

# ad pepper media International N.V.

The Netherlands / Internet Services  
 Frankfurt  
 Bloomberg: APM GR  
 ISIN: NL0000238145

Preliminary  
 Q1 figures

**RATING**  
**PRICE TARGET**  
 Return Potential  
 Risk Rating

**BUY**  
**€ 4.90**  
 27.3%  
 High

## 26% SALES GROWTH Y/Y AND POSITIVE EBITDA

ad pepper media International presented preliminary Q1 figures which were slightly above our forecasts. Revenues grew an impressive 26% y/y to €9.0m and resulted in positive earnings. Q1 EBITDA of €0.3m is one of the best Q1 results in the history of the company. Q1 figures are a strong confirmation of ad pepper's 2018 guidance (strong growth & higher EBITDA). We stick to our forecasts and slightly increase the price target to €4.90 (previously: €4.80). We confirm our Buy rating.

**Strong revenue growth and positive EBITDA** Sales grew 26% to €9.0m (FBe: €8.8m) on a like-for-like basis. Since the beginning of 2018, ad pepper has been applying the new industry standard IFRS 15 which has replaced several different sales recognition standards by uniform rules. IFRS results in lower revenues at the Webgains segment as the website fee to be paid to publishers (affiliate commission) is no longer recognised as external revenues and cost of sales. Since profitability figures, such as EBITDA, remain unchanged, ad pepper's EBITDA margin increases significantly. Applying the new standard to the Q1/17 revenue figures results in €7.1m (previous standard: €16.4m). Sales were driven by the ad pepper media segment (+58% y/y) and the ad agents segment (+27% y/y). Webgains grew 4%. The ad pepper media segment's growth is impressive. The subsidiary, which is specialised in lead generation and audience targeting, is obviously hitting the ground running. Gross profit met our forecast and rose 15% to €4.7m. EBITDA was €104k above our estimate at €312k (Q1/17: €-246k). The main driver was the ad pepper media segment which doubled EBITDA and contributed €483k (FBe: €290k, Q1/17: €189k). The ad agents segment generated EBITDA of €158k (FBe: €258k, Q1/17: €239k). The Webgains segment was successfully turned around and added €51k to group EBITDA (FBe: €160k, Q1/17: €72k). Group EBIT amounted to €231k (FBe: €103k, Q1/17: €-350k). EBTwas €232k (FBe: €110k Q1/17: €-347k, see figures 1 & 2 overleaf).

(p.t.o.)

### FINANCIAL HISTORY & PROJECTIONS

	2015	2016	2017	2018E	2019E	2020E
Revenue (€m)	56.01	61.16	75.56	38.89	44.54	51.03
Y-o-y growth	n.a.	9.2%	23.5%	-48.5%	14.5%	14.6%
EBIT (€m)	0.24	1.61	1.82	3.14	4.52	5.80
EBIT margin	0.4%	2.6%	2.4%	8.1%	10.1%	11.4%
Net income (€m)	-0.03	0.63	0.58	1.56	2.45	3.30
EPS (diluted) (€)	0.00	0.03	0.03	0.07	0.11	0.15
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	1.60	-0.54	2.67	2.14	3.12	3.62
Net gearing	-107.6%	-126.0%	-128.1%	-128.9%	-128.7%	-126.0%
Liquid assets (€m)	16.93	17.86	20.13	22.27	25.39	29.01

### 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.

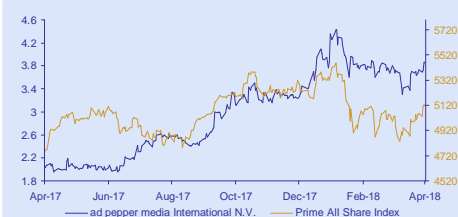
### MARKET DATA

As of 19 Apr 2018

Closing Price	€ 3.85
Shares outstanding	21.00m
Market Capitalisation	€ 80.85m
52-week Range	€ 1.95 / 4.42
Avg. Volume (12 Months)	21,684

