Company (1.04% of the post-IPO share capital) with the vesting period of three years, without the need to increase the share capital of AS TextMagic.
- **Iryna Avdus** – Iryna Avdus holds a master's degree in German language and literature from the Zaporizhzhia State University, Ukraine. She joined TextMagic Ltd. in January 2020 as a product manager, where she works with design teams on producing product prototypes, conducts market research, and obtains feedback on products from clients, designers and engineers in order to adjust product specifications, and coordinates departments and creative teams. Prior to the IPO, Iryna Avdus did not own any shares of the Company, but she has signed an option agreement to acquire 4,000 shares of the Company (0.05% of the post-IPO share capital) with the vesting period of three years, without the need to increase the share capital of AS TextMagic.

## Other Key Management Members

- **Ioana Sima** – Chief Marketing Officer (CMO). Ioana has a master's degree in architecture and ten years of experience in digital marketing. She worked with hundreds of companies to improve their digital strategy before joining the TextMagic team.
- **Dmitry Stanulevich** – VP of Engineering. With the new product of Touchpoint, a new challenge has arrived, and Dmitry has moved to the position of VP of Engineering to build a bridge between the product team and developers.



Source: TextMagic



## The Team

TextMagic has a lean and effective company structure with an international team. The Group employs or has contracted with a total of around 40 people from Estonia, Russia, Ukraine, and Romania. TextMagic is actively hiring experts to join different locations and expects to double the headcount by the end of 2022. Prior to the IPO, the sizes of the teams were the following: 23 people in the development team, six people in the product team, eight people in the marketing team, and five people in the support team. The staff includes customer support, digital marketing, developers, SEO experts and designers. More than half of the team is working on a contractual basis, i.e. are not employed directly by the Group. Such contractual partners mostly include software developers located in Novosibirsk and Omsk, Russia. The marketing team of the Group is primarily located in Bucharest, Romania, and partly employed under TM Marketing Ops Srl, the subsidiary of TM Ops OÜ. According to the management, work is arranged in shifts to cover the working hours of the most important markets for the Group – the US, the UK, and the European Union. The internal organisational structure of the Group is presented in the chart.

## TextMagic A2P SMS Platform

The current and operating product of TextMagic is an application-to-person (A2P) SMS platform, which permits sending of notifications, alerts, reminders, order confirmations, carrying out SMS marketing campaigns, surveys, 2-way chats, and 2-factor authentication. TextMagic's solution enables the clients to reach their target customers in an easy and straightforward manner – via SMS. The services of the Group are provided to the registered business clients. Before starting to use TextMagic's platform for a fee, a potential client can create a free trial account to test the platform. The trial unlocks all of the platform's features. TextMagic operates on a low-touch model: offering a free trial before a paid account, in-product onboarding, and a self-service experience. If satisfied, the services of TextMagic can be enjoyed by the client after the completion of two simple steps on the webpage or via the app – buying credit and uploading/entering a contact list. Thereafter all is set up for the client to start sending SMSs. In addition to the possibility to send text messages via TextMagic's platform, TextMagic also enables clients to manage the SMS replies, either through email to SMS, call forwarding or communications management. All of the services of TextMagic can be used based on prepayments made by the client, the fees for certain services are based on standardised price lists. Most of the Group's clients are small- to medium-sized companies in the US and UK. They range from car repair shops that notify their customers of bookings to hospitals that use text messages to coordinate with their staff. TextMagic business texting software solution enables large numbers of messages to be sent simultaneously. The main features of the TextMagic SMS platform can be listed as follows:

- **Two-way conversations with SMS chat:** a feature that enables TextMagic users to view SMS as chats.
- **SMS marketing list and contact management:** a feature that enables TextMagic users to import contacts from Excel sheets or manually to create their own SMS database for mobile marketing campaigns.
- **Email to SMS gateway:** a feature that converts emails into text messages and delivers them to recipient phones. SMS replies are delivered to the TextMagic user as emails.
- **SMS surveys:** predefined SMS survey templates and auto-responders that TextMagic customers can use to obtain feedback from their target audience.
- **Zapier SMS integrations:** the TextMagic A2P SMS platform connects to Zapier, enabling users to create easy automation with third-party apps.

- **SMS Gateway:** a feature that allows customers to integrate TextMagic within their own business system or software.
- **Virtual mobile numbers:** dedicated business numbers that can be rented for a monthly subscription, or toll-free numbers, that businesses can use to send text messages to their customers.
- **SMS attachments:** ability to attach files and images to texts without having to pay extra.
- **Mail merge and SMS templates:** a feature that inserts predefined merge tags into SMS templates to personalise SMS communications based on contact information.
- **Incoming message automation:** a feature that creates automatic rules for processing incoming text messages based on various triggers or keywords.
- **Carrier and email validation:** a feature that allows users to check the status of phone numbers or emails before sending communication and remove invalid contacts from the database.
- **Bulk SMS:** an online texting solution that allows the distribution of text messages anywhere in the world.
- **Other features:** long text messages, text message scheduling, language and unicode SMS, voice call forwarding, voice call broadcast, reporting and analytics, sub-accounts for team members, enterprise SMS solutions, SMS opt-out management, and text marketing lists.

## Touchpoint Platform

In the coming years, TextMagic plans to launch a new platform – Touchpoint, which enables TextMagic to provide its clients with more services and therefore is expected to bring in new clients. The development of the software required for managing the new platform commenced in 2020. Essentially, Touchpoint is a significant enhancement of TextMagic's current product. It is a customer engagement software for sales, marketing, and customer support – an all-in-one platform that is being developed to help small and medium-sized businesses focus on their customers and grow their business. Touchpoint enables companies to integrate various communication channels (SMS, email, text applications, and calls) into one environment. It will combine engagement and communication channels required to find customers, close deals, and provide customer support. It will also offer user-friendly reporting, analytics, and collaboration capabilities. The launch of Touchpoint is planned for 2023. The main features of the Touchpoint platform can be listed as follows:

- **Promotion:** An omnichannel marketing tool that allows business owners to promote their products or services and generate more leads. The promotion feature of the software will include such tools as email and SMS campaigns, scheduling, reporting etc.
- **Selling:** CRM environment for closing and organising deals based on previous interactions. Allows businesses to schedule activities and assign tasks. The selling module will include such tools as deals and pipelines, tasks, reminders, goals tracking etc.
- **Service:** Service module for small and medium-sized businesses that want to manage all customer support interactions from one dashboard. This module will include such tools as livechat, call centre, helpdesk, contact centre, etc.

According to the Group, the new platform is based on a subscription-based model and enables clients to choose from several options the one most suitable for the client's needs and use the services covered by the packages chosen by the client for a monthly or annual subscription fee, leading to more predictable recurring revenues. In addition to the services covered by the chosen package, the client can use metered services with the available service plans being based

on the number of contracts for an additional fee.

As the new customer engagement platform is currently in a development phase and is expected to be launched and start generating revenues only sometime in 2023, this is effectively a start-up project for the Group and its future revenue streams and profitability are difficult to evaluate at this stage. The client profile of Touchpoint would be predominantly small to medium-sized businesses that are similar to the TextMagic client profile, but do not overlap, allowing the Group to increase its total addressable market (TAM) organically. Touchpoint's new capabilities are expected to allow TextMagic to tap into a new audience that is the main driver of mobile SaaS growth. The new platform is expected to have higher client retention rates due to a subscription-based business model and a comprehensive customer engagement product. As the new platform provides various marketing possibilities and other solutions for the customers, it is expected to also attract customers currently not using the services of TextMagic because the current solution of TextMagic does not meet their needs for marketing channels, e.g., customers preferring to organise their online marketing via a different channel than SMS.

## Software and Hardware

Essentially, the software that is required to manage and operate the TextMagic SMS platform is developed by and for TextMagic and is currently the main asset of the Group. Following the pre-IPO restructuring process, involving the transfer of the shares of the subsidiaries of the Company, the software and trademarks, AS TextMagic now owns all rights related to the software and trademarks. Under the licensing agreement, the Company grants to TextMagic Ltd. a worldwide and non-exclusive right to use the intellectual property owned by TextMagic AS (software, trademarks, domains) in the business activity of TextMagic Ltd. and TextMagic Ltd. undertakes to pay the Company an annual license fee calculated in accordance with instructions stipulated under the transfer pricing policy. In addition to the software owned by the Company, TextMagic uses the software solutions provided by several well-known service providers, e.g., OVHcloud, Amazon Web Solutions, Google Cloud, Zendesk, Newrelic etc.

TextMagic itself does not own any significant hardware, and respectively is not responsible for maintenance of such technology and has outsourced all such operations to several external service providers. TextMagic's servers are located in secure data centres in Europe, in restricted areas with no physical access available to third parties. More specifically, the production data is hosted on OVHCloud bare metal servers in France, online database backup is hosted on the Google Cloud Platform located in the US, and offline database backups are hosted on Amazon Web Services also located in the US. These are subject to TextMagic's data retention policy. All of the TextMagic sites and web services are secured with SSL/HTTPS. All users are able to delete all of their data with just a few clicks, making them in control of the information they have shared with TextMagic.

