

DoubleVerify Holdings, Inc.

Brand Safety & Suitability on Feeds & Reels sets up beat/raise cycle in CY24

Maintain Rating: BUY | PO: 47.00 USD | Price: 38.38 USD

Size of Feeds & Reels opportunity likely underappreciated

We maintain our Buy rating on DV, upon which we [launched coverage \(see note\)](#) on 11 January 2024. Yesterday, DV became the first of a short list of vendors to enable advertisers to measure brand safety on Feeds and Reels in both Facebook and Instagram. Advertisers can now independently authenticate the user-generated media that surrounds their advertisements, helping them protect their brand equity. This development is significant because (1) over half of ad spend on Facebook & Instagram is deployed on Feeds and (2) BofA forecasts Reels spend to grow from [\\$11bn in 2023 to \\$27bn in 2025 \(57% CAGR\) \(see note\)](#).

General availability announced sooner than expected

Prior to today's announcement, DV management had indicated general availability ("GA") by early 2024. The sooner than expected announcement allows management to give substantive feedback on adoption trends while maintaining conservative guidance on the 23Q4 results call (likely in early March). This setup suggests a beat-raise cycle in CY24, which should support DV's valuation given Consensus implies 23% CAGR (CY23E-CY25E). We maintain our estimates but note this announcement raises our level of confidence.

Meta revenues could double in CY24, pushing above Street

We estimate that measurement on Meta accounts 7%-9% of consolidated revenues. Management believes that 50% of DV's top 100 customers have been waiting for brand safety & suitability to launch before adopting DV's existing offerings: viewability and fraud detection. Precedent is supportive: ~95% of DV's clients use its measurement on YouTube, where DV had greater brand safety and suitability coverage for many years. Brand safety & suitability is what advertisers really want on Facebook & Instagram.

Brand safety is what advertisers really want on Facebook

Management believes that brand safety has now become as important to advertisers as actual ad performance. Unviewable ads and fraudulent traffic, while wasteful, do not have the potential to destroy the brand equity that global brands have spent many years (and billions of dollars) cultivating. Two thirds of consumers said they would stop using a brand that advertises next to false, objectionable or inflammatory content (Harris Poll study). We think this will be a compelling offering in '24, especially because an election year has the potential to generate more polarizing UGC than a typical year.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	0.51	0.54	0.71	0.88	1.16
GAAP EPS	0.18	0.25	0.36	0.42	0.63
EPS Change (YoY)	54.5%	5.9%	31.5%	23.9%	31.8%
Consensus EPS (Bloomberg)			0.53	0.66	0.85
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	75.3x	71.1x	54.1x	43.6x	33.1x
GAAP P/E	213.2x	153.5x	106.6x	91.4x	60.9x
EV / EBITDA*	57.7x	44.7x	35.0x	28.6x	22.2x
Free Cash Flow Yield*	1.1%	0.8%	1.2%	2.0%	2.7%

* For full definitions of *IQmethod*SM measures, see page 8.

18 January 2024

Equity

Omar Dessouky, CFA
Research Analyst
BofAS
+1 646 855 0686
omar.dessouky@bofa.com

Arthur Chu, CFA
Research Analyst
BofAS
arthur.chu@bofa.com

Stock Data

Price	38.38 USD
Price Objective	47.00 USD
Date Established	11-Jan-2024
Investment Opinion	C-1-9
52-Week Range	22.75 USD - 42.51 USD
Mkt Val (mn) / Shares Out (mn)	6,524 USD / 170.0
Free Float	81.0%
Average Daily Value (mn)	48.86 USD
BofA Ticker / Exchange	DV / NYS
Bloomberg / Reuters	DV US / DV.N
ROE (2023E)	12.8%
Net Dbt to Eqty (Dec-2022A)	-30.5%
ESGMeter TM	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

