

ad pepper media International N.V.

The Netherlands / Internet Services

Frankfurt

Bloomberg: APM GR

ISIN: NL0000238145

Initiation of coverage

RATING**PRICE TARGET**

Return Potential

Risk Rating

ADD**€ 4.30**

5.9%

High

HIGHLY SCALABLE DIGITAL SALES FORCE

Founded in 1999, ad pepper media International N.V. ("ad pepper") is a pioneer in online marketing and a performance marketing expert. Due to its international reach and excellent reputation the company boasts global players such as Nike and Samsung among its clientele. Its online marketing platform (Webgains) shows rapid growth. The positive network effects of the platform offer large scaling potential and margin improvement. Furthermore, based on a cooperation with IBM, Webgains will utilise innovative online marketing technologies to further improve its marketing performance. The use of artificial intelligence and sophisticated analytical software (IBM Watson) look set to give ad pepper a competitive edge and generate further growth with increasing margins. A buoyant global online marketing sector, for which double-digit growth rates in coming years are forecast, will be very supportive. We initiate coverage with an Add rating and €4.30 price target.

Guidance for 2017 raised In October 2017, following the strong 9M/17 figures, ad pepper raised its 2017 guidance and now expects at least €70m in revenues and EBITDA of at least €1.5m. Previously, the company guided towards sales above €65m and EBITDA between €1.0 - €1.5m.

Further rapid growth and increasing margins Strong demand for its online marketing products and know-how, rapid growth of its Webgains platform, and the positive impact of the IBM Watson technology on performance are the ingredients for double-digit sales growth and margin expansion in coming years. We forecast sales growth of 18% and 16% in 2018E and 2019E, respectively. The EBIT margin should increase from 1.8% in 2017E to 3.6% and 4.5%.

Buoyant online marketing sector supports growth Rapid expansion of E-Commerce and the migration of marketing budgets from offline (print, TV) to online media should ensure that online marketing grows at a double-digit rate in coming years.

FINANCIAL HISTORY & PROJECTIONS

	2015	2016	2017E	2018E	2019E	2020E
Revenue (€m)	56.01	61.16	73.19	86.68	100.46	111.51
Y-o-y growth	n.a.	9.2%	19.7%	18.4%	15.9%	11.0%
EBIT (€m)	0.24	1.61	1.31	3.14	4.52	5.80
EBIT margin	0.4%	2.6%	1.8%	3.6%	4.5%	5.2%
Net income (€m)	-0.03	0.63	0.40	1.56	2.45	3.30
EPS (diluted) (€)	0.00	0.03	0.02	0.07	0.11	0.15
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	1.44	-0.54	1.51	2.74	3.81	4.53
Net gearing	-107.6%	-126.0%	-132.8%	-136.9%	-139.3%	-139.0%
Liquid assets (€m)	16.93	17.86	19.37	22.11	25.91	30.44

RISKS

The main risks are regulatory changes, technological innovations, dependence on key customers, and intense competition.

COMPANY PROFILE

ad pepper media International N.V. is an international digital performance marketing company, which acts as a holding for its three operating units ad pepper media (lead generation & audience targeting), Webgains (affiliate network), and ad agents (full service agency). The company is headquartered in Nuremberg, Germany.

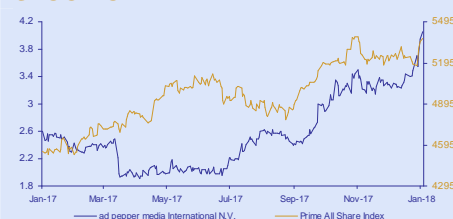
MARKET DATA

As of 1/8/2018

Closing Price	€ 4.06
Shares outstanding	21.00m
Market Capitalisation	€ 85.26m
52-week Range	€ 1.91 / 4.06
Avg. Volume (12 Months)	20,232

Multiples	2016	2017E	2018E
P/E	135.6	213.0	54.6
EV/Sales	1.1	0.9	0.8
EV/EBIT	41.9	51.6	21.5
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Sep 2017

Liquid Assets	€ 19.05m
Current Assets	€ 30.74m
Intangible Assets	€ 0.38m
Total Assets	€ 34.32m
Current Liabilities	€ 18.21m
Shareholders' Equity	€ 15.79m

SHAREHOLDERS

EMA B.V.	41.2%
Treasury Stock	8.7%
Axxion S.A.	5.1%
Dieter Koppitz	3.0%
Free Float	42.0%



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INVESTMENT CASE

EXCELLENCE IN ONLINE PERFORMANCE MARKETING

With the strong growth of internet usage in general and E-Commerce in particular, online marketing is on the rise. Advertisers particularly like online performance marketing, which means that advertising budgets are linked to the success of the marketing campaign. Thanks to the ability to track the success of online marketing activity, advertisers pay only for measurable results, be it “Pay per Click” (PPC), “Pay per Lead” (PPL), or “Pay per Order” (PPO). ad pepper media International N.V. is a pioneer in online performance marketing. Founded in 1999, it has accumulated in-depth expertise in all kinds of performance marketing. Its excellent reputation, large international advertising networks, and outstanding marketing results give ad pepper a competitive edge over many competitors and are the reason why even global players, such as Nike and Samsung, have been ad pepper clients for many years.

ONLINE MARKETING PLATFORM WITH LARGE SCALING POTENTIAL

ad pepper’s subsidiary Webgains operates a platform for online marketing, which connects more than 1,800 advertising merchants with over 250,000 publishers, i.e. website operators, in 230 countries. From 2012 to 2016, the platform almost doubled revenues from €22.5m to €43.9m. This corresponds to a CAGR of 18%. The scaling potential in terms of earnings is huge. In 2012, EBIT was negative at €-0.4m. In 2016, EBIT amounted to €1.6m. Given that network effects increase as the network becomes larger, we believe that Webgains will continue to grow rapidly despite the base effect, i.e. the fact that growing from a large base is more challenging than from a small base. The charm of Webgains’ business model is that revenues can be scaled while the resource and cost base remain largely constant. The number of employees has only moderately risen from 90 at the end of September 2013 to 97 at the end of September 2017. We therefore believe that network effects will lead to a further increase in sales and economies of scale will have a markedly positive EBIT effect.

PERFORMANCE INCREASE THROUGH ARTIFICIAL INTELLIGENCE

ad pepper is investing in innovative online marketing technologies to further improve its marketing performance. In cooperation with IBM, ad pepper uses the supercomputer Watson to make affiliate marketing intuitive, predictive, and proactive. This looks set to give the company a clear competitive advantage against players not using this or similar technologies. ad pepper will apply artificial intelligence and sophisticated analytical software to optimise the placement of advertisements and thus increase its advertising performance. Watson can understand all forms of data (unstructured text, images, audio, video), interact naturally with people, learn and reason. It can provide personalised recommendations by understanding a user’s personality, tone, and emotion. The supercomputer can create chatbots that can engage in dialog. The supercomputer’s capabilities offer vast automation opportunities, which will also reduce administration costs.



SWOT ANALYSIS

STRENGTHS

- **Excellent performance marketing know-how** ad pepper is one of the most experienced independent online marketing companies. Founded in 1999, it belongs to the sector pioneers and is an expert in performance marketing. Even global players, such as Nike and Samsung, have been ad pepper clients for many years, as large advertising networks, excellent marketing results and transparent performance-based payment give ad pepper a competitive edge.
- **Online marketing platform (Webgains) with large scaling potential** From 2012 to 2016, the platform almost doubled revenues from €22.5m to €43.9m (CAGR: 18%). Given that network effects increase as the network becomes larger, we believe that Webgains will continue to grow rapidly despite the base effect, i.e. the fact that growing from a large base is more challenging than from a small base.
- **International reach** ad pepper is active in five countries including the USA, the most advanced online marketing market with a global market share of almost 40%. With its platforms ad pepper reaches 12 countries and can initiate online marketing campaigns on a pan-European scale in major international languages.

WEAKNESSES

- **Lack of profitability in the past** From 2011 to 2014, adjusted EBIT was negative. However, management has streamlined the company structure, focused on profitable business units, and significantly lowered administration costs. Due mainly to the strong and profitable growth of the Webgains segment and strict cost management, ad pepper managed to turn the company around in 2015 and increased the group's EBIT margin to 2.6% in 2016. The 9M/17 figures suggest another profitable year despite heavy investment in future technologies. We thus believe that losses are a phenomenon of the past.
- **A small fish in a big pond** With 190 employees, activities in five countries, and a market capitalisation of ca. €70m, ad pepper remains a rather small player in the international online marketing business. Larger companies often have a broader customer base, better access to much-frequented websites, plus larger financial and human resources. Fortunately, large does not always mean better. As long as ad pepper remains at the forefront of technological innovation, we are optimistic that the company has sufficient power to grow.
- **Dependence on key customers** ad pepper faces significant customer concentration both on the advertiser and on the publisher side. Two customers are particularly important. One represents more than 10% of the group's revenue, the other more than 10% of its gross profit. Economic difficulties at the key customers or changing purchasing behaviour may have a significant negative impact on ad pepper's business; especially as customers make no binding long-term commitments to ad pepper regarding their booking volume.



OPPORTUNITIES

- **Innovative online marketing technologies** ad pepper is investing in innovative online marketing technologies to keep its competitive edge. In the affiliate business, a cooperation with IBM should generate further profitable growth. Based on IBM's supercomputer Watson, ad pepper will apply artificial intelligence and sophisticated analytical software to increase its advertising performance.
- **Buoyant online marketing market** The global online marketing market should grow at double-digit percentage rates in coming years. E-Commerce is gaining market share and continues to grow strongly, and advertising budgets are moving from offline media to the online world. These trends will certainly support ad pepper's growth trajectory.