## Partners and Contracts

The Group, in general, does not have material contracts with clients as the service model is built and the service is provided on a pay-as-you-go (PAYG) basis. This is, however, likely to change with the launching of the new customer engagement platform Touchpoint, which will have a subscription-based service model and is therefore expected to see a significant number of new clients that use the services on a longer-term basis.

On the supplier side, however, TextMagic has around 80 main suppliers that it uses for the provision of its services ranging from social media to cloud and fraud protection services. Rather than building its own communications infrastructure from scratch, TextMagic uses cloud-based APIs from Communications Platform as a Service (CPaaS) vendors to add real-time communications into TextMagic.

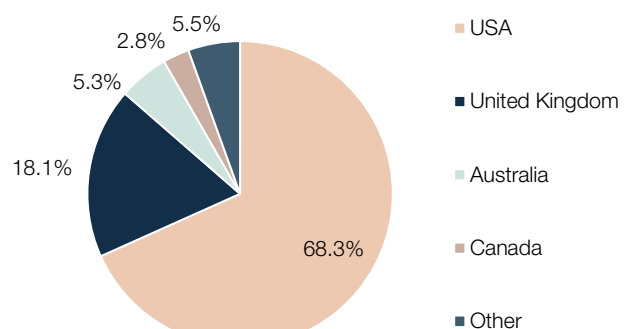
Communications built on a cloud communications platform are available without the burdens of capacity planning, carrier contracts, telecom hardware integration, and fragmented security. While none of the contracts exceeds the volume-based materiality threshold, the contracts with certain suppliers are material, as they are necessary to ensure the ability of the Group to provide uninterrupted services to its clients. Major CPaaS partners include Bandwidth, Vonage, and Twilio.

Another set of important partners for TextMagic operations are related to customer payments and fraud protection services. TextMagic customers can load credit to their account instantly via credit/debit card or PayPal. All payment data is securely stored by a third-party PCI-compliant payment gateway. All payments from customers are automatically processed in order to prevent fraud. TextMagic also performs a manual fraud detection review of its users where the sum of the payment is USD 100 or higher. Major payment and fraud protection partners include Stripe, PayPal, Wise, and Veriff.

## Customers and Growth

The TextMagic platform is predominantly targeted at small and medium sized businesses, enabling the clients to reach their target customers in an easy and straightforward manner – via SMS. Most of the clients of TextMagic are in the US and UK, while they can range from car repair shops that notify their customers of bookings to hospitals that use text messages to coordinate with their staff. The Group serves customers from a large number of industries, including travel agents and services, medical sector, brick and mortar shops and stores, business services, transportation, media and entertainment, colleges and universities, restaurants and bars, banking and insurance, real estate, e-commerce and internet businesses, telephone service providers and carriers, security, auto repairs etc. In terms of markets, the US has become the major market for the Group in recent years, accounting for over 68% of total revenues during the twelve-month period until the end of Q3 2021, followed by the UK with 18%, and Australia with over 5%.

TTM Revenues by Country as of Q3 2021

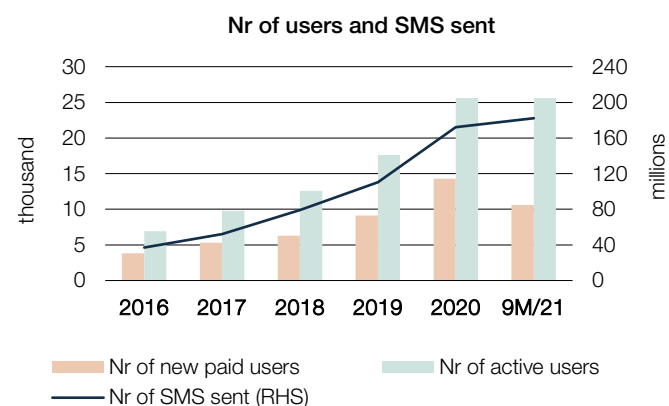


Source: TextMagic

Over the past four years, TextMagic has presented solid growth rates of customer volumes and the number of messages sent. Partly driven by the COVID-19 pandemic and the urgent need for quick customer communication, the volume growth accelerated in 2020 compared to the previous year. However, the growth has somewhat slowed down this year due to the stronger base effect and lower need for urgent messages. During the past four years, from 2016 until the end of 2020, the number of active customers expanded at a CAGR of 39% to reach 25.6 thousand, with the number of messages sent rising at a CAGR of 47% to exceed 172m for the last year. The growth of the annual number of new paid customers broadly matched with the active user expansion, increasing at a four-year CAGR of 39% to 14.3 thousand in 2020. The respective number for the first nine months of 2021 indicates that this year's new paid customer growth may not



quite reach the level of 2020, also leading to the slower expansion of the total active customer base and SMS volumes. The Group defines new paid users as new users who created an account and made their first purchase in a specific year, with active users referring to the customers who made at least one payment in a specific year.



Source: TextMagic

The management has stated that it aims to maintain annual revenue growth rates from the TextMagic platform at 30-40%, which we believe is achievable, but requires an efficient marketing strategy for the product. The Group also anticipates the number of messages sent to rise from around 200m per year to 1 billion per year, though not setting any specific timeline for this target. To maintain the rapid growth rates of operating volumes and revenues, the Group plans to focus on several strategic activities, including:

- Development of new platform features requested by customers to increase product usage
- Introduce monthly subscription packages alongside the pay-as-you-go pricing system
- Increase ARPU by educating existing clients on TextMagic features
- Increase usage of active marketing, such as paid advertising
- Make further use of search engine optimisation (SEO), focusing on the conversion rate of new clients
- Implement strategies for churn-rate reduction and old user re-activation

# Market Overview

## A2P SMS Market

A2P messaging (application-to-person messaging) is the process of sending short messages from a business application to a mobile user. These messages are also known as professional or enterprise messages. A2P has become the go-to-market strategy for businesses, especially since the COVID-19 pandemic. SMS is the text messaging service component of most telephone, internet, and mobile device systems. It uses standardised communication protocols that allow mobile devices to exchange short text messages. Generally, A2P SMS interaction is believed to have several benefits compared to other mobile messaging platforms, including the following:

- **Easy** - Thanks to push notifications on the lock screen, most messages can be read and understood quickly.
- **Asynchronous** - Both parties don't need to be available at the same time.
- **Informal** - No subject lines, intros or signatures are required. Type your message, hit send, and you're done.
- **Focused** - The last message sent (or received) is the one people are most likely to read or return to, because it's always at the top.
- **Connected** - One of the most compelling aspects of SMS messaging is the context and continuity of a long-lived conversation.
- **Convenient** - Every phone comes with a messaging app that can process SMS. Convenience always wins when it comes to communication.

Businesses use SMS communications for very different purposes, but we can identify a list of main use cases for SMEs when A2P messaging could prove to be an efficient way to interact with customers:

- **Appointment reminders** - Appointment reminder texts give busy clients a friendly reminder, significantly increasing their chances of showing up on time.
- **SMS marketing campaigns** - A2P SMS apps allow businesses to automate their text marketing campaigns with the help of features such as bulk texting, SMS scheduling, and more.
- **Feedback and reviews** - With A2P SMS solutions, businesses can have two-way communication with their customers to request feedback via SMS polls or reviews once an action is completed.
- **Urgent notifications** - SMS notifications inform recipients about an event, such as an order update or service alert. They can be scheduled through an A2P SMS app or triggered by other services.
- **Customer support** - A2P SMS enables businesses to answer customer queries instantly with SMS auto-responders configured on frequently used keywords.
- **Internal team communication** - Create separate contact lists within an A2P SMS app to communicate with staff members or collaborators in real-time using two-way SMS.

The generally high level of effectiveness and a wide range of potential use cases for A2P messaging is supported by its strong engagement rates compared to other communication mediums. Many studies indicated that SMS messaging stand out in terms of engagement rates in comparison with most mobile message channels. For example, Gartner research discovered that, on average, SMS has an open rate of 98%, with 95% of SMS being read within 3 minutes of being received and a response rate of 45%.