Multiples	2017	2018E	2019E
P/E	139.4	51.8	33.0
EV/Sales	0.8	1.6	1.4
EV/EBIT	33.4	19.4	13.4
Div. Yield	0.0%	0.0%	0.0%

### STOCK OVERVIEW



### COMPANY DATA

As of 31 Dec 2017

Liquid Assets	€ 20.13m
Current Assets	€ 34.90m
Intangible Assets	€ 0.36m
Total Assets	€ 38.62m
Current Liabilities	€ 21.70m
Shareholders' Equity	€ 16.52m

### SHAREHOLDERS

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

**Figure 1: Reported Q1 figures versus forecasts**

All figures in €m	Q1-18A	Q1-18E	Delta	Q1-17	Delta
Sales	9.00	8.79	2.4%	7.13	26.1%
EBITDA	0.31	0.21	50.0%	-0.25	-
margin	1.3%	0.9%		-1.3%	
EBIT	0.23	0.10	124.3%	-0.35	-
margin	1.0%	0.4%		-1.8%	
EBT	0.23	0.11	110.9%	-0.35	-
margin	1.0%	0.5%		-1.8%	

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

Although ad pepper has not published figures for the Admin segment which comprises the holding costs, and for intersegment consolidation, our calculation (see figure 2) shows that Admin & Consolidation EBITDA was significantly lower y/y (€-0.38m versus €-0.60m in Q11/17) and below our estimates (€-0.50m). Costs remain firmly under control.

**Figure 2: Reported segment figures versus forecasts**

Sales	Q1-18A	Q1-18E	Delta	Q1-17	Delta
<b>ad pepper media</b>					
Sales	2.29	1.81	26.4%	1.45	58.1%
EBITDA	0.48	0.29	66.6%	0.19	155.6%
margin	21.1%	16.0%	-	13.0%	-
<b>Webgains</b>					
Sales	2.34	2.67	-12.4%	2.25	4.0%
EBITDA	0.05	0.16	-68.1%	-0.07	-
margin	2.2%	6.0%	-	-3.2%	-
<b>ad agents</b>					
Sales	4.37	4.30	1.6%	3.44	27.0%
EBITDA	0.16	0.26	-38.8%	0.24	-33.9%
margin	3.6%	6.0%	-	6.9%	-
<b>Admin &amp; Consolidation</b>					
Sales	-0.01	0.00	-	-0.01	-
EBITDA	-0.38	-0.50	-	-0.60	-
<b>Group</b>					
Sales	9.00	8.79	2.4%	7.13	26.1%
EBITDA	0.31	0.21	50.0%	-0.25	-
margin	3.5%	2.4%	-	-3.4%	-

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

**Q1 figures support 2018 guidance: strong growth & increasing EBITDA** ad pepper is guiding towards strong growth with higher EBITDA. We believe that each segment will grow at a double digit rate in 2018E and increase earnings. On the group level, we continue to forecast annual EBITDA of €3.6m (+61% y/y).

**Final Q1 figures as next share price driver** Final Q1 figures will be published on 22 May. Given the very good preliminary Q1 results we believe that ad pepper will use the publication of the Q1 report to give more specific EBITDA guidance, which could act as the next share price driver.

**Buy rating confirmed at slightly increased price target** Based on unchanged estimates, we have slightly increased the price target to €4.90 (previously: €4.80) and confirm the Buy rating.