THREATS

- **Regulatory changes** The General Data Protection Regulation (GDPR) has been adopted by the EU and will come into force on 25 May 2018. It will impose significant new obligations on the handling of personal data. Internet users may be reluctant to accept processing of personal data, which may weaken ad pepper's competitive position. Furthermore, upcoming EU regulation suggests that the profiling of individuals will only be allowed with the specific authorisation of users. This regulation would have a thoroughly negative impact on ad pepper's business model.
- **Technological innovations** The development of technologies which block or suppress the display of advertising on the internet may have an adverse effect on ad pepper's business model. Furthermore, the trend towards marketing online advertising space via automated market places ("ad exchanges") poses a threat for ad pepper's online networks.
- **Brexit** ad pepper generates ca. 50% of its revenues in the UK. The Brexit vote has increased uncertainty regarding exchange and interest rates, EU data privacy law post Brexit, and the overall economic performance of the UK. ad pepper may suffer from a weaker GBP and lacklustre demand for its products.



VALUATION

Our valuation of ad pepper is based on a discounted cash flow (DCF) model that discounts the free cash flows generated in the future back to present value. Our DCF model yields a fair shareholder value of €4.30 per share.

In order to determine ad pepper's cost of equity, we use our proprietary multi-factor risk model, which takes into account company-specific risk factors, such as management strength, balance sheet, financial risk, competitive position, and company size. We assume cost of equity of 11.0%. Our calculation is based on a risk-free rate of 0.5% and a market risk premium of 5.0%.

For the cost of debt we assume an interest rate of 6.0%. With a terminal effective tax rate of 30%, the financing costs after tax are 4.2%. We however note that ad pepper does not have any financial debt. Our targeted capital structure assumes an equity / debt ratio of 100% / 0%. The WACC (Weighted Average Costs of Capital) thus corresponds to the cost of equity and amounts to 11.0%.

In our DCF model we distinguish three planning periods:

- We have carried out a detailed estimate for the planning period 2017E – 2019E (three years). We forecast the profit and loss account as well as the balance sheet and the cash flow statement in detail.
- For the planning period 2020E – 2031E (12 years), parameters relevant to the valuation (profit and loss account, CAPEX, working capital, amongst others) are estimated.
- For the terminal period we assume a constant growth in sales, a constant EBIT margin and a constant tax rate.

Detailed estimates for the years 2017E – 2019E are outlined in the chapter “Financial History and Outlook”. For the period 2020E – 2031E we assume:

- a sales growth rate declining from 11% to of 2%;
- an EBIT margin increasing from 5.2% to 7.0%;
- an effective tax rate amounting to 30%.

For the terminal period we assume a sales growth rate of 2%, an EBIT margin of 7.0% and a tax rate of 30%.

At the end of 2016, ad pepper had a cash position of €17.9m and no financial debt. This results in a net cash position of €17.9m. We add the balance sheet item “Securities available-for-sale” (€1.7m) to the net cash position, as this position can quickly be converted into cash. “Investments / minorities” thus contain the €1.7m investment and minorities of €0.7m, in total €2.4m.



Figure 1: Valuation model

DCF valuation model								
All figures in EUR '000	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Net sales	73,187	86,681	100,460	111,511	122,864	134,369	145,851	157,122
NOPLAT	864	2,119	3,103	4,042	4,595	5,179	5,788	6,416
+ depreciation & amortisation	413	465	496	553	615	680	747	815
Net operating cash flow	1,277	2,583	3,599	4,596	5,210	5,859	6,535	7,230
- total investments (CAPEX and WC)	197	111	156	-121	-209	-266	-330	-401
Capital expenditures	-512	-520	-603	-669	-737	-806	-875	-943
Working capital	710	631	759	548	528	541	545	542
Free cash flows (FCF)	1,474	2,694	3,755	4,474	5,001	5,593	6,206	6,829
PV of FCF's	1,474	2,434	3,056	3,279	3,302	3,327	3,326	3,296

All figures in thousands	
PV of FCFs in explicit period (2017E-2031E)	43,770
PV of FCFs in terminal period	27,978
Enterprise value (EV)	71,748
+ Net cash / - net debt	17,859
+ Investments / minority interests	2,424
Shareholder value	92,031

Fair value per share in EUR	4.30
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WACC		Terminal growth rate						
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
7.0%	Cost of equity	6.59	6.86	7.19	7.58	8.06	8.66	9.42
8.0%	Pre-tax cost of debt	5.70	5.88	6.09	6.34	6.63	6.98	7.41
9.0%	Tax rate	5.03	5.15	5.30	5.46	5.65	5.87	6.13
10.0%	After-tax cost of debt	4.50	4.59	4.69	4.81	4.94	5.08	5.25
11.0%	Share of equity capital	4.09	4.15	4.23	4.31	4.40	4.50	4.61
12.0%	Share of debt capital	3.75	3.80	3.85	3.91	3.98	4.05	4.13
13.0%		3.47	3.51	3.55	3.59	3.64	3.69	3.75
14.0%		3.24	3.26	3.30	3.33	3.36	3.40	3.45

* for layout purposes the model shows numbers only to 2024, but runs until 2031

The DCF model yields a fair value of €92.0m. Based on a diluted number of 21.33m shares, this results in a fair value of €4.30 per share.



COMPANY PROFILE

ad pepper media International N.V. (“ad pepper”) is a pioneer in online marketing. More than a decade ago, the ad pepper group started to focus on digital performance marketing and to offer transparent, measurable, and innovative online marketing solutions. The company was founded in 1999, IPOed in 2000, and is listed on the Prime Standard of the Frankfurt Stock Exchange. ad pepper operates under Dutch law and has seven offices in four European countries (France, Germany, Spain, and the UK) and in the US. At the end of September 2017, the company had 190 employees. Headquarters are in Nuremberg, Germany.

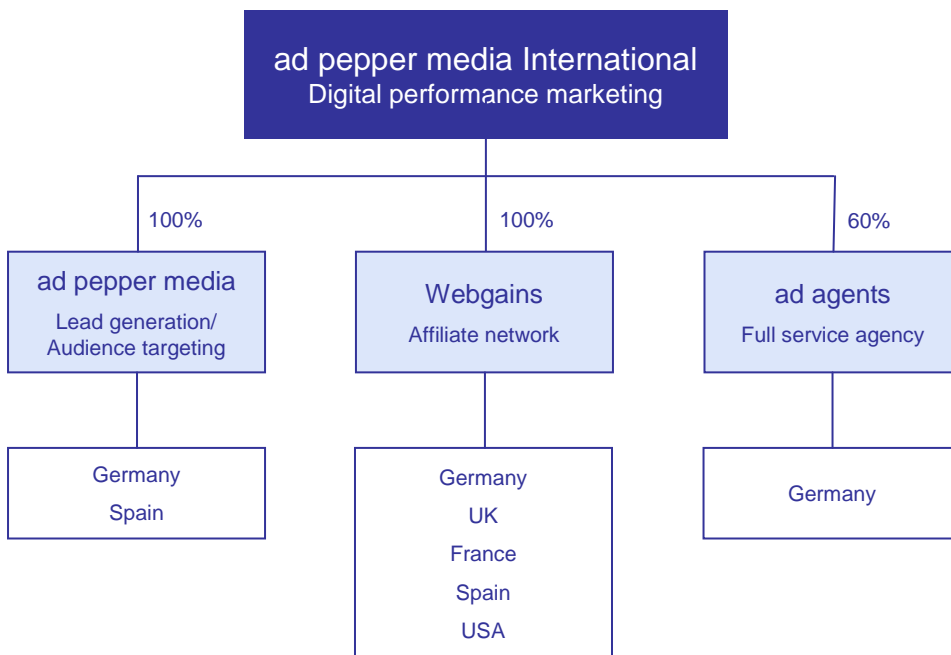
COMPANY STRUCTURE

ad pepper has three business segments and operating units:

- ad pepper media (lead generation & audience targeting),
- Webgains (affiliate network), and
- ad agents (full service agency).

ad pepper media International acts as a holding for the three operating units (see figure 2), which operate independently.

Figure 2: Company structure



Source: First Berlin Equity Research, ad pepper media International N.V.

ad pepper media

ad pepper media is an international performance marketing company specialising in lead generation and audience targeting. With 19 years of experience, the company has delivered over 30,000 online campaigns across more than 50 countries. Apart from lead generation, ad pepper media offers display marketing, e-mail marketing, and performance display advertising.