According to the A2P messaging market research report by Mar-

ketsandMarkets, the global A2P messaging market size is expected to grow from USD 62.1bn in 2020 to USD 72.8bn by 2025, rising at a CAGR 3.2% during the forecast period. The report states that SMS help in generating leads, increasing sales, and building better customer relationships across a wide range of industries, such as the banking, financial services, and insurance (BFSI), retail & e-commerce, travel & tourism, marketing, hyperlocal businesses, and healthcare. The A2P messaging is growing and maturing across the globe and will continue to evolve with long-standing and fresh challenges faced by market players. The growing mobile subscriber base is fuelling the A2P market. As per the GSMA Mobile economy 2019 report, there were approximately 5.1 billion unique mobile subscribers in 2018, wherein smartphones accounted for 60% of the connections, and it is expected that the number would reach approximately six billion in 2025, with an 80% share of smartphones. With the increase in the mobile subscriber base, enterprises, mobile network operators (MNOs), and application developers have the opportunity to connect directly with their customers more efficiently across the globe. As it would be expected, customers with mobile phones frequently use messaging to communicate. This enables enterprises to send notifications, alerts, verifications, and promotional messages to their customers using this feature. Moreover, China and India have major market shares in the A2P messaging service, and it is expected to increase during the forecast period, owing to the ever-increasing mobile subscriber base. Under the applications segment, the authentication services segment is expected to grow at the highest growth rate during the forecast period. Authentication services are basically used for communicating authentication messages to the customers. As the A2P SMS market is increasingly used for applications, there is a growing number of logging-in and registering messages for the consumers leading to a high growth rate of this segment. Considering the economic sectors, the banking, financial services, and insurance (BFSI) segment of the A2P messaging market is projected to hold a larger market size during the forecast period. Increasing subscriber base brings an opportunity for the BFSI industry to engage with consumers. A2P messaging solution helps them to connect and build a robust connection with customers, from announcing transaction details and consumer activities related to retail banking and assisting consumers with their needs.

Based on the MarketsandMarkets research, the major vendors in the global A2P messaging market include AT&T (US), Sinch (Sweden), Infobip (UK), China Mobile (China), Orange (France), Route Mobile (India), Comviva (India), Twilio (US), BICS (Belgium), Monty Mobile (UK), Syniverse (US), Global Message Services (Switzerland), Tyntec (UK), Silverstreet (Singapore), Vonage (US), Genesys (US), TATA Communications (India), Cequens (Egypt), Mitto (Switzerland), ClearSky Technologies (US), Sify Technologies (India), MSG91 (India), Textlocal (UK), Clickatell (US), Kaleyra (Italy), MessageBird (The Netherlands). These players have adopted various strategies to grow in the global A2P messaging market. Due to the nature of A2P SMS as a service, the respective market and competition are global, and the market for mobile messaging platforms is highly fragmented. Effectively this means that TextMagic's potential competitors are all companies operating in the field of text messaging and customer engagement services. TextMagic considers competitors on a global scale as well as those operating in the markets that TextMagic considers key markets in its operations. Currently, these are the United States, the United Kingdom, and the European Union. We should also consider different chat applications and other marketing service providers as potential competitors of TextMagic, as different customers might prefer other channels offered by such service providers for marketing and communication. Considering the target markets and the business model, TextMagic has identified some of its closest competitors, which include companies such as MessageMedia, Zipwhip, and Commify. MessageMedia was recently acquired by Sinch for USD 1.3bn, while Zipwhip was acquired by Twilio for USD 850m. Commify owns 12 brands, such as Essendex, FastSMS, Textanywhere,

and Textmarketer in the A2P SMS segment (in the United States) and TextLocal (in the United Kingdom). Compared to its competitors, TextMagic sees its current payment model as one of its main competitive advantages. TextMagic payment model enables the customers to pay only for the services used and does not apply any fees based solely on the subscription for the services of TextMagic.

### Customer Engagement Solutions Market

As Touchpoint is a significant enhancement of TextMagic's current product, the Group also faces different competition and challenges. Touchpoint is customer engagement software for sales, marketing, and customer support – an all-in-one platform that is being developed to help small and medium-sized businesses focus on their customers and grow their business. The customer engagement solutions market is considered as part of the broader software as a service (SaaS) market. According to the research report by MarketsandMarkets, prepared in 2018, the customer engagement solutions market was valued at USD 13.0bn in 2017 and was expected to reach USD 23.2bn by 2023, rising at a CAGR of 10.5% during the forecast period. The increasing adoption of customer engagement solutions to reduce customer churn rate, increasing use of e-commerce and m-commerce platforms, and increasing focus on delivering enhanced customer engagement through omnichannel are significant factors projected to drive the growth of the market. Based on organisation size, the SME segment of the market is projected to grow at a higher CAGR during the forecast period as compared to the large enterprises segment. Cost-effectiveness is important for SMEs, as they have a limited budget. Hence, the implementation of cloud-based customer engagement solutions is expected to result in increased revenues, desired business outcomes, and improved

business efficiency for SMEs.

Considering the economic sectors, the BFSI segment was projected to lead the customer engagement solutions market from 2018 to 2023. The growth of the BFSI segment can be attributed to the increased adoption of customer engagement solutions in the BFSI vertical, as these solutions help BFSI companies automate their customer interaction processes through chatbots, thereby reducing the service delivery time. The Asia Pacific market is projected to grow at the highest CAGR from 2018 to 2023. The growth of the Asia Pacific market can be attributed to the increased adoption of cloud computing by different organisations in this region. Issues related to data synchronisation between customer engagement solutions and other technologies are restraining the growth of the market. As per MarketsandMarkets report, key players operating in the customer engagement solutions market are Avaya (US), Aspect Software (US), Calabrio (US), Genesys (US), IBM (US), Microsoft (US), NICE Systems (Israel), Nuance Communications (US), OpenText (Canada), Oracle (US), Pegasystems (US), Pitney Bowes (US), Salesforce (US), SAP (Germany), ServiceNow (US), Verint Systems (US), Zendesk (US), eGain Corporation (US), BPMonline (US), CRMnext (India), Eptica (France), and Freshworks (US). These companies are adopting various growth strategies such as expansions, agreements, collaborations, partnerships, acquisitions, and new product launches and product enhancements to increase their market shares.

Considering the target markets and the planned major features of the Touchpoint platform, TextMagic has identified some of the main competitors for Touchpoint, including Zendesk, HubSpot, Freshworks, Pipedrive, and other similar platforms.

# Financials

In this section of the report, we are discussing the Group's financial drivers in greater detail, providing an overview of the key elements in its volumes, revenues, and expenses dynamics, as well as those affecting the Group's capital expenditures ('CapEx'), financial position, and dividend policy. In order to assess the Group's potential performance, we have prepared projections for its balance sheet, income statement, and cash-flow statements for the 2021-2026 period, based on our assumptions for the key operational and financial indicators. TextMagic completed a successful IPO in December 2021, followed by the admission to trading of the shares on the Nasdaq Baltic First North alternative market. The IPO was strongly oversubscribed, and the Company raised c.a. EUR 2.25m of additional equity as net proceeds. Our financial projections and equity valuation of TextMagic are prepared on a post-money basis, including the above-mentioned proceeds from the IPO, which enables the Group to strengthen its financial position and proceed with the development of both its existing product as well as the new customer engagement platform Touchpoint.

We would like to mention that the Group in its current form exists only from September 2021, following the restructuring process and transfer of the holdings in the subsidiaries by the core shareholders to the newly established parent company, AS TextMagic. Essentially, AS TextMagic is a brand-new company that was registered only in April this year, and there are no historical annual or quarterly reports available for this entity. As part of the company description materials prepared for the IPO process, the Company has presented its compressed unaudited consolidated income statement and balance sheet as of 30<sup>th</sup> September 2021. Apart from these summary financial statements, the Company calculated pro forma revenues and EBITDA figures for 2019-2020 and for the nine-month period of 2021. The calculation of pro forma EBITDA from the business operations was presented for illustrative purposes only to give an indication of the Group's performance as if the business combinations had been completed at an earlier date. Due to the recent substantial restructuring process of the Group and very limited availability of actual or pro forma financial statements, our assumptions regarding the current financial position and 2021 results of the Group may differ significantly from the actual numbers to be presented in the audited consolidated 2021 report that is likely published during Q2 2022.

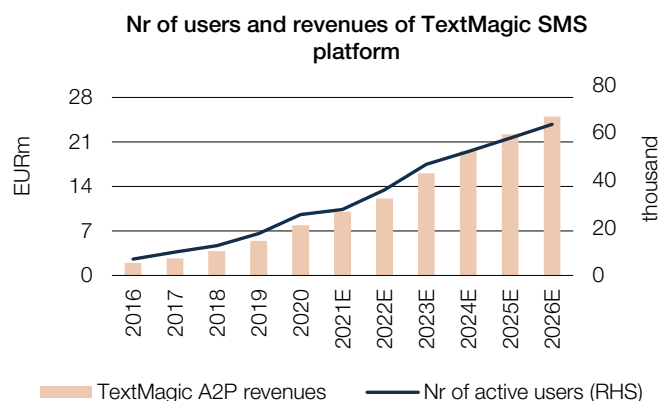
Also, please note that we have used the 2020 consolidated audited annual report of Monday Media OÜ as the basis and closest proxy for pro forma financial statements of TextMagic for the years 2019 and 2020. Additionally, we have prepared the pro forma 2021 financial estimates for the Group based on the assumption as if the business combinations and restructuring of the Group had been completed already on 1<sup>st</sup> January 2021.