CAGR: Compound Annual Growth Rate

UGC: User generated content

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Timestamp: 18 January 2024 06:58AM EST

iQprofileSM DoubleVerify Holdings, Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	10.9%	8.7%	9.7%	11.0%	12.9%
Return on Equity	13.5%	10.9%	12.8%	13.6%	15.5%
Operating Margin	23.9%	23.7%	24.6%	24.9%	27.3%
Free Cash Flow	73	55	79	132	174

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.0x	1.0x	0.8x	1.0x	1.0x
Asset Replacement Ratio	0.3x	1.2x	0.4x	0.7x	0.8x
Tax Rate	NM	27.1%	27.6%	25.0%	25.0%
Net Debt-to-Equity Ratio	-27.7%	-30.5%	-26.8%	-34.0%	-41.1%
Interest Cover	NM	NM	NM	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	333	452	572	717	881
% Change	36.4%	36.0%	26.5%	25.2%	23.0%
Gross Profit	278	375	463	576	705
% Change	33.7%	34.6%	23.6%	24.4%	22.4%
EBITDA	110	142	181	221	285
% Change	50.0%	29.0%	27.8%	22.4%	28.8%
Net Interest & Other Income	(1)	0	6	0	0
Net Income (Adjusted)	82	92	123	154	204
% Change	72.2%	11.5%	35.0%	24.4%	32.7%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	29	43	62	74	110
Depreciation & Amortization	30	34	40	43	45
Change in Working Capital	(13)	(21)	(60)	(47)	(51)
Deferred Taxation Charge	(8)	(20)	(20)	0	0
Other Adjustments, Net	44	58	75	90	105
Capital Expenditure	(9)	(40)	(17)	(29)	(35)
Free Cash Flow	73	55	79	132	174
% Change	539.8%	-25.2%	43.6%	67.0%	31.9%
Share / Issue Repurchase	NA	NA	NA	NA	NA
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(22)	0	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	222	268	282	412	583
Trade Receivables	123	167	215	271	335
Other Current Assets	23	10	24	30	34
Property, Plant & Equipment	18	47	58	71	88
Other Non-Current Assets	507	545	641	607	575
Total Assets	892	1,037	1,220	1,391	1,615
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	57	69	78	93	110
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	36	91	89	87	85
Total Liabilities	93	160	167	180	195
Total Equity	799	877	1,053	1,211	1,420
Total Equity & Liabilities	892	1,037	1,220	1,391	1,615

* For full definitions of iQmethodSM measures, see page 8.

Company Sector

PC Software

Company Description

DV is a software platform for digital media measurement. Through its metrics, it helps preserve the fair value exchange between buyers & sellers of digital media. Its proprietary DV Authentic Ad metric measures whether a digital ad is displayed in a fraud-free, brand-suitable environment & is fully viewable in the intended geography. DV measures quality on all major platforms (e.g. Meta, Google, TikTok, open web etc.). DV also prevents DSPs from bidding on poor quality media in the first place.

Investment Rationale

DV is the emerging leader in a the digital ad verification market, which we expect to become a duopoly at maturity. It measured 5.5 trillion impressions in 2022, across platforms and devices, which is orders of magnitude greater than any individual platform. DV's scale gives it an advantage in developing new products, which it sells at premium prices, that help improve advertising performance. DV's fixed fee-per-impression pricing strategy dampens the impact of economic downturns.

Stock Data

Average Daily Volume 1,281,357

Quarterly Earnings Estimates

	2022	2023
Q1	0.10A	0.14A
Q2	0.13A	0.17A
Q3	0.13A	0.17E
Q4	0.17A	0.23E

What are brand safety & suitability?

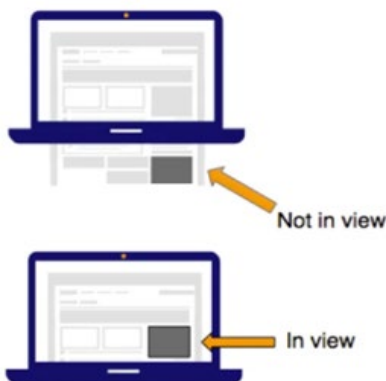
Digital marketers know little about whether their advertisements appear next to suitable content, whether they are viewable on a webpage, or even whether they were viewed by a real consumer.