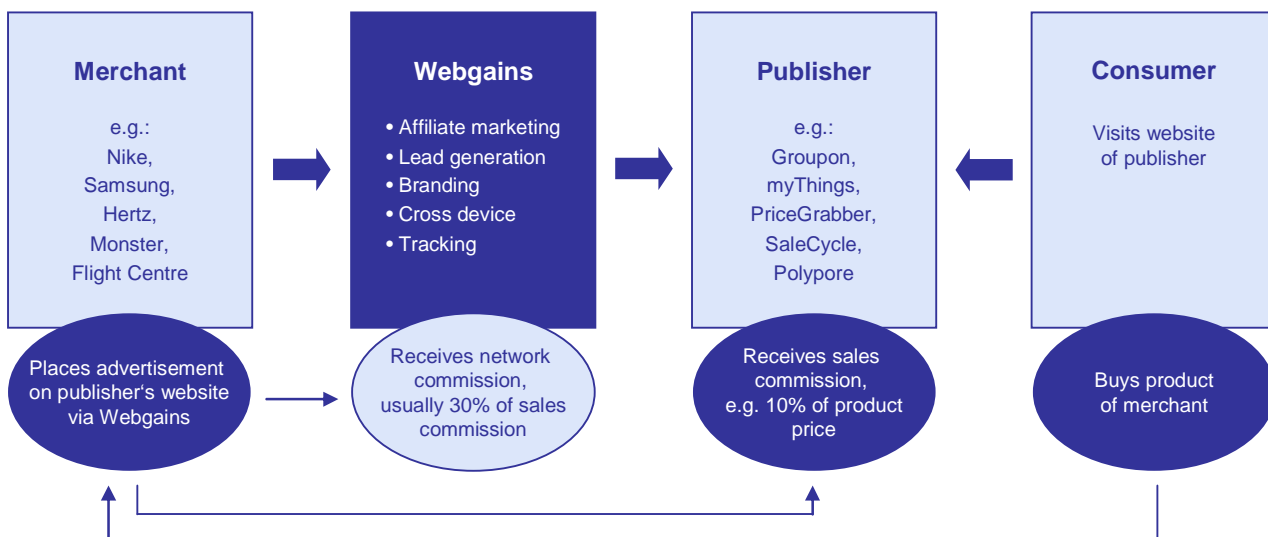


- Lead generation is based on ad pepper media’s proprietary iLead technology, which allows its clients to gain new customers without financial risk as they only pay for valid leads which are qualified in a multi-step process (cost per lead approach). Leads are generated by user registration, competitions, subscriptions, catalogue orders, and product samples.
- E-mail marketing offers direct and individual contact with defined target groups, e.g. by newsletters.
- Display marketing arranges brand campaigns with extensive reach across an independent network portfolio of high-quality websites and offers the customer flexible targeting options. Data specialists filter a multitude of data with different characteristics, which offer valuable insights and are utilised for optimal and successful campaign management. All campaigns are run in a brand safe environment.
- Performance display advertising increases the effectiveness of a customer’s advertising campaign thanks to a solution for optimised user targeting. The users’ behaviour and consumption are analysed and these data are used to optimise and prepare the campaign resulting in higher sales.

Webgains

Webgains ranks among the leading European affiliate networks. It has been part of the group since 2006, is headquartered in London with offices in Bristol, Paris, Madrid, New York, and Nuremberg. Webgains acts as an intermediary between registered advertising merchants and publishers (website operators, so-called affiliates, see figure 3). The merchants place their various forms of advertising (e.g. banners, links) on the websites of affiliates using Webgains’ technology platform. The platform links more than 1,800 merchants and more than 250,000 publishers. Payment is predominantly performance-related. Webgains receives a commission for product sales or contract signings.

Figure 3: Webgains’ platform business model



Source: First Berlin Equity Research, ad pepper media International N.V.



Based on a cooperation with IBM, Webgains is investing in artificial intelligence (AI) to use it for the optimal placement of advertisements. We see the IBM Watson technology as a major growth driver in the affiliate marketing business. Watson is an IBM supercomputer that combines AI with sophisticated analytical software for optimal performance as a “question answering” machine. Watson can understand all forms of data (unstructured text, images, audio, video), interact naturally with people, learn and reason. Watson can use machine learning to grow the subject matter expertise in a user’s apps and systems. It can provide personalised recommendations by understanding a user’s personality, tone, and emotions. The supercomputer can create chatbots that can engage in a dialog.

Watson gives ad pepper four advantages:

1. **Data mining & awareness:** It can extract information from a data set and transform it into understandable structures for further use.
2. **Interaction across interfaces:** It can access extracted data from multiple interfaces (e.g. Alexa app, chatbots).
3. **Cognition:** It can go beyond correlation and pattern identification into understanding causation.
4. **Proactivity:** It can provide suggestions proactively, predicting their potential impact.

ad pepper plans to utilise Watson to make affiliate marketing intuitive, predictive, and proactive. This looks set to give the company a clear competitive advantage against players not using this or similar technologies.

ad agents

ad agents is a full-service performance marketing agency with in-depth online performance marketing know-how. It offers the whole range of online performance marketing products, such as

- SEO (Search Engine Optimisation)
- SEA (Search Engine Advertising)
- Amazon SEA/SEO
- Affiliate Management
- Performance Display
- Paid Social Media
- Conversion Optimisation
- Product Data Management

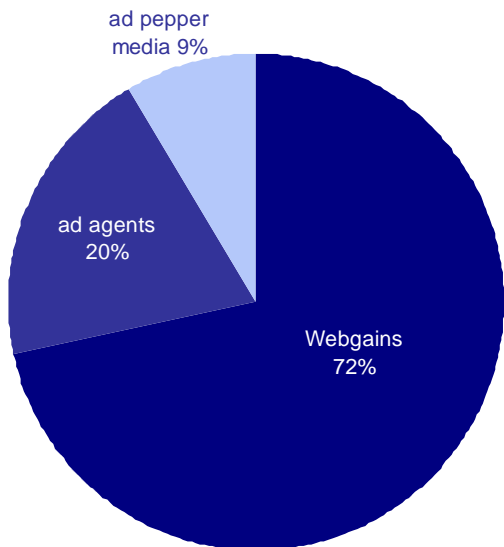
ad agents was established in 2006 by Wolfgang Schilling and Dirk Lajosbanyai, who are still minority shareholders and managers of the company. In 2007, ad pepper purchased a 60% stake from the founding shareholders. ad agents operates independently from ad pepper. Currently, the company is shifting its focus towards strategy and analysis and away from classical campaign management. Due to technological innovations, marketing automation is becoming increasingly ubiquitous and is taking over business traditionally handled by campaign management professionals. Due to the increasing importance of data management platforms for all online marketing channels, ad agents is focusing on data management, platforms, and analysis. In our view, this is a good strategy, as ad agents lowers exposure to areas suffering from margin pressure and expands business in fields promising higher margins, such as strategic consulting based on thorough data analysis.



SEGMENT SALES SPLIT

In 2016, the Webgains segment contributed 72% to group revenues. The ad agents segment accounted for nearly 20%, and ad pepper media for almost 9% (see figure 4).

Figure 4: Segment sales split in 2016

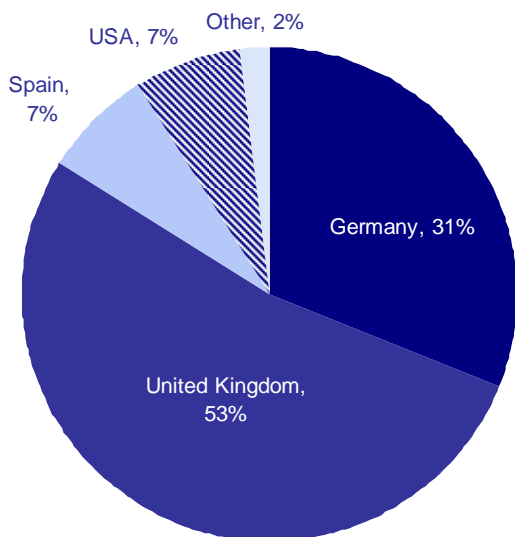


Source: First Berlin Equity Research, ad pepper media International N.V.

REGIONAL SALES SPLIT

In 2016, ad pepper generated more than half of its sales in the UK. The second largest market is Germany with 31%. The US and Spain contributed 7% each (see figure 5).

Figure 5: Regional sales split in 2016



Source: First Berlin Equity Research, ad pepper media International N.V.

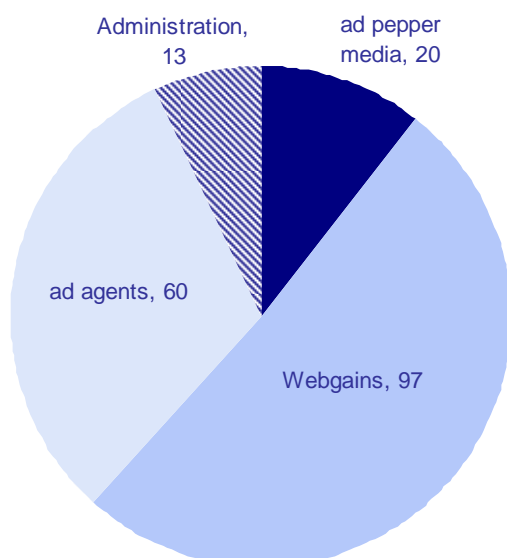
CLIENTS

ad pepper has clients from different segments, ranging from fashion, automotive, finance, insurance, to fast moving consumer goods (FMCG), and telecoms. Among its clients are reputable companies such as Christ, Deutsche Telekom, Fiat, Microsoft, L'Oreal, Nike, Nivea, Samsung, Thalia, and VW. In 2016, one Webgains client contributed €7.5m (=12.2% of total revenues) to the top line.

EMPLOYEES

At the end of September 2017, the group had 190 (previous year's period: 172) employees, which were distributed among the segments as follows: ad pepper media 20 (19), Webgains 97 (88), ad agents 60 (51), Administration 13 (14, see figure 6).

Figure 6: Employees, September 2017



Source: First Berlin Equity Research, ad pepper media International N.V.

STOCK OPTION PROGRAM

ad pepper has a stock option program as a long-term incentive model for employees in key positions including members of the Board of Directors. Options were issued in 2000-2003, 2008, and 2013. At the end of 2016, 331,900 options were exercisable, and only 10,000 options were out of the money. Exercise prices range between €0.665 and €3.795 per option/share. The subscription ratio is one share per option right. Almost 1m treasury shares have been reserved for the "Ongoing Stock Option Plan."



COMPETITIVE POSITION

The internet is dramatically changing the marketing business. The classic business model of media agencies is increasingly under pressure as it is not performance-driven. Consequently, traditional players are looking to gain a foothold in the digital media space, mainly by M&A. Alongside strong growth of online marketing in recent years, competition has been intense as rapid technological change has forced companies to continually invest in new technologies. Consolidation of the sector has created larger and more competitive players. In August 2017, Axel Springer and United Internet merged their affiliate networks. In April 2017, the consulting company Accenture purchased 62% of the listed German digital agency SinnerSchrader. In 2015, the British WPP, one of the global leaders in marketing communications services, acquired more than 50% of Syzygy, a listed German digital marketing agency.