## Sales

As part of the preparations for the IPO, the Company has prepared and presented its pro forma sales and EBITDA figures for the period from 2016 until 2020 as well as for the nine-month period of 2021. According to the information presented within the company description, pro forma consolidated sales of the Group increased from EUR 1.96m in 2016 to EUR 7.92m in 2020, rising at a CAGR of 41.8%. In the nine months of 2021, the respective sales number amounted to EUR 7.77m, though the y-o-y comparison is not available. During the four-year period from 2016 till 2020, the number of active users, defined as paying users of TextMagic who have made at least one payment in a specific year, expanded at a CAGR of 38.8% from 6.9k to 25.6k. However, partly due to the stronger than average growth in active users in 2020, supported by the urgent communication needs related to the COVID-19 pandemic, the active user growth stagnated during the first nine months of 2021, the respective number remain-

ing steady compared to the year-end 2020 at 25.6k. As the sales growth has grown somewhat faster than the number of active users, our calculations indicated that TextMagic has gradually improved its average revenue per user (ARPU) over the last four years, rising at a CAGR of 6.6% to reach EUR 367 in 2020.

We decided to forecast the performance of the TextMagic SMS platform as a function of the number of active users and the ARPU. Looking forward, considering the rapid active user growth of 45.5% recorded in 2020 and steady volumes in the nine months of 2021, we anticipate TextMagic to present a relatively slow active user growth for the full-year 2021, up c.a. 8% y-o-y to 27.7k. However, we projected the respective growth to pick up again from 2022, accelerating to around 30% a year over the next two years, though slowing down again thereafter. Overall, we estimate the total number of active users of the TextMagic platform to rise at a CAGR of 16% from 2020 to 2026, exceeding 63k by the end of our forecast period. We project the product ARPU also to continue to expand going forward, although at a slower pace in comparison to the previous years, rising at a CAGR of 2.0% until 2026 to amount to EUR 413. All-in-all, such performance in terms of the ARPU and the number of active users would translate into the total revenues from the TextMagic platform of at least EUR 25m by 2026, more than tripling from 2020 at a six-year CAGR of over 21%.



Regarding the upcoming new product, the customer engagement platform Touchpoint, the management stated that it has retained a conservative approach and does not project substantial additional revenue from this product within its financial guidance until 2024. Although the new product is expected to be rolled out during 2023, we have also taken a relatively conservative stance and anticipate a notable revenue contribution from Touchpoint only from 2025. Being basically a new start-up project, the potential active user expansion of Touchpoint is difficult to estimate at this stage. The new platform will be based on a subscription-based model for a monthly or annual subscription fee. Given the nature of the product as an all-in-one customer engagement platform, the ARPU of Touchpoint is going to be much higher compared to the TextMagic SMS platform. According to the management, the Group plans to sell the new product with an average annual fee of around EUR 5,000 per user. We have conservatively assumed the Group to start with only c.a. 100 paid users in 2023, rising to about 1.5k by 2026. Accordingly, the revenues from the Touchpoint platform are projected to rise from EUR 0.3m in 2023 to near EUR 6m by the end of our forecast period. However, we acknowledge that there is a substantial upward potential from our estimates in case the new product turns out more popular among existing and prospective clients. Combining the projections for the TextMagic and Touchpoint platform, the Group is predicted to maintain a solid revenue growth throughout our forecast period, with the total revenues rising at a CAGR of over 25% over the six-year period from 2020 to 2026 and reaching nearly EUR 31m.

## Cost Base

Using the 2020 consolidated annual report of Monday Media OÜ, the core shareholder of the Group, as the closest proxy for pro forma financials for the Group, direct SMS costs paid to the communication vendors form a substantial portion of the total cost base. During 2019-2020, on average, SMS costs accounted for nearly 31% of revenues. However, it looks as the respective cost, as a percentage of revenues, declined y-o-y in 2020, and a further drop was recorded in the nine months of 2021. According to TextMagic, SMS costs formed c.a. 26% of the total TextMagic platform revenues in the nine-month period of this year, down from 29% in 2020. The drop was primarily driven by the growing proportion of the US revenues, where the SMS cost margin is lower compared to other main markets of TextMagic, forming just 14% of revenues in the nine months of 2021. Although the Group's overall SMS costs, as a percentage of revenues, might come down further in the coming years due to the growing portion of the US market in the Group's revenue mix, we have projected it conservatively to remain at 26% throughout our forecast period. In 2020, other notable cost items for TextMagic were design and development costs, software tools costs as well as personnel costs. We assume that development expenses of the TextMagic SMS platform that are not performed by outsourced software developers, i.e. developers who are not on the Group's payroll and work under third-party service agreements, are reflected under the design and development costs. It should be noted that some portion of the development costs of the TextMagic software is capitalised to the intangible assets and amortised over 5-10 years, therefore not being directly expensed to the statement of profit and loss. Based on the 2020 annual report of Monday Media OÜ, the Group capitalised the development expenses of the TextMagic platform in the amount of c.a. EUR 0.6m in 2019 and EUR 0.7m in 2020. According to the management, the direct costs related to developers of the Touchpoint platform are fully capitalised to the intangible assets until the launch of the product in 2023. Concerning the software tool costs, we assume that these expenses are related to the third-party software, the Group uses for the development process of its products and for everyday operations of the TextMagic SMS platform. Such tools may include software solutions provided by several well-known service providers, e.g., Twilio, OVHcloud, Amazon Web Solutions, Google Cloud, Zendesk etc. In our projections, we have assumed that the outsourced design and development costs account for about 8-9% and software tools around 6% of the total revenues going forward.

Personnel costs that are reflected in the Group's statement of profit and loss cover only staff members who are on the payroll of the companies which are part of the Group. Looking at the Monday Media OÜ 2020 annual report, the average number of people employed by the TextMagic companies was just nine in 2020, up from eight a year earlier. However, the management indicated prior to the IPO that the Group currently employs or has contracted with a total of around 40 people from Estonia, Russia, Ukraine, and Romania, and it expects to double the headcount by the end of 2022. In our projections, we estimated that only about one-third of the total connected staff members are on the payroll of the Group companies, while others are working under the service contracts, with their salaries and other related expenses being reflected under the design and development costs or capitalised directly to the intangible assets and amortised later. Based on Monday Media OÜ 2020 annual report as a proxy, other operating expenses (OpEx) accounted for 10.4% of the total revenues, on average, over the last two years, with the respective proportion declining from 11.7% in 2019 to 9.0% in 2020. In 2020, banking costs and advertising & marketing expenses were the major cost items among other OpEx, comprising more than half of the total, with the rest being attributed mainly to rental, office, and transport expenses. We project other OpEx, as a % of total revenues, to remain steady at 10% during our forecast period.

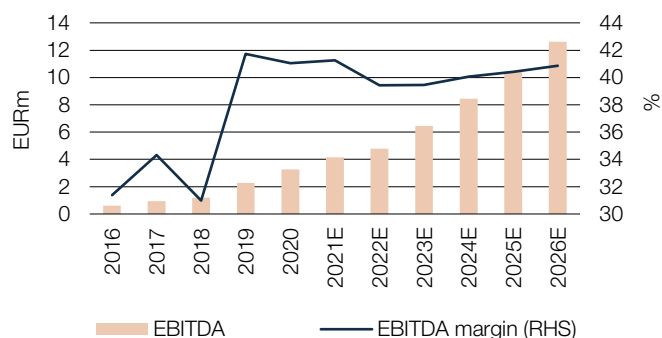
Considering the potential depreciation and amortisation charges go-

ing forward, these are mostly dependent on three factors, including the CapEx volumes spent on the development of the TextMagic SMS and Touchpoint platforms, the estimated useful lives and the respective amortisation periods of the software and trademarks belonging to the Group, and the starting date of the amortisation of the new software. The Group stated that the amortisation of the Touchpoint platform will start when the platform is taken into use in 2023. Please note that the amortisation costs are significantly affecting the net profit figures of the Group in the coming years, also impacting the peer group analysis of TextMagic, but are considered as largely irrelevant from the discounted cash flow analysis point of view.