## VALUATION MODEL

DCF valuation model								
All figures in EUR '000								
	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Net sales	38,886	44,539	51,027	56,640	62,407	68,251	74,083	79,807
<b>NOPLAT</b>	<b>2,119</b>	<b>3,104</b>	<b>4,042</b>	<b>5,137</b>	<b>5,720</b>	<b>6,321</b>	<b>6,931</b>	<b>7,543</b>
+ depreciation & amortisation	427	404	395	433	477	519	559	597
Net operating cash flow	2,545	3,507	4,438	5,570	6,196	6,839	7,490	8,141
- total investments (CAPEX and WC)	-444	-442	-874	319	-14	-23	-37	-56
Capital expenditures	-350	-401	-459	-510	-550	-589	-626	-660
Working capital	-94	-41	-415	829	536	566	589	605
Free cash flows (FCF)	2,102	3,066	3,564	5,889	6,183	6,816	7,453	8,085
<b>PV of FCF's</b>	<b>1,960</b>	<b>2,588</b>	<b>2,721</b>	<b>4,070</b>	<b>3,867</b>	<b>3,858</b>	<b>3,817</b>	<b>3,747</b>

All figures in thousands	
PV of FCFs in explicit period (2018E-2032E)	48,845
PV of FCFs in terminal period	31,485
Enterprise value (EV)	80,330
+ Net cash / - net debt	20,127
+ Investments / minority interests	3,294
Shareholder value	103,751

Fair value per share in EUR	4.90
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WACC		Terminal growth rate							
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	
Cost of equity	10.5%	6.5%	7.62	7.99	8.43	8.97	9.65	10.51	11.67
Pre-tax cost of debt	6.0%	7.5%	6.52	6.76	7.04	7.37	7.76	8.24	8.84
Tax rate	30.0%	8.5%	5.71	5.87	6.05	6.27	6.52	6.81	7.16
After-tax cost of debt	4.2%	9.5%	5.08	5.20	5.32	5.47	5.63	5.82	6.05
Share of equity capital	100.0%	10.5%	4.59	4.67	4.76	4.86	4.98	5.11	5.25
Share of debt capital	0.0%	11.5%	4.19	4.25	4.32	4.39	4.47	4.56	4.67
		12.5%	3.87	3.91	3.96	4.01	4.07	4.14	4.21
		13.5%	3.59	3.63	3.66	3.71	3.75	3.80	3.85
Fair value per share in EUR	4.90								

\* for layout purposes the model shows numbers only to 2025, but runs until 2032



## INCOME STATEMENT

All figures in EUR '000	2015A	2016A	2017A	2018E	2019E	2020E
<b>Revenues</b>	<b>56,009</b>	<b>61,164</b>	<b>75,563</b>	<b>38,886</b>	<b>44,539</b>	<b>51,027</b>
Cost of goods sold	40,165	45,076	57,215	17,287	19,919	23,472
<b>Gross profit</b>	<b>15,844</b>	<b>16,088</b>	<b>18,348</b>	<b>21,599</b>	<b>24,620</b>	<b>27,555</b>
S&M	10,575	9,055	10,771	11,615	12,730	13,973
G&A	6,382	6,155	6,087	7,021	7,540	8,006
Other operating income	1,406	1,059	723	780	873	1,004
Other operating expenses	49	329	396	607	703	781
<b>EBITDA</b>	<b>540</b>	<b>1,748</b>	<b>2,208</b>	<b>3,563</b>	<b>4,924</b>	<b>6,194</b>
Depreciation and amortisation	296	140	391	427	404	395
<b>Operating income (EBIT)</b>	<b>244</b>	<b>1,608</b>	<b>1,817</b>	<b>3,136</b>	<b>4,520</b>	<b>5,799</b>
Net financial result	199	82	-17	43	50	56
Non-operating expenses	0	0	0	0	0	0
<b>Pre-tax income (EBT)</b>	<b>443</b>	<b>1,690</b>	<b>1,800</b>	<b>3,179</b>	<b>4,570</b>	<b>5,854</b>
Income taxes	308	594	664	1,017	1,417	1,756
Minority interests	-168	-467	-556	-600	-700	-800
<b>Net income / loss</b>	<b>-33</b>	<b>629</b>	<b>580</b>	<b>1,562</b>	<b>2,453</b>	<b>3,298</b>
<b>Diluted EPS (in €)</b>	<b>0.00</b>	<b>0.03</b>	<b>0.03</b>	<b>0.07</b>	<b>0.11</b>	<b>0.15</b>