With 190 employees, activities in five countries, and a market capitalisation of ca. €82m, ad pepper remains a rather small player in the international online marketing arena. Larger companies often have a broader customer base, better access to high-traffic websites, plus larger financial and human resources. But fortunately, large does not always mean better. Since ad pepper's subsidiaries act as largely independent companies and brands, we analyse the competitive position of each operating unit.

WEBGAINS

In the affiliate marketing business, Webgains belongs to the group of established large players. The main competitors are AWIN, Tradedoubler, CJ Affiliate – the platform of the US company Alliance Data Systems, Rakuten Linkshare – the affiliate network of US-based Rakuten Marketing, and Performance Horizon. We believe that market entry barriers are high as existing affiliate networks benefit from the economies of scale of their existing large networks. Potential new entrants are often deterred by the high costs and time involved in building a new network.

We regard AWIN AG as Webgains' main competitor. AWIN is a global affiliate network and offers e-commerce and online marketing solutions. Its platform connects over 6,000 advertisers and more than 100,000 publishers in over 180 countries. In 2016, AWIN generated €82m in sales. In August 2017, AWIN (formerly zanox) and affilinet, the affiliate platform of United Internet, merged. AWIN is owned by Axel Springer (80%) and United Internet (20%). Both companies are listed on the Frankfurt Stock Exchange. AWIN owns the US affiliate network ShareASale and has a strategic partnership with the Australian network Commission Factory. The company has more than 900 employees at 15 locations in 11 countries.

Another competitor in the affiliate business is the Swedish company Tradedoubler, which has a network with over 2,000 advertiser brands and above 180,000 active publishers. In 2016, the company generated around €11bn in revenue for its clients through e-commerce and mobile commerce. Tradedoubler has been listed on the Nasdaq Nordic Exchange in Stockholm since 2005. The company has more than 280 employees and is active in over 70 countries. In 2016, Tradedoubler generated sales of SEK 1.3bn (ca. €135m). EBITDA amounted to SEK -6m (ca. €-0.6m). The market capitalisation is ca. SEK 136m (ca. €13.8m).

Alliance Data Systems Corporation provides data-driven and transaction-based marketing as well as customer loyalty solutions. The company has three business segments: Card Services, Epsilon, and LoyaltyOne. Epsilon is a marketing agency providing marketing services such as strategic consulting, customer database technologies, omnichannel



marketing, loyalty management, proprietary data, permission-based email marketing, personalised digital marketing, and affiliate marketing. Epsilon has over 1,400 clients, operating primarily in the financial services, insurance, media, automotive, consumer packaged goods, retail, travel, healthcare and telecommunications industries. Epsilon operates CJ Affiliate, one of the world's largest affiliate marketing networks specialising in pay-for-performance programs. CJ Affiliate has above 3,000 merchants and ca. 500,000 publishers. In 2016, Alliance Data Systems generated sales of \$7.1bn and adjusted EBITDA of \$2.1bn. The market capitalisation is ca. \$14.6bn.

Performance Horizon offers SaaS (Software as a Service) solutions for digital partner marketing, which enable brands to directly connect with their marketing partners. The company has offices in the US, UK, Japan and Australia, and more than 100 employees. Its more than 155,000 marketing partners are spread over 170 countries.

AD AGENTS

ad agents is one of the few independent full service performance agencies. It competes against big networks such as HAVAS, network agencies such as SinnerSchrader, Syzygy, and NetBooster, and other independent agencies such as blueSummit. Due to its broad performance marketing expertise and comprehensive service offering including Amazon services, ad agents is successful in pitches against both the big networks and network agencies.

We view SinnerSchrader as a relevant competitor. The company, which now belongs to Accenture, posted 2016/17 (its fiscal year ended on 31 August 2017) revenues of €57m and EBITDA of €5m. With more than 500 employees, it is one of the largest digital agency groups in Germany. Among its service portfolio are consulting on the use of digital technology for marketing, the planning & conception of digital marketing strategies, and the conception, implementation & execution of digital marketing measures. The company has a market capitalisation of ca. €151m.

Another competitor is Syzygy, a group that combines an international network of largely independent agencies with a focus on digital marketing. The Syzygy group, which is majority-owned by WPP, covers the complete value chain of digital marketing. Main areas are brand platforms, websites, digital campaigns, mobile apps, SEO/SEA, and affiliate programs. At the end of 2016, the company had 580 employees at offices in Germany, the UK, Poland, and the US. In 2016, revenues amounted to €64m, and EBITDA was €6.8m. The market capitalisation is ca. €152m.

NetBooster is an independent digital agency focusing on performance-driven digital strategies in Europe. The agency network is listed on the Euronext Stock Exchange in Paris, France. NetBooster operates more than 25 offices with over 850 employees in Europe and beyond, deploying digital campaigns and strategies in more than 70 markets. In Germany, Netbooster acts under the brand "Metapeople." In 2016, NetBooster generated €140m in sales and EBITDA of €5.0m. The market capitalisation is ca. €87m.

blueSummit is a German agency for international performance marketing and offers SEA/SEO, affiliate marketing, Google shopping & data feeds, and performance display. The company has 200 employees and ca. 140 customers.



AD PEPPER MEDIA

ad pepper media is a specialist in lead generation. Typical peers are other specialised agencies such as Peak Ace (SEA/SEO), Videobeat (video advertising), ameo and factor-a (Amazon vendor management), performance media (digital media planning), and YOC (mobile advertising). The specialised agencies focus on a certain online marketing area. In this area, they compete against the full-service agencies such as ad agents. Due to their different specialisation, the peers do usually not compete against ad pepper media.

Peak Ace is a German digital marketing agency focusing on SEA/SEO, content marketing, and conversion rate optimisation. The company has more than 60 employees.

Videobeat Networks is specialised in data-driven cross-platform video marketing. The company has more than 70 employees, is headquartered in Hamburg, Germany and runs offices in Berlin, London, Paris, and New York. Videobeat has operations specialists in digital video – including YouTube, Facebook, Instagram, Twitter, Snapchat, and programmatic media – mobile, national and local TV broadcast, and synced multi-screen advertising. Among the customers are Lufthansa, Microsoft, and Sennheiser.

factor-a is a pioneer in Amazon vendor management with more than 50 employees. Among the different e-commerce options Amazon has developed into a very attractive channel. factor-a offers Amazon know-how, experience and implementation skills to effectively exploit this channel. The German agency ameo also offers Amazon consulting and vendor management.

Performance Media is a German digital media agency with more than 250 employees, which has specialised in digital media planning. The company offers performance, search, and brand campaigns, media technology and consulting. Performance Media has more than 150 planning mandates from a wide range of industries with a focus on banking, FMCG, insurance, telecoms, and travel.

YOC ("Your Opinion Counts") is a mobile advertising pioneer and claims to be the leading independent provider of mobile premium inventory in Europe. Thanks to its technologies such as Programmatic Media Trading and Programmatic Data Targeting, YOC enables advertisers to access specific target groups and make efficient use of their advertising budgets. Top international advertisers from all industries such as Microsoft, Google, Mercedes-Benz, Vodafone, Coca-Cola, Dior and Samsung work with YOC. The company has offices in five European markets with over 70 employees. It is listed on the Frankfurt Stock Exchange. In 2016, YOC generated sales of €12m and EBITDA of €-1.2m. The market capitalisation amounts to ca. €30m.

FINANCIAL HISTORY AND OUTLOOK

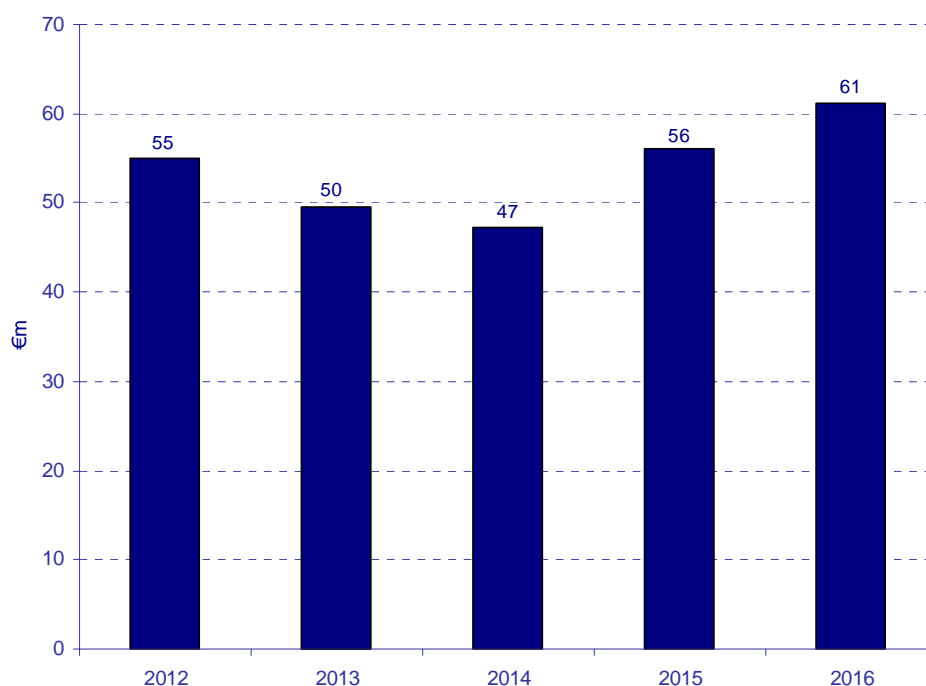
FINANCIAL HISTORY

An in-depth analysis of the income statement, balance sheet, and cash flow statement provides a clear picture of the financial development of the company in recent years.