## Profitability

The net profits of the Group are strongly influenced by the calculation of the amortisation costs of intangibles, which, in turn, is impacted by the capitalised amount of the software development costs as well as by the management's estimates on useful lives of the intangible assets. Therefore, when assessing the Group's profitability and margins, we are focusing mostly on the EBITDA. TextMagic has presented its pro forma revenue and EBITDA numbers for the years 2016-2020 and for the nine-month period of 2021. These figures show that the Group has maintained relatively strong EBITDA margins throughout the period, while the underlying margins notably improved further during the last two years. Pro forma EBITDA has rapidly expanded from just EUR 0.62m in 2016 to EUR 3.25m in 2020, rising at a four-year CAGR of 51.7%. During the same period, the EBITDA margin improved from 31.4% to 41.1%. For the nine-month period of 2021, the Group calculated pro forma EBITDA of EUR 3.63m, which brings the EBITDA margin to as high as 46.7%. However, considering the additional costs related to the IPO, we anticipate the full-year 2021 pro forma margin to remain steady compared to the previous year. Looking forward, our base case scenario assumes the overall cost base rising at a similar pace with the total revenues, resulting in broadly steady EBITDA margins in the coming years compared to the historical pro forma numbers.

EBITDA and EBITDA margin of the Group



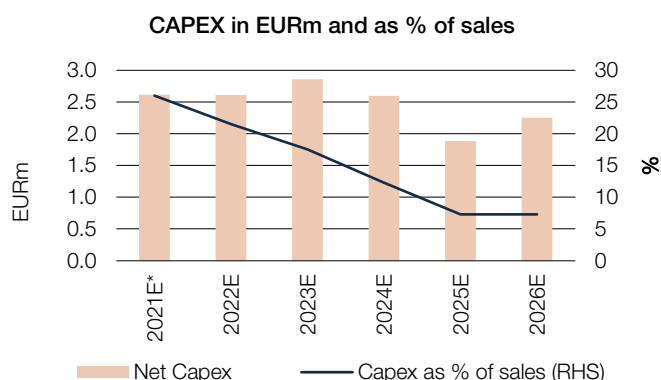
Source: TextMagic, LHV for estimates

## Capital Expenditure

The Capex volumes of TextMagic are mostly driven by the capitalised development costs related to the software platforms, which are the core of the Group's operations, also being the main assets, accompanied with the related trademarks and internet domains. Unfortunately, TextMagic has not revealed its pro forma CapEx amounts for the previous years. Please note that prior to the restructuring process completed in September 2021, all rights connected to an A2P SMS marketing software 'TextMagic', a customer engagement software 'Touchpoint', 'TextMagic' trademarks, and 'textmagic.com' and 'touchpoint.com' domains belonged to Monday Media OÜ, a holding company fully owned by Priit Vaikmaa. Using the 2020 annual report of Monday Media OÜ as a proxy for pro forma statements, the Group effectively capitalised the development expenses

of the TextMagic platform in the amount of c.a. EUR 0.6m in 2019 and EUR 0.7m in 2020.

According to the IFRS accounting principles, the initial software development costs can be capitalised during the development process if they can be measured reliably, the product or process is technically and commercially viable, future economic benefits are probable, and the Group intends and has sufficient resources to complete the development for the use or sale of a property. Subsequent development expenditures can be capitalised only when they increase the future economic benefits embodied in the specific assets. Over the years, TextMagic has constantly invested in the improvements of the existing A2P SMS platform, increasing its efficiency and earnings capacity. The development of the software required for managing the new platform Touchpoint commenced only in 2020. The management indicated that all costs related to the developers of Touchpoint will be capitalised, and the amortisation of the Touchpoint platform will start when the platform is taken into use in 2023. Given the Group's strategic focus in the coming years to quickly proceed with the development of Touchpoint and planned substantial expansion of the development team, we project the total CapEx of the Group to increase significantly from 2021 compared to the indicative figures from the previous years. We estimated total annual CapEx to be in a range of EUR 2.5-3.0m during 2021-2024, with a modest decline thereafter. Apart from the software development CapEx, investments into tangible assets are predicted to remain rather small, not exceeding EUR 0.1m per year.



Source: TextMagic, LHV for estimates

## Financial position

The Group in its current form exists only from September 2021, following the restructuring process and transfer of the holdings in the subsidiaries by the core shareholders to the newly established parent company, AS TextMagic, while the latter was registered only in April this year. In September 2021, substantial restructuring of the Group was performed by transferring the shareholdings in TextMagic Ltd. and TM Ops OÜ to AS TextMagic as a non-monetary contribution by its shareholders. In addition to the transfer of the shares of the mentioned subsidiaries, Monday Media OÜ also transferred to AS TextMagic an A2P SMS marketing software 'TextMagic', a customer engagement software 'Touchpoint', 'TextMagic' trademarks, and 'textmagic.com' and 'touchpoint.com' domains. During the restructuring process, the shareholdings and other assets, as non-monetary contributions, were transferred to AS TextMagic, which were appraised by the Management Board, and the appraisal value decided by the Management Board did not deviate notably from the outcome of an independent appraisal conducted by LHV Pank AS, while the appraisal was independently audited by Grant Thornton Baltic OÜ, the auditors of AS TextMagic. In total, the value of the transferred assets was set at ER 52.1m, including the value of intangible assets of EUR 51.7m. The exact breakdown of the appraised value by the assets transferred is not available at this stage. According to the management, the value was mostly attributed to the software 'TextMagic' and 'Touchpoint', but we should keep in mind that the transaction should be considered as a business combination as the Company acquired a business rather than a collection of disparate assets.

Following the completion of the restructuring process, as of 30<sup>th</sup> September 2021, the consolidated balance sheet of the Group amounted to EUR 55.3m, with total equity of EUR 52.1m. Among the assets, the Group recorded total intangible assets of EUR 51.7m, while cash and cash equivalents amounted to EUR 3.3m. Considering the net proceeds from the successful IPO and estimated pro forma 2021 profits, we project the Group to end this year with the pro forma consolidated equity of over EUR 55m and debt-free, complemented with the cash balance of over 6m. Adding to the positives, the existing TextMagic SMS platform is already generating positive cash flows, which, accompanied with the IPO proceeds, enables the Group to finance its development projects and growth ambitions from its own capital. Therefore, in our view, TextMagic does not need any external financing in the foreseeable future and might consider dividend payments already from 2024. However, the Company may still arrange additional share issues in the coming years, for example to cover its obligations related to the option program for employees and partners.



# Valuation

In this section, we discuss our assumptions and approach in deriving the fair equity value range of the Group. We have approached the valuation of TextMagic using a combination of the income and market approaches. For the income approach, we used the Discounted Cash Flow model. For the market approach, we used a peer group valuation, which considers several peer group trading multiples for 2021-2023E and applies the peer group median valuation multiples to the respective financials for the Group. In terms of the peer group, we used three different market multiples for comparison, including EV/EBITDA, EV/Sales, and P/E. Please note that our valuation for TextMagic is calculated on a post-money basis as at the end of 2021, including the proceeds from the IPO in the financial projections.

## Discounted Cash Flow

The free cash flow to the firm ('FCFF') is calculated as the tax-adjusted operating profit, adjusted for Capex, working capital investments, and depreciation and amortisation. Considering TextMagic as a company with substantial expansion plans for its existing core product of A2P SMS platform 'TextMagic' as well as for the new customer engagement platform 'Touchpoint', foreseeing a strong growth profile during our forecast period, we decided to use a three-step DCF model, which includes a five-year forecast period, followed by a three-year transition period, when all elements of the Group's cash flows gradually approach those applied for the terminal period. Main assumptions for the cost of capital calculations used in our DCF model, such as the normalised long term risk-free rate, sector betas, and equity risk premium, are sourced from the "2017 Valuation Handbook – International Industry Cost of Capital" published by Duff & Phelps. The country risk premium is based on a ratings-based default spread sourced from the Damodaran database. Also, the additional company-specific risk premium is applied to capture operational risks. Below are the main assumptions used for the DCF:

- **DCF model** – a three-step DCF model, which includes a five-year forecast period, followed by a three-year transition period and terminal value calculations.
- **Risk-Free Rate** - we used a risk-free rate of 2.5% based on a normalised long-term forecast.
- **Market Risk Premium** - we considered a long-term normalised equity risk premium of 5.1% in our calculations.
- **Levered Beta** - we used a peer group median unlevered Vasicek

Adjusted five-year beta of 0.74 to calculate levered beta of 0.78 for TextMagic, based on an average debt-to-equity ratio of 0.05x and a tax rate of 0%.

- **Country Risk Premium** – we decided to base our country risk premium on where the revenues are generated. The Group's activities are mostly performed in the US, UK, Australia, Canada, and other countries, we used the weighted average default spread of 0.25% as the Group's country risk premium.
- **Company-Specific Risk Premium** - considering the relatively small size of the Company and free float, low liquidity of its shares, highly competitive operating environment, and the start-up phase of the new customer engagement product, we decided to apply a company-specific risk premium of 7.0%.
- **Tax rate** - Estonian corporate taxation system is set in a way that instead of earned profits, only distributions (such as dividends) are taxed. Therefore, interest expenses do not provide any tax shield, and we applied an effective tax rate of 0% for the cost of capital calculations. For the free cash flows, we calculated expected tax costs based on forecasted dividends during the forecast period.
- **Cost of Debt** – an estimated long-term average of 7.0% was used as an effective interest rate.