Brand Safety: ensuring that a brand's ads don't appear on unsafe content, such as graphic violence, pornography, or hate speech.

Brand Suitability: matching your company's core values, goals and identity to the content bought.

Exhibit 1: Ad placement off screen

~40% of Video Ads are never seen (2021)

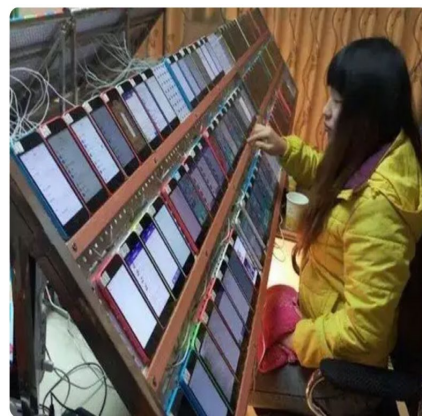


Source: BofA Global Research

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Exhibit 2: A real life click farm

~\$84bn of ~\$380bn of annual digital ad spend is lost to ad fraud

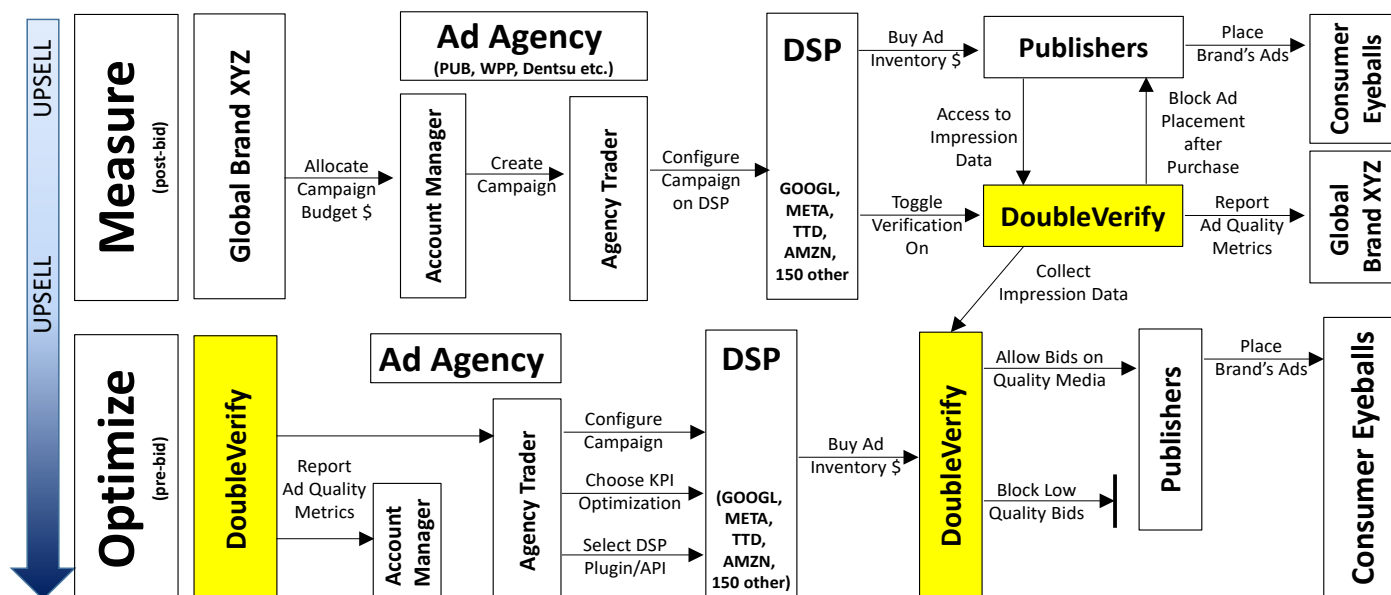


Source: Core77 news, Juniper Research

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Exhibit 3: DoubleVerify's position in the adtech stack and ad campaign workflow