Income Statement: Return to profitable growth

After three years of contracting sales, ad pepper resumed its growth path in 2015. The revenue declines were due to the company's decision to refocus the business on more profitable areas. In 2016, external sales increased 9% to €61.2m and were mainly driven by the ad agents (+31%) and the Webgains (+7%) segments (see figure 7). Webgains was the main revenue contributor with €43.9m, followed by ad agents with €12.0m.

Figure 7: Revenue development 2012-2016, in €m



Source: First Berlin Equity Research, ad pepper media International N.V.

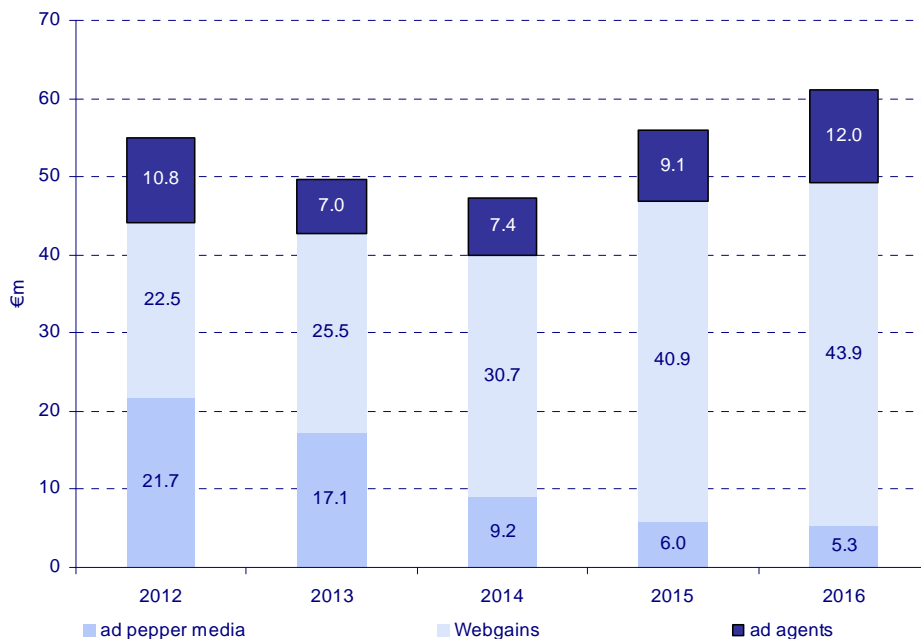
Whereas gross profit declined from 2012 to 2014, it has been stable at ca. €16m in recent years. The gross margin declined from 42% in 2012 to 26% in 2016. At first sight, the gross margin decline hints at strong competition and a difficult business environment. This is, however, only partially the case. The main reason for the decline is the altered product mix:

- The Webgains segment, which has the lowest gross margin of the three segments (2016: 21%), is the strongest growth driver of the group. In 2012, its revenue share amounted to 41% (€23m). This share increased to 72%, or €44m in absolute terms, by 2016. The lower group gross margin is thus mainly a result of the extraordinary growth of the Webgains segment (see figure 8 overleaf).
- ad pepper media has the highest gross margin (2012: 58%, 2016: 44%), but the segment's revenue share declined from 39% to 9% over the four year period. In 2012, segment revenue amounted to €21.7m. In 2016, segment revenue was only one fourth of this figure, namely €5.3m (see figure 8 overleaf).



In addition, the gross margin of the ad agents segment is a less meaningful financial indicator than its gross profit. In some cases, sales are merely media services performed in connection with Google searches. This boosts revenues but pushes down the gross margin. The segment gross margin fell from 39% in 2015 to 36% in 2016 but segment gross profit increased by 19% to €4.3m.

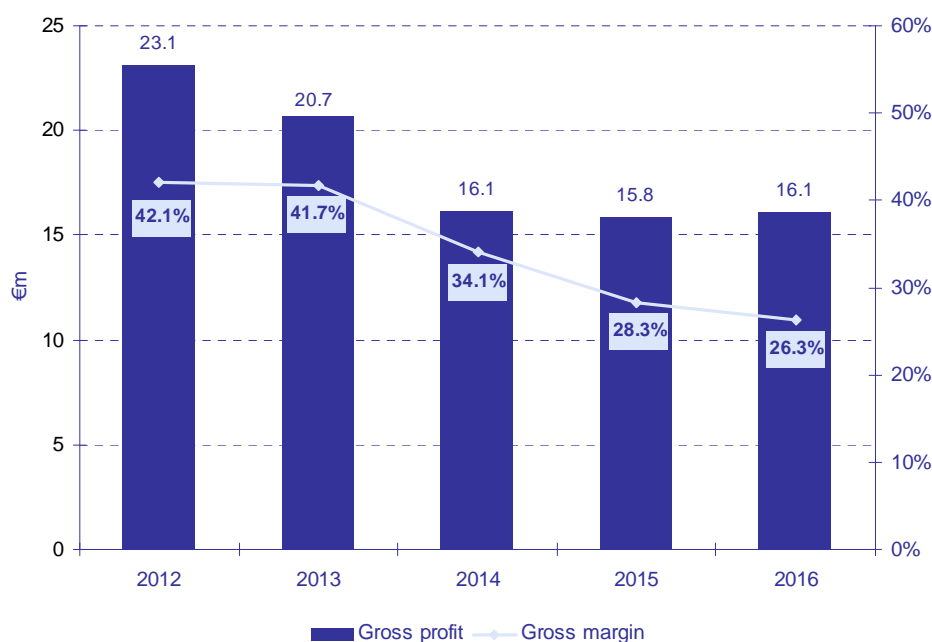
Figure 8: Revenue development of the segments 2012-2016, in €m



Source: First Berlin Equity Research, ad pepper media International N.V.

We are therefore not concerned by a declining group gross margin, as long as gross profit is rising. The first, although small increase in gross profit was achieved in 2016 (see figure 9).

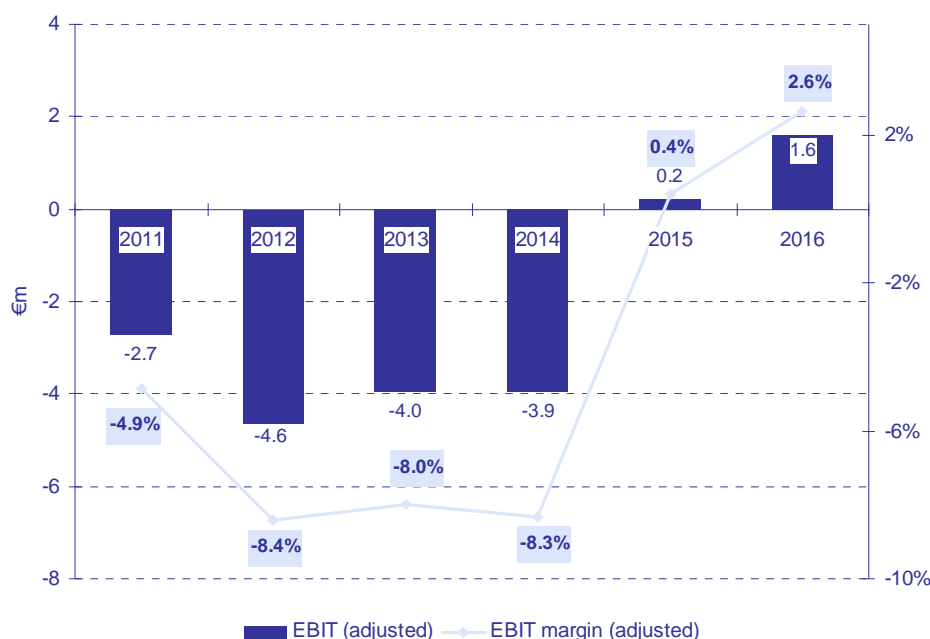
Figure 9: Gross profit and gross margin development 2012-2016



Source: First Berlin Equity Research, ad pepper media International N.V.

Cost of sales comprises expenses for commissions paid to the affiliates, internet advertising space, and ad server technology costs. In 2016, it amounted to €45.1m (2015: €40.2m). Selling and marketing expenses fell y/y from €10.6m in 2015 to €9.1m. General and administrative expenses were also reduced y/y from €6.4m to €6.2m. A slightly higher gross profit and significantly lower OPEX resulted in a much stronger EBIT (€1.6m vs. €0.2m in 2015). The EBIT margin increased from 0.4% to 2.6% (see figure 10).

Figure 10: Adjusted EBIT development 2011-2016



Source: First Berlin Equity Research, ad pepper media International N.V.

A positive financial result of almost €0.1m led to EBT of €1.7m (2015: €0.4m). The net result was €0.6m (2015: €0.0m) due to income tax expenses (€0.6m) and minorities (40% of ad agents are owned by the original management) of €0.5m. Based on an average number of 21.2m diluted shares, this corresponds to EPS of €0.03 (2015: €0.00, see figure 11).

Figure 11: Income Statement 2013-2016

in €m	2013A	2014A	2015A	2016A
Sales	49.63	47.28	56.01	61.16
Growth	.	-4.7%	18.5%	9.2%
Gross profit	20.70	16.13	15.84	16.09
Margin	41.7%	34.1%	28.3%	26.3%
EBITDA	4.96	-3.73	0.38	1.90
Margin	10.0%	-7.9%	0.7%	3.1%
EBIT	4.69	-3.94	0.24	1.61
Margin	9.5%	-8.3%	0.4%	2.6%
EBT	5.29	-5.23	0.44	1.69
Margin	10.7%	-11.1%	0.8%	2.8%
Net result	5.10	-5.43	-0.03	0.63
Margin	10.3%	-11.5%	-0.1%	1.0%
EPS (diluted, in €)	0.23	-0.26	0.00	0.03

* EBIT in 2013 was positively affected by the sale of subsidiaries; adjusted EBIT was €-3.96m

Source: First Berlin Equity Research, ad pepper media International N.V.