Based on these assumptions, we calculated a DCF-based value of the Group at EUR 8.78 per share.

### DCF Assumptions

Risk free rate	2.50%
Market risk premium	5.10%
Levered Beta	0.78
Country Risk Premium	0.25%
Add.comp.risk premium	7.00%
<b>Cost of equity</b>	<b>13.71%</b>
Share of debt	5.0%
Cost of debt	7.00%
<b>WACC</b>	<b>13.38%</b>
Terminal sales growth	3.0%
Terminal EBIT margin	25.0%

Source: LHV

DCF valuation, EURm	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	Term
EBIT	1.5	2.5	2.9	5.3	7.8	9.0	10.0	10.7	10.9
Taxes	-	-	(0.2)	(0.3)	(0.6)	(0.8)	(1.0)	(1.2)	(1.3)
Non-cash charges	3.2	3.9	5.6	5.2	4.8	5.0	4.9	4.5	3.9
Capex	(2.6)	(2.9)	(2.6)	(1.9)	(2.3)	(2.8)	(3.4)	(4.0)	(4.4)
Change in NWC	(0.0)	0.1	0.0	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
<b>FCFF</b>	<b>2.2</b>	<b>3.7</b>	<b>5.7</b>	<b>8.1</b>	<b>9.7</b>	<b>10.3</b>	<b>10.4</b>	<b>10.0</b>	<b>9.2</b>
Discounted FCFF	2.0	3.0	4.2	5.2	5.5	5.1	4.6	3.9	34.5
Enterprise Value									68.1
Net debt									6.5
<b>Equity value</b>									<b>74.7</b>
<b>Equity value per share (EUR)</b>									<b>8.8</b>

Source: LHV

## Peer Valuation

For the peer valuation, we compiled a list of different companies operating in the application software sector, more specifically in the A2P SMS market and the customer engagement solutions market. The selected companies are of very different sizes, but most of them are considerably larger in comparison with Textmagic and normally have much more diversified business models. Due to the global nature of the application software business models and the major markets for TextMagic, we also included global names, which operate across the world, including the US, Canada, Australia, and other major markets. We fully acknowledge that there could be significant deviations between average trading multiples of different global regions, but we assume that a broader selection of peers helps to create sufficient market diversification. We decided to use the peer

group median values as a basis for the comparative analysis of TextMagic, but we are applying an additional company size, and liquidity discount of 25% to all peer group derived market multiples. In order to have a reasonably wide selection of market multiples for broader comparison, we focused on three different multiples, including EV/EBITDA, EV/Sales, and P/E. We are also excluding outliers from the median calculations to reduce the probability of larger statistical errors. Taking into account the anticipated relatively strong expansion rates of the Group's operating volumes and profits in the coming years, we decided to apply different time weightings to the implied equity values derived from the peer group data, giving zero weight to 2021 and 50% to both 2022 and 2023 estimated values. Looking at 2021-2023E data, the implied equity value of TextMagic ranges widely between EUR 4.0-10.7 per share.

Company	Bloomberg ticker	Market Cap (EURm)	EV/EBITDA (x)			EV/Sales (x)			P/E (x)		
			2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
SALESFORCE.COM INC	CRM US Equity	2,31,016	42.5	32.1	26.1	13.5	10.1	8.4	57.0	56.4	55.9
SAP SE	SAP GY Equity	1,45,406	16.3	16.3	15.0	5.6	5.3	5.0	19.0	22.5	20.4
TWILIO INC - A	TWLO US Equity	42,452	174.0	146.8	100.4	15.9	12.1	9.3	n.a.	n.a.	753.6
ZENDESK INC	ZEN US Equity	10,865	88.2	68.7	44.7	8.9	7.1	5.7	156.1	115.6	75.9
PEGASYSTEMS INC	PEGA US Equity	8,188	112.9	57.7	40.3	7.7	6.4	5.3	499.9	126.8	70.0
SINCH AB	SINCH SS Equity	7,998	80.5	21.8	16.4	4.5	2.8	2.5	68.3	36.5	28.3
HANSEN TECHNOLOGIES LTD	HSN AU Equity	681	9.7	11.4	11.1	3.8	3.9	3.8	14.9	18.1	17.5
LIVECHAT SOFTWARE SA	LVC PW Equity	672	23.4	20.6	18.2	15.3	13.1	11.3	n.a.	24.8	21.8
DOTDIGITAL GROUP PLC	DOTD LN Equity	651	27.5	25.1	22.1	9.0	7.9	7.0	47.8	45.5	40.6
LINK MOBILITY GROUP HOLDING	LINK NO Equity	579	28.3	12.9	9.5	2.1	1.7	1.4	85.0	18.6	12.4
UPLAND SOFTWARE INC	UPLD US Equity	552	10.0	9.8	9.5	3.2	3.2	3.1	10.0	11.4	11.4
LIME TECHNOLOGIES AB	LIME SS Equity	440	35.0	30.3	26.1	11.4	9.8	8.5	60.2	48.9	39.9
CERILLION PLC	CER LN Equity	290	27.1	19.4	16.5	9.2	7.7	6.6	42.4	27.8	23.2
SERVICEWARE SE	SJJ GY Equity	179	25.5	19.6	14.7	1.8	1.6	1.4	243.6	65.6	36.3
UPSALES TECHNOLOGY AB	UPSALE SS Equity	126	62.1	42.2	29.3	13.1	10.1	7.8	161.3	84.1	51.6
NETCALL PLC	NET LN Equity	124	18.7	17.1	15.8	3.7	3.4	3.1	54.6	44.4	37.4
INNOFACTOR OYJ	IFA1V FH Equity	53	5.6	6.5	5.6	0.9	0.9	0.9	12.2	10.8	10.0
<b>Median (Excluding outliers)</b>			<b>27.1</b>	<b>19.5</b>	<b>16.1</b>	<b>8.3</b>	<b>6.7</b>	<b>5.5</b>	<b>54.6</b>	<b>32.2</b>	<b>32.3</b>
Average (Excluding outliers)			33.4	20.4	16.8	7.6	6.3	5.4	60.7	36.8	34.5
Quartile 1			18.7	16.3	14.7	3.7	3.2	3.1	30.7	21.5	20.4
Quartile 3			62.1	32.1	26.1	11.4	9.8	7.8	120.5	58.7	51.6
Company size and liquidity discount applied			25%								
<b>Adjusted Median Multiples</b>			<b>20.3</b>	<b>14.6</b>	<b>12.0</b>	<b>6.2</b>	<b>5.1</b>	<b>4.1</b>	<b>41.0</b>	<b>24.1</b>	<b>24.2</b>
Respective financial result of TextMagic (EURm)			4.2	4.8	6.4	10.1	12.1	16.3	0.8	1.5	2.5
<b>Implied equity value based on Median (EURm)</b>			<b>90.9</b>	<b>76.5</b>	<b>84.1</b>	<b>69.2</b>	<b>67.8</b>	<b>73.8</b>	<b>34.2</b>	<b>36.3</b>	<b>59.6</b>
<b>Implied value per share (EUR)</b>			<b>10.7</b>	<b>9.0</b>	<b>9.9</b>	<b>8.15</b>	<b>7.98</b>	<b>8.68</b>	<b>4.0</b>	<b>4.3</b>	<b>7.0</b>

Source: Bloomberg, LHV

## Valuation Summary

Finally, in valuing the total equity of TextMagic, we have used the weighted average of values derived from the DCF and the peer group data (including three market multiple comparisons), applying different weights to each method. Given the more attractive longer-term growth characteristics of the Group as well as a limited number of fully comparable peers, we see the income approach as more suited for the valuation of TextMagic and assigned a 70% weight to DCF-based income approach valuation in the total value, leaving the peer valuation weight at 30%, including a 10% weight for each of the peer multiples. Overall, based on our current projections for TextMagic and other assumptions, we initiate the coverage on the stock, setting our fair value range ('FVR') for the Group at EUR 8.0-9.0 per share.