### Ratios

Gross margin	28.3%	26.3%	24.3%	55.5%	55.3%	54.0%
EBITDA margin on revenues	1.0%	2.9%	2.9%	9.2%	11.1%	12.1%
EBIT margin on revenues	0.4%	2.6%	2.4%	8.1%	10.1%	11.4%
Net margin on revenues	-0.1%	1.0%	0.8%	4.0%	5.5%	6.5%
Tax rate	69.5%	35.1%	36.9%	32.0%	31.0%	30.0%

### Expenses as % of revenues

S&M	18.9%	14.8%	14.3%	29.9%	28.6%	27.4%
G&A	11.4%	10.1%	8.1%	18.1%	16.9%	15.7%
Depreciation and amortisation	0.5%	0.2%	0.5%	1.1%	0.9%	0.8%
Other operating expenses	0.1%	0.5%	0.5%	1.6%	1.6%	1.5%

### Y-Y Growth

Revenues	n.a.	9.2%	23.5%	-48.5%	14.5%	14.6%
Operating income	n.a.	559.0%	13.0%	72.6%	44.1%	28.3%
Net income/ loss	n.a.	n.m.	-7.8%	169.3%	57.1%	34.4%



## BALANCE SHEET

All figures in EUR '000	2015A	2016A	2017A	2018E	2019E	2020E
<b>Assets</b>						
<b>Current assets, total</b>	<b>27,726</b>	<b>28,672</b>	<b>34,896</b>	<b>37,294</b>	<b>41,280</b>	<b>46,423</b>
Cash and cash equivalents	16,932	17,859	20,127	22,272	25,387	29,007
Short-term investments	297	138	27	27	27	27
Receivables	9,983	10,116	14,129	14,382	15,253	16,776
Inventories	0	0	0	0	0	0
Other current assets	514	559	613	613	613	613
<b>Non-current assets, total</b>	<b>6,314</b>	<b>2,706</b>	<b>3,719</b>	<b>3,642</b>	<b>3,639</b>	<b>3,703</b>
Property, plant & equipment	150	212	424	411	424	476
Goodwill & other intangibles	349	572	362	298	282	294
Other assets	5,815	1,922	2,933	2,933	2,933	2,933
<b>Total assets</b>	<b>34,040</b>	<b>31,378</b>	<b>38,615</b>	<b>40,936</b>	<b>44,919</b>	<b>50,126</b>
<b>Shareholders' equity &amp; debt</b>						
<b>Current liabilities, total</b>	<b>17,436</b>	<b>16,282</b>	<b>21,696</b>	<b>21,856</b>	<b>22,685</b>	<b>23,793</b>
Short-term debt	0	0	0	0	0	0
Accounts payable	13,618	12,357	17,838	17,998	18,827	19,935
Current provisions	0	0	0	0	0	0
Other current liabilities	3,818	3,925	3,858	3,858	3,858	3,858
<b>Long-term liabilities, total</b>	<b>96</b>	<b>117</b>	<b>402</b>	<b>402</b>	<b>402</b>	<b>402</b>
Long-term debt	0	0	0	0	0	0
Deferred revenue	0	0	0	0	0	0
Other liabilities	96	117	402	402	402	402
<b>Minority interests</b>	<b>503</b>	<b>690</b>	<b>779</b>	<b>1,379</b>	<b>2,079</b>	<b>2,879</b>
<b>Shareholders' equity</b>	<b>16,005</b>	<b>14,289</b>	<b>15,738</b>	<b>17,300</b>	<b>19,753</b>	<b>23,051</b>
Share capital	1,150	1,150	1,150	1,150	1,150	1,150
Capital reserve	63,305	61,116	61,312	61,312	61,312	61,312
Other reserves	-2,199	-2,356	-1,683	-1,683	-1,683	-1,683
Loss carryforward / retained earnings	-46,250	-45,621	-45,041	-43,479	-41,026	-37,728
<b>Total consolidated equity and debt</b>	<b>34,040</b>	<b>31,378</b>	<b>38,615</b>	<b>40,936</b>	<b>44,919</b>	<b>50,126</b>
<b>Ratios</b>						
Current ratio (x)	1.59	1.76	1.61	1.71	1.82	1.95
Quick ratio (x)	1.59	1.76	1.61	1.71	1.82	1.95
Net debt	-17,229	-17,997	-20,154	-22,299	-25,414	-29,034
Net gearing	-107.6%	-126.0%	-128.1%	-128.9%	-128.7%	-126.0%
Equity ratio	48.5%	47.7%	42.8%	45.6%	48.6%	51.7%
Book value per share (in €)	0.75	0.67	0.74	0.81	0.93	1.08
Return on equity (ROE)	-0.2%	4.4%	3.7%	9.0%	12.4%	14.3%
Return on investment (ROI)	-0.1%	2.0%	1.5%	3.8%	5.5%	6.6%
Return on assets (ROA)	0.1%	2.2%	1.5%	3.8%	5.5%	6.6%
Days of sales outstanding (DSO)	65.1	60.4	68.2	135.0	125.0	120.0
Days inventory outstanding	0.0	0.0	0.0	0.0	0.0	0.0
Days in payables (DIP)	123.8	100.1	113.8	380.0	345.0	310.0