In 2016, ad pepper achieved its best result since it was founded in 1999. We believe that the company is now back on a profitable growth track. This is confirmed by the 9M/17 figures. Sales grew strongly by 24% to €52m, driven by all three segments. Gross profit was 14% higher y/y at €13.1m. EBIT declined from €1.2m to €0.7m due to a significantly lower segment EBIT at Webgains (€0.4m vs. €1.1m in 9M/16) and higher administration costs (€1.3m vs. €1.1m in 9M/16, see figure 12). We attribute the higher OPEX at Webgains to investments in preparation of the next growth step and the implementation of the IBM Watson technology.

Figure 12: 9M/17 key financial indicators

	9M/16	9M/17	delta
Sales	41.83	52.04	24.4%
Gross profit	11.46	13.07	14.0%
Margin	27.4%	25.1%	-
EBITDA	1.26	0.95	-24.0%
Margin	3.0%	1.8%	-
EBIT	1.18	0.65	-45.0%
Margin	2.8%	1.3%	-
Net result	0.97	0.20	-79.8%
Margin	2.3%	0.4%	-

Source: First Berlin Equity Research, ad pepper media International N.V.

Originally, ad pepper was guiding towards 2017 sales >€65m and EBITDA between €1.0m and €1.5m. In October 2017, the company increased 2017 guidance to >€70m in sales, and EBITDA >€1.5m. Given that Q4 is the seasonally strongest quarter (Christmas business), we expect ad pepper to reach its guidance.

Strong Balance Sheet

ad pepper has a high cash reserve (2016: €19.6m) and no bank liabilities (see figure 13 overleaf). This gives the company sufficient financial leeway to develop its operating business and drive both organic and external growth.

ad pepper's business model has a very low capital intensity. Intangible assets and property, plant & equipment amount to €0.8m, or 2.5% of the balance sheet total. The largest non-current asset is securities available-for-sale (€1.7m). These securities can be sold at short notice and thus quickly be converted into cash.

Apart from cash, the main current asset is receivables amounting to €10.1m. The largest liability is payables, which amounted to €12.4m at the end of 2016. In the absence of any inventory, ad pepper's cash flow cycle is very favourable as payables finance receivables. At the end of 2016, working capital was negative at €-2.3m (2015: €-3.6m).

Capital issued consists of 23,000,000 shares with a nominal value of €0.05 each, of which 1,999,292 are held by the company reducing the number of shares outstanding to 21,000,708. In 2016, ad pepper bought back 690k shares. At the end of 2016, total equity amounted to €15.0m, which corresponds to a high equity ratio of 48%. At the end of 9M/17, there were no material changes of the balance sheet compared to end 2016.

**Figure 13: Selected balance sheet items**

in €m	2015A	2016A
Intangible goods & Goodwill	0.35	0.57
Property, plant & equipment	0.15	0.21
Financial assets	5.82	1.92
Non-current assets, total	6.31	2.71
Inventories	0.00	0.00
Receivables	9.98	10.12
Cash and cash equivalents	16.93	17.86
Current assets, total	27.73	28.67
Equity	16.51	14.98
<i>Equity ratio</i>	<i>48.5%</i>	<i>47.7%</i>
Financial debt (long-term)	0.00	0.00
Financial debt (short-term)	0.00	0.00
Net debt	-16.93	-17.86
<i>Net Gearing</i>	<i>-102.6%</i>	<i>-119.2%</i>
Payables	13.62	12.36
Balance sheet total	34.04	31.38

Source: First Berlin Equity Research, ad pepper media International N.V.

Cash Flow Statement: Positive operating cash flow in 2015 & 2016

In 2016, operating cash flow was slightly positive at €23k (2015: €1.6m). Free cash flow was negative at €-538k due to CAPEX of €561k. Investing cash flow was positive at €3.6m due mainly to proceeds from the sale of securities. The financing cash flow amounted to €-2.5m due mainly to the repurchase of shares for €2.3m. The net cash flow was €0.9m (see figure 14).

Figure 14: Cash flow statement 2013-2016

in €m	2013A	2014A	2015A	2016A
Operating cash flow	-4.63	-1.66	1.63	0.02
CAPEX	-0.24	-0.33	-0.19	-0.56
Free cash flow	-4.87	-1.99	1.44	-0.54
Cash flow investing	4.62	0.68	3.19	3.57
Cash flow financing	-0.16	0.00	0.18	-2.50
Net cash flow	-0.18	-0.98	5.01	0.93

Source: First Berlin Equity Research, ad pepper media International N.V.

The 9M/17 operating cash flow amounted to €1.7m thanks to higher trade payables (€+2.6m). CAPEX of almost €0.3m resulted in a free cash flow of €1.5m. The financing cash flow was almost €-0.2m, which led to a net cash flow of €1.2m.



FINANCIAL OUTLOOK

We believe that ad pepper will easily meet its guidance for 2017 (>€70m in sales, and EBITDA >€1.5m) and expect sales of €73.2m and EBITDA of €1.7m. For 2018E & 2019E, we forecast sales growth of 18.4% and 15.9% respectively, resulting in a sales volume north of €100m in 2019E (see figure 15). Sales growth will be driven by all segments with the Webgains platform contributing the largest share with growth rates of 19% and 18%, respectively. Webgains' growth will benefit from the investments made in 2017.

We forecast gross profit will rise by 17% y/y to €21.6m in 2018E. For 2019E, we expect gross profit of €24.3m, equivalent to a 14% rise y/y. The increase in gross profit is driven by all three segments. We assume a further decline in the gross margin to 24.9% in 2018E and 24.2% in 2019E due to the described segment mix (see figure 15).

We expect the cost basis to grow only moderately allowing ad pepper to reap economies of scale and increase its EBITDA margin from 2.4% in 2017E to 4.2% in 2018E and 5.0% in 2019E. As we forecast depreciation of ca. €0.5m p.a., EBIT looks set to reach €3.1m and €4.5m respectively, corresponding to EBIT margins of 3.6% and 4.5% (see figure 15). We assume a tax rate of 32% in 2018E and 31% in 2019E. Furthermore, we forecast net income attributable to non-controlling interests (ad pepper only owns 60% of ad agents) of €-600k in 2018E and €-700k in 2019E. This leads to a net result attributable to shareholders of ad pepper of €1.6m in 2018E and €2.5m in 2019E. The number of shares outstanding amounts to 21.0m as 2.0m of the 23.0m shares issued are treasury shares. Due to the stock option program, the diluted number of shares is 21.33m. EPS should more than triple in 2018E to €0.07. For 2019E, we forecast another large increase to €0.11 (>70% y/y).

Figure 15: Strong sales and EBITDA margin growth in 2018E & 2019E

in €m	2016A	2017E	2018E	2019E
Sales	61.16	73.19	86.68	100.46
<i>Growth</i>	9.2%	19.7%	18.4%	15.9%
Gross profit	16.09	18.51	21.60	24.34
<i>Margin</i>	26.3%	25.3%	24.9%	24.2%
EBITDA	1.90	1.72	3.60	5.02
<i>Margin</i>	3.1%	2.4%	4.2%	5.0%
EBIT	1.61	1.31	3.14	4.52
<i>Margin</i>	2.6%	1.8%	3.6%	4.5%
EBT	1.69	1.34	3.18	4.57
<i>Margin</i>	2.8%	1.8%	3.7%	4.5%
Net result	0.63	0.40	1.56	2.45
<i>Margin</i>	1.0%	0.5%	1.8%	2.4%
EPS (diluted, in €)	0.03	0.02	0.07	0.11

Source: First Berlin Equity Research, ad pepper media International N.V.

Our group forecast is based on estimates for all three operating segments and their administration costs (see figure 16 overleaf). We expect double-digit sales growth for all three operating segments both in 2018E and 2019E. Following the investments in Webgains in 2017, we see the strongest growth there and forecast high segment margin growth, as the platform model allows for scaling with only minor cost increases. We expect the Webgains segment's EBITDA margin to grow from 2.1% in 2017E to 3.8% in 2018E and 5.1% in 2019E. As a result, Webgains looks set to contribute more than 50% to the group EBITDA in 2019E.



Figure 16: Segment development 2015-2019E

Segments	2015	2016	2017E	2018E	2019E
ad pepper media					
Revenue (external)	5,982	5,264	6,487	7,460	8,355
Growth y/y	-	-12.0%	23.2%	15.0%	12.0%
Gross profit	3,091	2,579	2,854	3,245	3,593
Gross margin	51.7%	49.0%	44.0%	43.5%	43.0%
EBITDA	-497	485	1,340	1,567	1,704
EBITDA margin	-8.3%	9.2%	20.7%	21.0%	20.4%
Webgains					
Revenue (external)	40,882	43,894	50,204	59,743	69,899
Growth y/y	-	7.4%	14.4%	19.0%	17.0%
Gross profit	8,994	9,224	10,041	11,829	13,421
Gross margin	22.0%	21.0%	20.0%	19.8%	19.2%
EBITDA	1,352	1,540	1,044	2,270	3,530
EBITDA margin	3.3%	3.5%	2.1%	3.8%	5.1%
ad agents					
Revenue (external)	9,145	12,007	16,507	19,478	22,205
Growth y/y	-	31.3%	37.5%	18.0%	14.0%
Gross profit	3,593	4,285	5,612	6,525	7,328
Gross margin	39.3%	35.7%	34.0%	33.5%	33.0%
EBITDA	-567	1,158	1,074	1,363	1,665
EBITDA margin	-6.2%	9.6%	6.5%	7.0%	7.5%
Admin					
EBITDA	-567	-1,422	-1,616	-1,778	-1,884

Source: First Berlin Equity Research, ad pepper media International N.V.