TextMagic has already proved itself being capable of developing and selling an effective A2P SMS platform, 'TextMagic', which has attracted over 25 thousand active users as of Q3 2021, with an ARPU of over EUR 360 per year. In 2020, TextMagic started the development of a brand-new customer engagement platform, Touchpoint. The new platform connects various communication channels and is

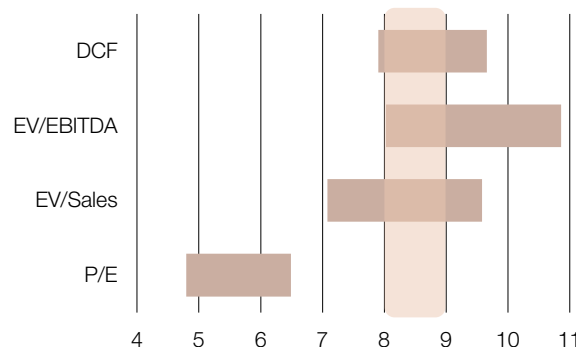
attempting to cover the needs and preferences of more customers, while it is planned to be launched in 2023. As the existing product already generates positive cash flows, the Group did not have an urgent need for additional funding to finance its growth and development ambitions, but the successful IPO enables to facilitate stock options to attract more talents and speed up the development process of the new customer engagement platform, bringing more value to all shareholders and customers. We believe that the core attraction of the investment case of TextMagic is the easy scalability of its existing and planned software platforms, allowing it to aggressively target global markets for rapid expansion. There is a huge potential for the global A2P SMS as well as the customer engagement market to be exploited if TextMagic can offer competitive and reliable solutions for its growing customer base. The key risk factors to our valuation include a slower and more expensive than anticipated development process and an unsuccessful launch of the new Touchpoint platform, stiff competition in the primary markets from larger competitors, potential changes in the regulatory environment concerning the A2P SMS market, and weaker than projected growth and margins for its core A2P SMS platform.

### Sensitivity of mid-point of FVR to main assumptions (EURm)

		WACC						
		11.9%	12.4%	12.9%	13.4%	13.9%	14.4%	14.9%
Terminal growth rate	2.1%	9.1	8.8	8.5	8.3	8.0	7.8	7.6
	2.4%	9.3	8.9	8.6	8.3	8.1	7.8	7.6
	2.7%	9.4	9.0	8.7	8.4	8.1	7.9	7.7
	3.0%	9.5	9.1	8.8	8.5	8.2	8.0	7.7
	3.3%	9.6	9.2	8.9	8.6	8.3	8.0	7.8
	3.6%	9.8	9.3	9.0	8.7	8.4	8.1	7.9
	3.9%	9.9	9.5	9.1	8.8	8.5	8.2	7.9

Source: LHV

### LHV Fair Value Range: EUR 8.00-9.00\*



\* As of 20<sup>th</sup> Dec 2021

Weighted Value, EURm	Period weights			Period weighted value	Weights	Contribution to value
	2021E	2022E	2023E			
Method	0%	50%	50%			
EV/EBITDA	10.7	9.0	9.9	9.4	10%	0.9
EV/Sales	8.1	8.0	8.7	8.3	10%	0.8
P/E	4.0	4.3	7.0	5.6	10%	0.6
DCF				8.8	70%	6.1
<b>Total weighted value</b>					<b>100%</b>	<b>8.5</b>

Source: LHV

# Financial Tables

Income Statement (EURm)	2019/pf*	2020/pf*	2021E/pf	2022E	2023E	2024E	2025E	2026E
Net turnover	5.47	7.92	10.06	12.13	16.32	21.10	25.81	30.87
Cost of sales	(2.25)	(3.46)	(4.15)	(5.00)	(6.72)	(8.59)	(10.50)	(12.56)
<b>Gross profit</b>	<b>3.21</b>	<b>4.46</b>	<b>5.92</b>	<b>7.13</b>	<b>9.60</b>	<b>12.51</b>	<b>15.30</b>	<b>18.30</b>
Operating expenses	(0.64)	(0.71)	(1.01)	(1.21)	(1.63)	(2.11)	(2.58)	(3.09)
Staff costs	(0.27)	(0.36)	(0.63)	(0.98)	(1.33)	(1.71)	(2.01)	(2.28)
Other operating income	0.02	0.00	0.01	0.01	0.02	0.02	0.03	0.03
Other operating expense	(0.11)	(0.11)	(0.14)	(0.16)	(0.21)	(0.26)	(0.31)	(0.35)
<b>EBITDA</b>	<b>2.21</b>	<b>3.27</b>	<b>4.15</b>	<b>4.78</b>	<b>6.44</b>	<b>8.45</b>	<b>10.43</b>	<b>12.61</b>
D&A	(0.38)	(0.49)	(3.31)	(3.25)	(3.94)	(5.56)	(5.17)	(4.80)
<b>Operating profit</b>	<b>1.83</b>	<b>2.79</b>	<b>0.85</b>	<b>1.53</b>	<b>2.50</b>	<b>2.89</b>	<b>5.26</b>	<b>7.81</b>
Financial income	0.00	-	0.01	0.01	0.01	0.01	0.01	0.02
Financial expenses	(0.10)	(0.16)	(0.02)	(0.03)	(0.04)	(0.05)	(0.07)	(0.08)
<b>Profit before tax</b>	<b>1.73</b>	<b>2.63</b>	<b>0.83</b>	<b>1.51</b>	<b>2.46</b>	<b>2.85</b>	<b>5.21</b>	<b>7.75</b>
Corporate income taxes (incl. deferred)	(0.14)	(0.19)	-	-	-	(0.15)	(0.34)	(0.61)
<b>Net profit for the period</b>	<b>1.60</b>	<b>2.43</b>	<b>0.83</b>	<b>1.51</b>	<b>2.46</b>	<b>2.69</b>	<b>4.87</b>	<b>7.14</b>
Non-controlling interest	0.04	0.04	-	-	-	-	-	-
<b>Net profit to owners of the parent</b>	<b>1.56</b>	<b>2.40</b>	<b>0.83</b>	<b>1.51</b>	<b>2.46</b>	<b>2.69</b>	<b>4.87</b>	<b>7.14</b>

Source: LHV for estimates; pf - pro forma figures; \*Monday Media OÜ figures used

Balance Sheet (EURm)	2019/pf*	2020/pf*	2021E/pf	2022E	2023E	2024E	2025E	2026E
Cash and cash equivalents	1.01	1.76	6.78	8.93	12.56	17.65	24.41	31.65
Trade and other receivables	0.11	0.18	0.28	0.33	0.45	0.58	0.71	0.85
Current loan receivables	0.02	0.07	-	-	-	-	-	-
Inventories	-	-	0.02	0.02	0.03	0.04	0.05	0.06
<b>Total current assets</b>	<b>1.14</b>	<b>2.00</b>	<b>7.07</b>	<b>9.28</b>	<b>13.04</b>	<b>18.27</b>	<b>25.17</b>	<b>32.56</b>
Property, plant and equipment	0.50	1.57	0.15	0.17	0.20	0.20	0.22	0.25
Investments in associates	1.34	1.56	51.16	50.50	49.39	46.41	43.11	40.54
Non-current loans receivables	0.37	0.49	-	-	-	-	-	-
Other long-term receivables	0.09	0.11	-	-	-	-	-	-
<b>Total non-current assets</b>	<b>2.31</b>	<b>3.73</b>	<b>51.31</b>	<b>50.67</b>	<b>49.58</b>	<b>46.61</b>	<b>43.33</b>	<b>40.78</b>
<b>Total Assets</b>	<b>3.45</b>	<b>5.72</b>	<b>58.38</b>	<b>59.95</b>	<b>62.62</b>	<b>64.88</b>	<b>68.50</b>	<b>73.34</b>
Loans and borrowings	0.02	0.40	-	-	-	-	-	-
Finance lease liabilities	-	-	0.10	0.11	0.12	0.13	0.14	0.15
Prepayments and accruals	0.87	1.10	1.41	1.46	1.63	1.69	1.81	1.85
Trade and other payables	0.31	0.31	1.58	1.58	1.59	1.70	1.65	1.72
<b>Total current liabilities</b>	<b>1.20</b>	<b>1.81</b>	<b>3.09</b>	<b>3.14</b>	<b>3.34</b>	<b>3.52</b>	<b>3.60</b>	<b>3.72</b>
Loans from credit institutions	0.03	-	-	-	-	-	-	-
Finance lease liabilities	-	-	0.15	0.16	0.17	0.18	0.19	0.20
<b>Total non-current liabilities</b>	<b>0.03</b>	<b>-</b>	<b>0.15</b>	<b>0.16</b>	<b>0.17</b>	<b>0.18</b>	<b>0.19</b>	<b>0.20</b>
<b>Total liabilities</b>	<b>1.23</b>	<b>1.81</b>	<b>3.24</b>	<b>3.30</b>	<b>3.51</b>	<b>3.70</b>	<b>3.79</b>	<b>3.92</b>
Share capital	0.00	0.00	0.85	0.85	0.85	0.85	0.85	0.85
Share premium	0.01	0.01	53.50	53.50	53.50	53.50	53.50	53.50
Reserves	0.02	(0.05)	-	0.04	0.12	0.12	0.12	0.12

