ad pepper

Germany | Media

Analyser **26 April 2017**

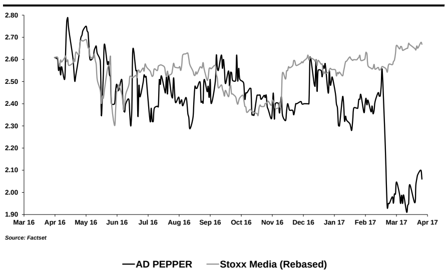
Neutral	
Recommendation unchanged	
Share price: EUR	**2.06**
closing price as of 25/04/2017	
Target price: EUR	**2.20**
Target Price unchanged	
Upside/Downside Potential	**6.8%**
Reuters/Bloomberg	APME.F/APM GY

Market capitalisation (EURm)	**43**
Current N° of shares (m)	21
Free float	**42%**
Daily avg. no. trad. sh. 12 mth	18
Daily avg. trad. vol. 12 mth (m)	7.89
Price high/low 12 months	1.91 / 2.79
Abs Perfs 1/3/12 mths (%)	5.64/-17.10/-15.95

Key financials (EUR)	**12/16**	**12/17e**	**12/18e**
Gross margin (m)	0	0	0
EBITDA (m)	2	1	2
EBITDA margin	*2.9%*	*1.7%*	*2.5%*
EBIT (m)	2	1	2
EBIT margin	*nm*	*nm*	*nm*
Net Profit (adj.)(m)	1	1	1
ROCE	-772.9%	-1233.0%	nm
Net debt/(cash) (m)	(20)	(20)	(21)
Net Debt/Equity	*-1.3*	*-1.3*	*-1.2*
Debt/EBITDA	-11.3	-17.9	-12.2
Int. cover(EBITDA/Fin. int)	(25.7)	(14.6)	(21.3)
EV/Sales	nm	nm	nm
EV/EBITDA	18.7	22.4	14.0
EV/EBITDA (adj.)	2.0	1.5	1.4
EV/EBIT	20.3	22.4	14.0
P/E (adj.)	nm	nm	40.3
P/BV	3.6	2.9	2.7
OpFCF yield	*-2.7%*	*0.8%*	*2.1%*
Dividend yield	*0.0%*	*0.0%*	*0.0%*
EPS (adj.)	0.04	0.03	0.05
BVPS	0.67	0.71	0.76
DPS	0.00	0.00	0.00

Shareholders

ad pepper media International NV 8%; KOPPITZ DIETER 3%; EMA BV 41%; Discover Capital GmbH 4%; Euro Serve Media GmbH 1.90%;



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Good growth comes with a price, model update

The facts: Last week ad pepper media (APM) reported its final numbers for the Q1/17. As already commented by us, ad pepper surprised with a strong increase on top line +13.5% yoy and a record Q1 result of EUR 16.4m (Q1 2016: EUR 14.4m). Especially in its former core business areas ad pepper media sales 1.5m (+31.5%) and the performance agency ad agents 3.4m (+30%) APM was able to convince. It´s previous value driver webgains could only support sales with a growth of 8% yoy to 11.5m due to once again negative FX influence from the weak GBP.

With these total sales for the Q1/17 the company came in above our expectations of EUR 15.6m. On operating level the company missed to our projection of EUR 0.41m for EBITDA Q1/17 with EUR -0.35m (Q1 2016: EUR 0.50m).

Our analysis: The weak start into the year seems to be the decisive factor for the defensive guidance FY17.

With respect to APM´s outlook we have previously highlighted several reasons for the weakness ahead:

- Pressure on gross margin from key customers (e.g. Nike)
- Missing sales of a bigger customer
- Adverse currency effect - predominantly from the devaluation of the GBP
- Higher cost basis for headcount (82 to > 90) as well as additional severance payments and SG&A (Q1/16 EUR 3.2m vs. Q1/17 EUR 4.4m) especially for the new deal with the IBM:

http://www.adpeppergroup.com/en/news/webgains-develops-cognitive-strategy-to-reinvent-affiliate-marketing-in-partnership-with-ibm-watson/

Outlook 2017: With planned sales of EUR 65m the group’s speed of growth would half. With EBITDA of EUR 1.0 - 1.5m the company even guides for an earnings decline. We therefore revised our assumptions for FY17e top line to EUR 65.2m and for EBITDA to 1.4m.

Conclusion & Action: *Against the background of declining operational profitability despite continued cost discipline in FY2017 (OPEX down 5%) but significant higher costs in Q1/17, which we expect will go on due to higher personnel expenses for specialists, it is unlikely that we will see a short-term outperformance. What could change our view to the positive would be a recovery in GBP, big new customers as well as a higher scalability of the webgains platform system over all clients due to the IBM partnership. We expect the IBM Watson project to start by the end of the second quarter and would assume that this could support and stabilise future growth. However, after revising our model we lower our short term estimates but stick to our Neutral recommendation with a DCF-based target price of EUR 2.20.*