Balance sheet remains strong

We expect no material change in balance sheet metrics in coming years (see figure 17).

Figure 17: Balance sheet development 2016A-2019E

in €m	2016A	2017E	2018E	2019E
Intangible goods & Goodwill	0.57	0.65	0.67	0.74
Property, plant & equipment	0.21	0.23	0.27	0.31
Financial assets	1.92	1.92	1.92	1.92
Non-current assets, total	2.71	2.81	2.86	2.97
Inventories	0.00	0.00	0.00	0.00
Receivables	10.12	12.03	14.25	16.51
Cash and cash equivalents	17.86	19.37	22.11	25.91
Current assets, total	28.67	32.10	37.05	43.12
Equity	14.98	15.88	18.04	21.19
Equity ratio	47.7%	45.5%	45.2%	46.0%
Financial debt (long-term)	0.00	0.00	0.00	0.00
Financial debt (short-term)	0.00	0.00	0.00	0.00
Net debt	-17.86	-19.37	-22.11	-25.91
Net Gearing	-119.2%	-122.0%	-122.5%	-122.3%
Payables	12.36	14.98	17.83	20.85
Balance sheet total	31.38	34.90	39.91	46.09

Source: First Berlin Equity Research, ad pepper media International N.V.



Total equity should rise from €15.0m in 2016 to €21.2m in 2019E, and the equity ratio will remain on a high level (46%). In the coming years, ad pepper will not need any debt financing to continue its operating business. Working capital will be negative as payables remain higher than receivables.

Rising free cash flows

Rising operating cash flows and only marginally higher CAPEX result in strong free cash flow generation. In 2018E & 2019E, we model free cash flow of €2.7m and €3.8m, respectively (see figure 18).

Figure 18: Cash flow development 2016A-2019E

in €m	2016A	2017E	2018E	2019E
Operating cash flow	0.02	2.02	3.18	4.36
CAPEX	-0.56	-0.51	-0.52	-0.60
Free cash flow	-0.54	1.51	2.66	3.76
Cash flow investing	3.57	-0.51	-0.52	-0.60
Cash flow financing	-2.50	0.00	0.00	0.00
Net cash flow	0.93	1.51	2.66	3.76

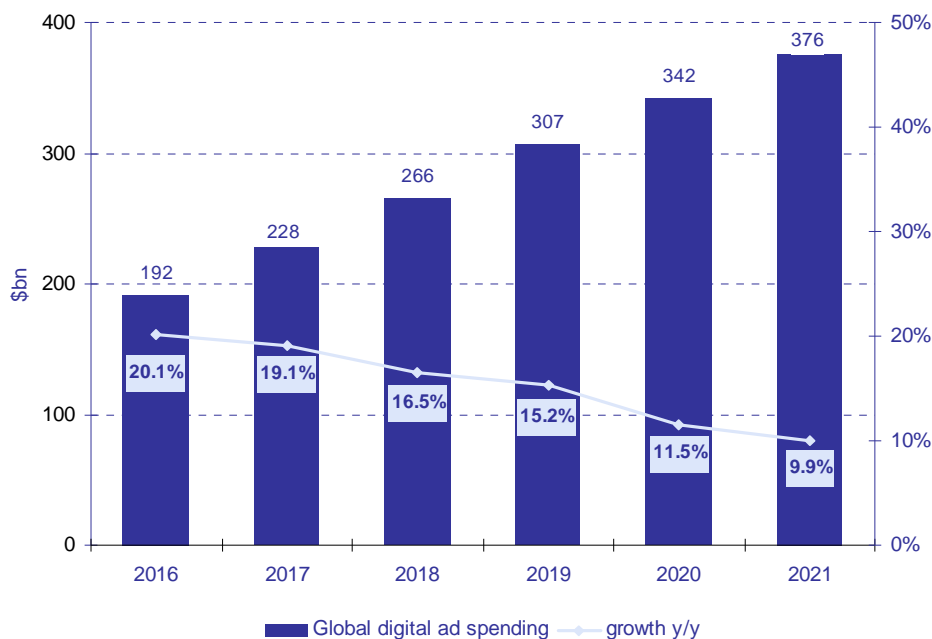
Source: First Berlin Equity Research, ad pepper media International N.V.



MARKET ENVIRONMENT

The online marketing sector is benefiting from the growth of E-Commerce and the ongoing migration of advertising budgets from offline to digital media. In October 2017, the global research house and digital advertising expert eMarketer updated its worldwide ad spending forecast for 2016-21E and now expects digital advertising spending to increase from \$192bn in 2016 to \$376bn in 2021E (see figure 19). This corresponds to a CAGR of 14.3%. The share of digital advertising spending in total ad spend is forecast to increase from 35.2% in 2016 to 49.6% in 2021E. In 2017E, global digital ad spending looks set to increase 19.1% to \$228bn. Mobile ad investments should drive this growth and account for 62.5% of digital ad outlays.

Figure 19: Global digital advertising spending and growth, 2016-2021E

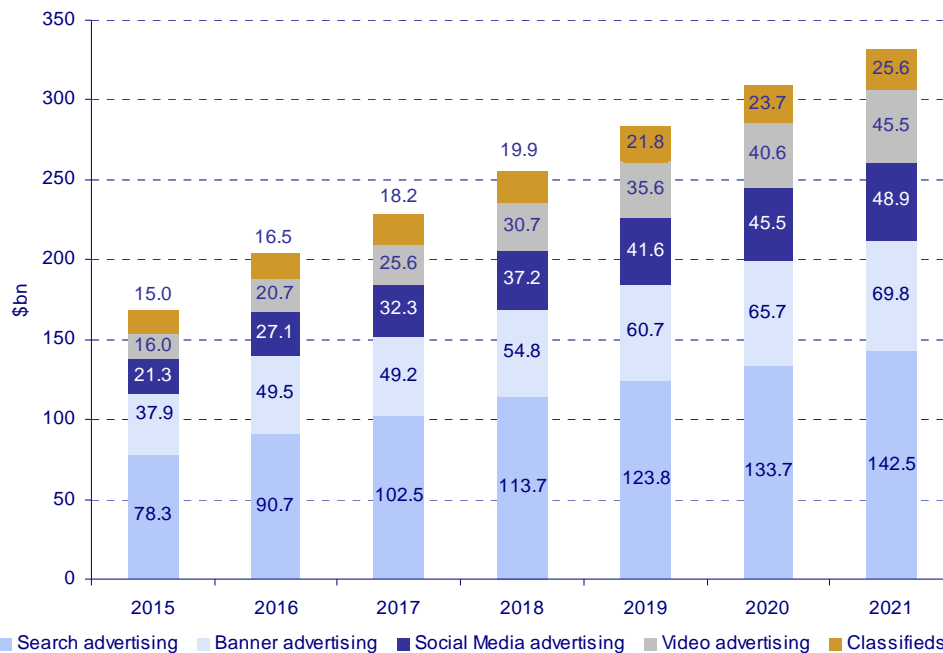


Source: First Berlin Equity Research, eMarketer 2017

In its digital market outlook of July 2016, the German statistics portal Statista gives similar growth projections. It forecasts global advertising revenues to increase from \$168bn in 2015 to \$332bn in 2021E, which corresponds to a CAGR of 12.0%. Search advertising is forecast to remain the most important advertising format with a revenue share of 43% in 2021E, followed by banner advertising with a revenue share of 21% (see figure 20 overleaf).



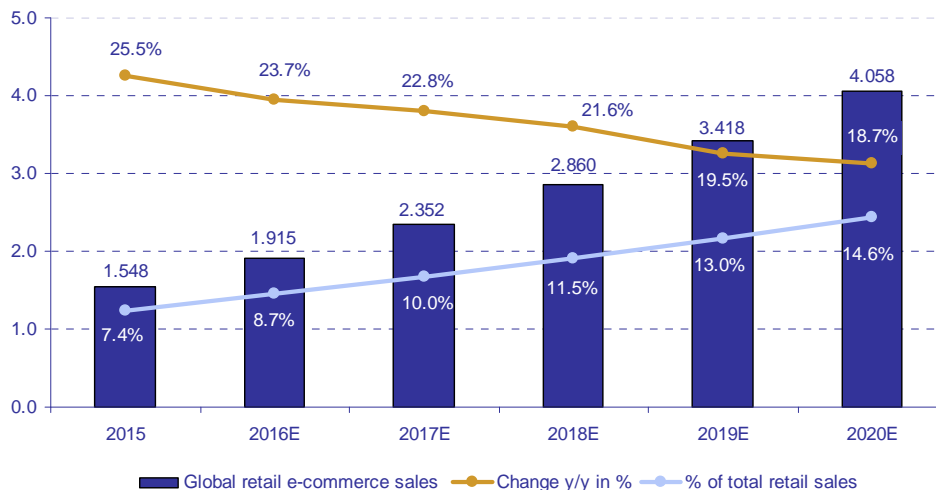
Figure 20: Global digital advertising revenues by format, 2015-21E



Source: First Berlin Equity Research, Statista 2016

Both forecasts make clear that ad pepper is active in a sector exhibiting strong growth in the coming years. This should be very supportive for ad pepper’s growth strategy. We see the E-Commerce market growth as the main driver for online advertising given its natural link to E-Commerce. Online shops will probably be more responsive to online advertisements than any other form of advertisement. According to eMarketer, global E-Commerce sales will double between 2016E and 2020E. Annual sales growth is forecast to fall from 25.5% in 2015 to 18.7% in 2020E. Growth rates will thus remain at a very high level. Compared to the 2015 level, E-Commerce looks set to double its market share (percent of total retail sales) to 14.6% in 2020E (see figure 21).