DV's measurement products block ads that have already been purchased by the advertiser's DSP and report media quality directly brands; DV's Activation products prevent the purchase of poor quality media from happening in the first place; Activation leverages data collected by DV's measurement technologies



Source: BofA Global Research

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Social measurement: 34% 2y CAGR

Exhibit 4: DV Revenue Growth Forecast, 2y & 5y, BofA

We estimate that Facebook and Instagram revenues were 7-9% of LTM consolidated revenues

	'21A-'23E CAGR	BofA '23E- '25E CAGR	BofA '23E- '28E CAGR	2023E Mix %
Consolidated	31%	24%	21%	100%
Measurement (reported)	21%	22%	18%	35%
of which Social (BofA Est.)	35%	34%	24%	14%
of which Open Web, CTV (BofA Est.)	12%	15%	13%	20%
Activation (reported)	40%	27%	24%	57%
of which ABS (BofA Est.)	43%	29%	27%	30%
of which Other (BofA Est.)	37%	25%	21%	27%
Supply Side (reported)	24%	11%	10%	8%

Source: BofA Global Research estimates, Company Reports

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BofA Financial Model

Exhibit 5: BofA vs Street Forecasts, FY22 to FY28

We forecast 5-year revenue CAGR of >20%, driven by above trend growth in Measurement (18% CAGR) and hypergrowth in Activation sales (24% CAGR)

	2022	2023E	2024E	2025E	2026E	2027E	2028E
Total Revenue							
B of A (Initiation)	452	572	717	881	1,068	1,274	1,497
STREET		572	707	865	1,042	1,241	1,449
Delta vs. STREET		0.0%	1.4%	1.9%	2.4%	2.7%	3.3%
GUIDE		572	-	-	-	-	-
Total Revenue YoY Growth %							
B of A (Initiation)	36.0%	26.5%	25.2%	23.0%	21.2%	19.3%	17.5%
STREET		26.5%	23.5%	22.3%	20.5%	19.0%	16.8%
Delta vs. STREET		0.0%	1.7%	0.7%	0.6%	0.3%	0.7%
GUIDE		26%					
Measurement (Direct) Revenue							
B of A (Initiation)	158	199	245	298	351	401	449
STREET		198	238	284	314	346	375
Delta vs. STREET		0.2%	2.6%	5.0%	11.8%	15.7%	19.7%
Measurement (Direct) Revenue Y/Y Growth							
B of A (Initiation)	16.5%	25.9%	23.0%	21.8%	17.7%	14.3%	12.0%
STREET		25.6%	20.2%	19.1%	10.6%	10.4%	8.3%
Delta vs. STREET		0.3%	2.8%	2.8%	7.1%	3.9%	3.7%
Activation (Programmatic) Revenue							
B of A (Initiation)	251	329	422	528	656	807	975
STREET		329	421	530	672	833	1,003
Delta vs. STREET		-0.2%	0.3%	-0.3%	-2.4%	-3.1%	-2.8%
Activation (Programmatic) Revenue Y/Y Growth							
B of A (Initiation)	49.7%	30.8%	28.4%	25.2%	24.3%	22.9%	20.8%
STREET		31.0%	27.9%	25.9%	26.9%	23.8%	20.5%
Delta vs. STREET		-0.2%	0.5%	-0.7%	-2.7%	-0.9%	0.4%
Supply-side Revenue							
B of A (Initiation)	43	45	50	55	61	67	73
STREET		45	48	51	56	62	71
Delta vs. STREET		0.2%	4.7%	7.2%	7.7%	8.0%	2.9%
Supply-side Revenue Y/Y Growth							
B of A (Initiation)	47.2%	3.8%	11.3%	10.0%	10.0%	10.0%	10.0%
STREET		3.6%	6.4%	7.4%	9.5%	9.7%	15.5%
Delta vs. STREET		0.2%	4.8%	2.6%	0.5%	0.3%	-5.5%
Operating Income - NON-GAAP							
B of A (Initiation)	107	141	178	240	314	394	489
STREET		140	175	227	294	367	466
Operating Margin - NON-GAAP							
B of A (Initiation)	23.7%	24.6%	24.9%	27.3%	29.5%	30.9%	32.7%
STREET		24.5%	24.8%	26.3%	28.2%	29.6%	32.2%
Adj. EBITDA							
B of A (Initiation)	142	181	221	285	359	440	538
STREET		181	219	275	341	413	502
Delta vs. STREET		0.1%	1.0%	3.7%	5.3%	6.5%	7.1%
GUIDE		181	-	-	-	-	-
Adj. EBITDA Margin %							