Balance Sheet, EURm (...continued)	2019/pf*	2020/pf*	2021E/pf	2022E	2023E	2024E	2025E	2026E
Retained earnings	2.13	3.80	0.79	2.26	4.64	6.72	10.25	14.95
<b>Equity to owners of the parent</b>	<b>2.16</b>	<b>3.76</b>	<b>55.14</b>	<b>56.65</b>	<b>59.11</b>	<b>61.18</b>	<b>64.71</b>	<b>69.42</b>
Non-controlling interest	0.06	0.15	-	-	-	-	-	-
<b>Total Equity</b>	<b>2.22</b>	<b>3.92</b>	<b>55.14</b>	<b>56.65</b>	<b>59.11</b>	<b>61.18</b>	<b>64.71</b>	<b>69.42</b>
<b>Total Equity and Liabilities</b>	<b>3.45</b>	<b>5.72</b>	<b>58.38</b>	<b>59.95</b>	<b>62.62</b>	<b>64.88</b>	<b>68.50</b>	<b>73.34</b>

Source: LHV for estimates; pf - pro forma figures; \*Monday Media OÜ figures used

Cash Flow Statement (EURm)	2019/pf*	2020/pf*	2021E/pf	2022E	2023E	2024E	2025E	2026E
Operating profit	1.83	2.79	0.85	1.53	2.50	2.89	5.26	7.81
Adjustments for:								
- Amortisation and depreciation	0.38	0.49	3.31	3.25	3.94	5.56	5.17	4.80
- Change in receivables	(0.01)	(0.06)	(0.10)	(0.06)	(0.11)	(0.13)	(0.13)	(0.14)
- Change in inventories	-	-	(0.02)	(0.00)	(0.01)	(0.01)	(0.01)	(0.01)
- Change in payables and accrued liabilities	0.36	0.23	1.58	0.04	0.19	0.16	0.07	0.11
- Other adjustments	(0.03)	0.01	-	-	-	-	-	-
<b>Cash generated from operations, gross</b>	<b>2.53</b>	<b>3.45</b>	<b>5.61</b>	<b>4.76</b>	<b>6.51</b>	<b>8.48</b>	<b>10.36</b>	<b>12.58</b>
Interest paid	(0.00)	(0.00)	(0.01)	(0.01)	(0.01)	(0.02)	(0.02)	(0.02)
Corporate income tax paid	(0.14)	(0.19)	-	-	-	(0.15)	(0.34)	(0.61)
<b>Net cash flows from operating activities</b>	<b>2.40</b>	<b>3.26</b>	<b>5.61</b>	<b>4.75</b>	<b>6.49</b>	<b>8.31</b>	<b>10.01</b>	<b>11.95</b>
Purchase of PPE, net	(0.70)	(1.85)	(2.62)	(2.61)	(2.86)	(2.60)	(1.88)	(2.25)
Other Investments, net	(0.28)	(0.13)	0.66	(0.01)	(0.02)	(0.03)	(0.04)	(0.04)
<b>Net cash flows from investing activities</b>	<b>(0.98)</b>	<b>(1.98)</b>	<b>(1.96)</b>	<b>(2.62)</b>	<b>(2.88)</b>	<b>(2.62)</b>	<b>(1.92)</b>	<b>(2.30)</b>
Dividends paid	(0.53)	(0.77)	-	-	-	(0.62)	(1.35)	(2.44)
Changes in Equity	-	-	1.52	-	-	-	-	-
Loans repaid & received, net	-	0.40	(0.40)	-	-	-	-	-
Proceeds/payments of lease liabilities	(0.02)	(0.05)	0.25	0.02	0.02	0.02	0.02	0.02
<b>Net cash flows from financing activities</b>	<b>(0.55)</b>	<b>(0.42)</b>	<b>1.37</b>	<b>0.02</b>	<b>0.02</b>	<b>(0.60)</b>	<b>(1.33)</b>	<b>(2.42)</b>
<b>Change in cash and cash equivalents for the year</b>	<b>0.87</b>	<b>0.86</b>	<b>5.02</b>	<b>2.15</b>	<b>3.63</b>	<b>5.09</b>	<b>6.77</b>	<b>7.23</b>
Net adjustments	(0.06)	(0.11)	-	-	-	-	-	-
Cash and cash equivalents at the beginning of the year	0.20	1.01	1.76	6.78	8.93	12.56	17.65	24.41
<b>Cash and cash equivalents at the end of the year</b>	<b>1.01</b>	<b>1.76</b>	<b>6.78</b>	<b>8.93</b>	<b>12.56</b>	<b>17.65</b>	<b>24.41</b>	<b>31.65</b>

Source: LHV for estimates; pf - pro forma figures; \*Monday Media OÜ figures used

Main Ratios	2019/pf*	2020/pf*	2021E/pf	2022E	2023E	2024E	2025E	2026E
<b>Growth</b>								
Revenues (%)		44.9	27.0	20.6	34.5	29.3	22.3	19.6
Gross Profit (%)		38.9	32.6	20.6	34.5	30.4	22.3	19.6
EBITDA (%)		48.3	26.8	15.2	34.6	31.3	23.4	20.9
Pre-tax Profit (%)		51.6	(68.2)	80.5	63.2	15.6	83.1	48.7
Net Profit (%)		53.6	(65.2)	80.5	63.2	9.4	81.1	46.5
<b>Profitability</b>								
Gross Profit margin (%)	58.8	56.3	58.8	58.8	58.8	59.3	59.3	59.3
EBITDA margin (%)	40.4	41.3	41.3	39.4	39.5	40.1	40.4	40.9
EBIT margin (%)	33.5	35.2	8.4	12.6	15.3	13.7	20.4	25.3
PBT margin	31.7	33.1	8.3	12.4	15.1	13.5	20.2	25.1
Net Profit margin (%)	28.6	30.3	8.3	12.4	15.1	12.8	18.9	23.1

Main Ratios...continued	2019/pf*	2020/pf*	2021E/pf	2022E	2023E	2024E	2025E	2026E
<b>Return</b>								
Capital Employed (EURm)	2.3	4.3	55.4	56.9	59.4	61.5	65.0	69.8
ROCE (%)	161.7	84.8	2.8	2.7	4.3	4.8	8.3	11.6
ROE (%)	140.8	78.2	2.8	2.7	4.3	4.5	7.7	10.6
ROA (%)	90.6	52.3	2.6	2.5	4.0	4.2	7.3	10.1
<b>Leverage</b>								
Net Debt	(0.96)	(1.36)	(6.53)	(8.66)	(12.27)	(17.34)	(24.08)	(31.30)
Net gearing (x)	(0.4)	(0.3)	(0.1)	(0.2)	(0.2)	(0.3)	(0.4)	(0.5)
Debt/Equity ratio (x)	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Net Debt/EBITDA (x)	(0.4)	(0.4)	(1.6)	(1.8)	(1.9)	(2.1)	(2.3)	(2.5)
<b>Valuation</b>								
Mkt.Cap. (EURm)	-	-	83.3	83.3	83.3	83.3	83.3	83.3
Enterprise Value (EURm)	-	-	76.8	76.8	76.8	76.8	76.8	76.8
Dividend yield (%)	-	-	-	-	-	0.7	1.6	2.9
EV/Revenue (x)	-	-	7.6	6.3	4.7	3.6	3.0	2.5
EV/EBITDA (x)	-	-	18.5	16.1	11.9	9.1	7.4	6.1
P/E (x)	-	-	99.8	55.3	33.9	31.0	17.1	11.7
P/BV (x)	-	-	1.5	1.5	1.4	1.4	1.3	1.2

Source: LHV for estimates; pf - pro forma figures; \*Monday Media OÜ figures used  
Market ratios are based on the share price of EUR 9.80 (17<sup>th</sup> Dec 2021).

Key Definitions/Formulas	
ROE	Net profit divided by average equity book value
ROCE	EBIT divided by average capital employed
ROA	Net profit divided average total assets
EPS	Net profit attributable to shareholders divided by weighted average number of shares / units
BVPS	Equity book value divided by year end number of shares / units
Net debt per unit	Total financial debt less cash and cash equivalents divided by year end number of shares / units
P/E	Corresponding market capitalisation divided by net profit
P/BVPS	Corresponding share price divided by book value per share / unit
EV/Sales	Enterprise value divided by sales
EV/EBITDA	Enterprise value divided by EBITDA
EV/EBIT	Enterprise value divided by EBIT
Net gearing	Net financial debt divided by total equity
Debt/Equity	Total financial debt divided by total equity
Operating leverage	Y-o-Y growth in EBIT divided by y-o-y growth in revenue
Financial leverage	Y-o-Y growth in EPS divided by y-o-y growth in EBIT
Combined leverage	Operating leverage multiplied by financial leverage



**Contacts:****Ivars Bergmanis**

Head of Institutional Markets

Tel: +372 680 2720

Mob: +372 534 11114

ivars.bergmanis@lhv.ee

**Sander Danil**

Senior Analyst

Tel: +372 680 2793

sander.danil@lhv.ee

Date and time of sign-off: Monday 20<sup>th</sup> Dec, 18:00**Disclaimer**

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