Figure 21: E-Commerce sales worldwide, 2015A-2020E, \$trillion



Source: First Berlin Equity Research, eMarketer 2016



MANAGEMENT

CEO

Dr. Jens Körner is Chief Executive Officer (CEO) and has been sole member of the Management Board since March 2017. He is in charge of the strategic development of the separate performance marketing companies (ad pepper media, Webgains, and ad agents) as well as the long-term goals and the positioning of the group. Mr Körner has been a member of the Management Board since 2006 and previously served as CFO. He is mainly responsible for the successful turn-around of ad pepper. Previously, Mr. Körner worked for various national and international companies in the fields of corporate finance and investment banking. He was responsible for the successful IPO of ad pepper media International N.V. in the year 2000.

Supervisory Board

Michael Oschmann (*1969) is Chairman of the Supervisory Board. He has been a Supervisory Board member since 2000 and his term of appointment runs until the 2021 AGM. Mr Oschmann is the Managing Director of Telefonbuchverlag Hans Müller GmbH & Co., Nuremberg, Germany.

Thomas Bauer (*1963) has been a Supervisory Board member since 2013 and his term of appointment runs until the 2019 AGM. He is the Managing Director of Thomas Bauer GmbH, Nuremberg, Germany.

Eun-Kyung Park (*1978) has been a Supervisory Board member since 2013 and her term of appointment runs until the 2021 AGM. She is Managing Director Sales and Operations of SevenOne AdFactory (Pro7Sat.1 Media AG).

Stephan Roppel (*1964) has been a Supervisory Board member since 2013 and his term of appointment runs until the 2020 AGM. He is Director of Multichannel and Member of Management at H. Hugendubel GmbH & Co. KG, Munich, Germany.



SHAREHOLDERS & STOCK INFORMATION

Stock Information	
ISIN	NL0000238145
WKN	940883
Bloomberg ticker	APM
No. of issued shares	23,000,000
Transparency Standard	Prime Standard
Country	Netherlands
Sector	Media
Subsector	Advertising

Source: Börse Frankfurt, First Berlin Equity Research

Shareholder Structure	
EMA B.V.	41.2%
Treasury Stock	8.7%
Axxion S.A.	5.1%
Dieter Koppitz	3.0%

Source: ad pepper media International N.V.



INCOME STATEMENT

All figures in EUR '000	2015A	2016A	2017E	2018E	2019E	2020E
Revenues	56,009	61,164	73,187	86,681	100,460	111,511
Cost of goods sold	40,165	45,076	54,682	65,082	76,119	84,748
Gross profit	15,844	16,088	18,505	21,599	24,341	26,763
S&M	10,575	9,055	10,685	11,615	12,558	13,381
G&A	6,382	6,155	6,660	7,021	7,434	7,806
Other operating income	1,406	1,059	659	780	873	1,004
Other operating expenses	49	329	512	607	703	781
EBITDA	384	1,904	1,720	3,601	5,016	6,352
Depreciation and amortisation	140	296	413	465	496	553
Operating income (EBIT)	244	1,608	1,307	3,136	4,520	5,799
Net financial result	199	82	37	43	50	56
Non-operating expenses	0	0	0	0	0	0
Pre-tax income (EBT)	443	1,690	1,344	3,179	4,570	5,854
Income taxes	308	594	443	1,017	1,417	1,756
Minority interests	-168	-467	-500	-600	-700	-800
Net income / loss	-33	629	400	1,562	2,453	3,298
Diluted EPS (in €)	0.00	0.03	0.02	0.07	0.11	0.15

Ratios

Gross margin	28.3%	26.3%	25.3%	24.9%	24.2%	24.0%
EBITDA margin on revenues	0.7%	3.1%	2.4%	4.2%	5.0%	5.7%
EBIT margin on revenues	0.4%	2.6%	1.8%	3.6%	4.5%	5.2%
Net margin on revenues	-0.1%	1.0%	0.5%	1.8%	2.4%	3.0%
Tax rate	69.5%	35.1%	33.0%	32.0%	31.0%	30.0%

Expenses as % of revenues

S&M	18.9%	14.8%	14.6%	13.4%	12.5%	12.0%
G&A	11.4%	10.1%	9.1%	8.1%	7.4%	7.0%
Depreciation and amortisation	0.2%	0.5%	0.6%	0.5%	0.5%	0.5%
Other operating expenses	0.1%	0.5%	0.7%	0.7%	0.7%	0.7%

Y-Y Growth

Revenues	n.a.	9.2%	19.7%	18.4%	15.9%	11.0%
Operating income	n.a.	559.0%	-18.7%	139.9%	44.1%	28.3%
Net income/ loss	n.a.	n.m.	-36.4%	290.2%	57.1%	34.4%



BALANCE SHEET

All figures in EUR '000	2015A	2016A	2017E	2018E	2019E	2020E
Assets						
Current assets, total	27,726	28,672	32,097	37,053	43,123	49,470
Cash and cash equivalents	16,932	17,859	19,370	22,107	25,912	30,443
Short-term investments	297	138	138	138	138	138
Receivables	9,983	10,116	12,031	14,249	16,514	18,331
Inventories	0	0	0	0	0	0
Other current assets	292	408	408	408	408	408
Non-current assets, total	6,314	2,706	2,805	2,861	2,967	3,083
Property, plant & equipment	150	212	231	266	307	346
Goodwill & other intangibles	349	572	652	673	738	815
Other assets	5,815	1,922	1,922	1,922	1,922	1,922
Total assets	34,040	31,378	34,903	39,914	46,091	52,553
Shareholders' equity & debt						
Current liabilities, total	17,436	16,282	18,906	21,756	24,779	27,144
Short-term debt	0	0	0	0	0	0
Accounts payable	13,618	12,357	14,981	17,831	20,854	23,219
Current provisions	0	0	0	0	0	0
Other current liabilities	3,818	3,925	3,925	3,925	3,925	3,925
Long-term liabilities, total	96	117	117	117	117	117
Long-term debt	0	0	0	0	0	0
Deferred revenue	0	0	0	0	0	0
Other liabilities	96	117	117	117	117	117
Minority interests	503	690	1,190	1,790	2,490	3,290
Shareholders' equity	16,005	14,289	14,689	16,251	18,704	22,002
Share capital	1,150	1,150	1,150	1,150	1,150	1,150
Capital reserve	63,305	61,116	61,116	61,116	61,116	61,116
Other reserves	-2,199	-2,356	-2,356	-2,356	-2,356	-2,356
Loss carryforward / retained earnings	-46,250	-45,621	-45,221	-43,659	-41,206	-37,908
Total consolidated equity and debt	34,040	31,378	34,903	39,914	46,091	52,553
Ratios						
Current ratio (x)	1.59	1.76	1.70	1.70	1.74	1.82
Quick ratio (x)	1.59	1.76	1.70	1.70	1.74	1.82
Net debt	-17,229	-17,997	-19,508	-22,245	-26,050	-30,581
Net gearing	-107.6%	-126.0%	-132.8%	-136.9%	-139.3%	-139.0%
Equity ratio	48.5%	47.7%	45.5%	45.2%	46.0%	48.1%
Book value per share (in €)	0.75	0.67	0.69	0.76	0.88	1.03
Return on equity (ROE)	-0.2%	4.4%	2.7%	9.6%	13.1%	15.0%
Days of sales outstanding (DSO)	65.1	60.4	60.0	60.0	60.0	60.0
Days inventory outstanding	0.0	0.0	0.0	0.0	0.0	0.0
Days in payables (DIP)	123.8	100.1	100.0	100.0	100.0	100.0



CASH FLOW STATEMENT

All figures in EUR '000	2015A	2016A	2017E	2018E	2019E	2020E
EBIT	244	1,608	1,307	3,136	4,520	5,799
Depreciation and amortisation	140	296	413	465	496	553
EBITDA	384	1,904	1,720	3,601	5,016	6,352
Changes in working capital	2,257	-1,164	710	631	759	548
Other adjustments	-1,014	-717	-407	-974	-1,366	-1,701
Operating cash flow	1,627	23	2,023	3,258	4,408	5,199
Investments in PP&E	-67	-144	-146	-173	-201	-223
Investments in intangibles	-118	-417	-366	-347	-402	-446
Free cash flow	1,442	-538	1,511	2,738	3,805	4,530
Acquisitions & disposals, net	3,363	3,920	0	0	0	0
Other investments	16	209	0	0	0	0
Investment cash flow	3,194	3,568	-512	-520	-603	-669
Debt financing, net	0	0	0	0	0	0
Equity financing, net	176	-2,217	0	0	0	0
Dividends paid	0	0	0	0	0	0
Other financing	0	-280	0	0	0	0
Financing cash flow	176	-2,497	0	0	0	0
FOREX & other effects	8	-167	0	0	0	0
Net cash flows	5,006	927	1,511	2,738	3,805	4,530
Cash, start of the year	11,926	16,932	17,859	19,370	22,107	25,912
Cash, end of the year	16,932	17,859	19,370	22,107	25,912	30,443
EBITDA/share (in €)	0.02	0.09	0.08	0.17	0.24	0.30
Y-Y Growth						
Operating cash flow	n.a.	-98.6%	8695.8%	61.0%	35.3%	18.0%
Free cash flow	n.a.	n.m.	n.m.	81.2%	39.0%	19.1%
EBITDA/share	n.a.	402.0%	-10.2%	109.3%	39.3%	26.6%

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	9 January 2018	€ 4.06	Add	€ 4.30

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