Exhibit 5: BofA vs Street Forecasts, FY22 to FY28

We forecast 5-year revenue CAGR of >20%, driven by above trend growth in Measurement (18% CAGR) and hypergrowth in Activation sales (24% CAGR)

	2022	2023E	2024E	2025E	2026E	2027E	2028E
B of A (Initiation)	31.3%	31.6%	30.9%	32.4%	33.6%	34.5%	35.9%
STREET		31.6%	31.0%	31.8%	32.7%	33.3%	34.6%
Delta vs. STREET		0.0%	-0.1%	0.6%	0.9%	1.2%	1.3%
GUIDE		31.6%					
Free Cash Flow							
B of A (Initiation)	55	79	132	174	215	266	329
STREET		86	125	157	214	270	329
Delta vs. STREET		-8.5%	5.4%	10.6%	0.5%	-1.4%	0.0%

Source: Company Reports, BofA Global Research estimates

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Price objective basis & risk

DoubleVerify Holdings, Inc. (DV)

We value DoubleVerify at 37x EV/CY24 EBITDA, similar to the Trade Desk's (TTD) current valuation. TTD is a useful comp because it is the leader within its niche of the digital advertising ecosystem (open web demand side platforms), and because its growth and profitability metrics are similar to DV's.

Downside risks to our PO include: 1) significant worsening of macroeconomic conditions that lead to a decline in ad transaction volume, 2) pricing competition with IAS or potential new entrants, 3) slower than expected adoption of new Activation products.

Analyst Certification

I, Omar Dessouky, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Internet Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Alphabet	GOOGL	GOOGL US	Justin Post
	Alphabet	GOOG	GOOG US	Justin Post
	Amazon.com	AMZN	AMZN US	Justin Post
	AppLovin	APP	APP US	Omar Dessouky, CFA
	DoorDash	DASH	DASH US	Michael McGovern
	DoubleVerify Holdings, Inc.	DV	DV US	Omar Dessouky, CFA
	Electronic Arts	EA	EA US	Omar Dessouky, CFA
	Expedia	EXPE	EXPE US	Justin Post
	Integral Ad Science Holding Corp.	IAS	IAS US	Omar Dessouky, CFA
	LegalZoom	LZ	LZ US	Michael McGovern
	Match Group	MTCH	MTCH US	Curtis Nagle, CFA
	Meta Platforms Inc	META	META US	Justin Post
	Pinterest	PINS	PINS US	Justin Post
	RH	RH	RH US	Curtis Nagle, CFA
	Roblox Corp. Class A	RBLX	RBLX US	Omar Dessouky, CFA
	Squarespace, Inc.	SQSP	SQSP US	Michael McGovern
	Uber	UBER	UBER US	Justin Post
	Udemy Inc	UDMY	UDMY US	Curtis Nagle, CFA
	Vivid Seats	SEAT	SEAT US	Curtis Nagle, CFA
	Wayfair	W	W US	Curtis Nagle, CFA
	Wix.com	WIX	WIX US	Michael McGovern
NEUTRAL				
	ACV Auctions	ACVA	ACVA US	Curtis Nagle, CFA
	Airbnb	ABNB	ABNB US	Justin Post
	Beyond Inc	BYON	BYON US	Curtis Nagle, CFA
	Booking Holdings Inc	BKNG	BKNG US	Justin Post
	Bumble	BMBL	BMBL US	Curtis Nagle, CFA
	Digital Turbine, Inc	APPS	APPS US	Omar Dessouky, CFA
	Duolingo	DUOL	DUOL US	Curtis Nagle, CFA
	eBay	EBAY	EBAY US	Justin Post
	Etsy, Inc.	ETSY	ETSY US	Curtis Nagle, CFA
	Instacart	CART	CART US	Justin Post
	Magnite, Inc.	MGNI	MGNI US	Omar Dessouky, CFA
	Playtika	PLTK	PLTK US	Omar Dessouky, CFA
	Snap	SNAP	SNAP US	Justin Post
	Take-Two Interactive	TTWO	TTWO US	Omar Dessouky, CFA
	Zillow	ZG	ZG US	Curtis Nagle, CFA
	Zillow	Z	Z US	Curtis Nagle, CFA
UNDERPERFORM				
	Chewy Inc	CHWY	CHWY US	Curtis Nagle, CFA



US - Internet Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Lyft, Inc.	LYFT	LYFT US	Michael McGovern
	Opendoor Technologies	OPEN	OPEN US	Curtis Nagle, CFA
	Peloton	PTON	PTON US	Curtis Nagle, CFA
	Redfin Corp	RDFN	RDFN US	Curtis Nagle, CFA
	Shutterstock	SSTK	SSTK US	Curtis Nagle, CFA

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

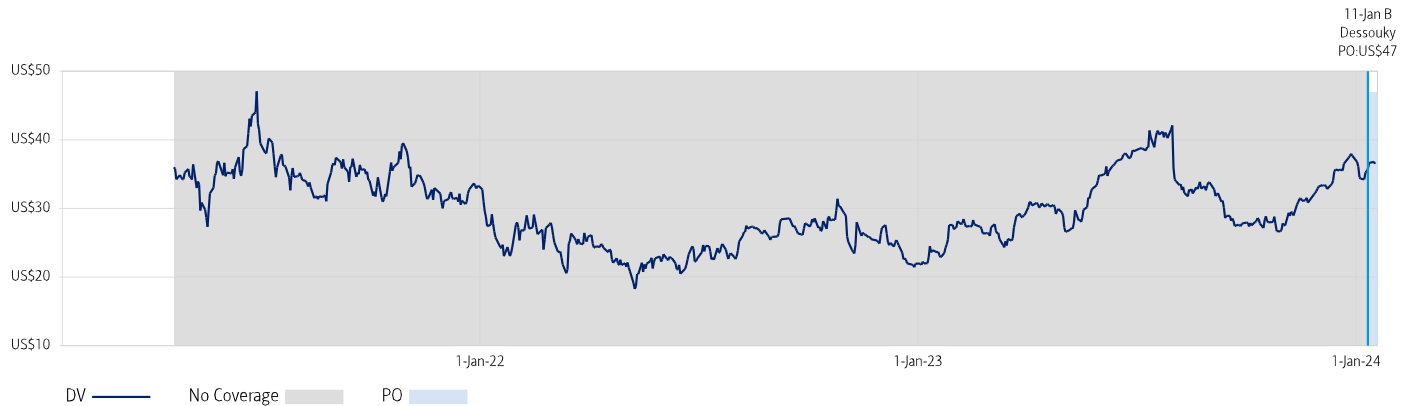
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Disclosures

Important Disclosures

DoubleVerify (DV) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. **Coverage Cluster** is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

Price Charts for the securities referenced in this research report are available on the [Price Charts website](#), or call 1-800-MERRILL to have them mailed.

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