## CASH FLOW STATEMENT

All figures in EUR '000	2015A	2016A	2017A	2018E	2019E	2020E
<b>EBIT</b>	<b>244</b>	<b>1,608</b>	<b>1,817</b>	<b>3,136</b>	<b>4,520</b>	<b>5,799</b>
Depreciation and amortisation	296	140	391	427	404	395
<b>EBITDA</b>	<b>540</b>	<b>1,748</b>	<b>2,208</b>	<b>3,563</b>	<b>4,924</b>	<b>6,194</b>
Changes in working capital	2,257	-1,164	3,095	-94	-41	-415
Other adjustments	-1,014	-561	-2,203	-974	-1,367	-1,701
<b>Operating cash flow</b>	<b>1,783</b>	<b>23</b>	<b>3,100</b>	<b>2,495</b>	<b>3,516</b>	<b>4,079</b>
Investments in PP&E	-67	-144	-378	-233	-267	-306
Investments in intangibles	-118	-417	-55	-117	-134	-153
<b>Free cash flow</b>	<b>1,598</b>	<b>-538</b>	<b>2,666</b>	<b>2,145</b>	<b>3,115</b>	<b>3,619</b>
Acquisitions & disposals, net	3,363	3,920	3	0	0	0
Other investments	16	209	0	0	0	0
<b>Investment cash flow</b>	<b>3,194</b>	<b>3,568</b>	<b>-431</b>	<b>-350</b>	<b>-401</b>	<b>-459</b>
Debt financing, net	0	0	0	0	0	0
Equity financing, net	176	-2,217	105	0	0	0
Dividends paid	0	0	0	0	0	0
Other financing	0	-280	-467	0	0	0
<b>Financing cash flow</b>	<b>176</b>	<b>-2,497</b>	<b>-362</b>	<b>0</b>	<b>0</b>	<b>0</b>
FOREX & other effects	8	-167	-39	0	0	0
<b>Net cash flows</b>	<b>5,162</b>	<b>927</b>	<b>2,268</b>	<b>2,145</b>	<b>3,115</b>	<b>3,619</b>
Cash, start of the year	11,926	16,932	17,859	20,127	22,272	25,387
<b>Cash, end of the year</b>	<b>17,088</b>	<b>17,859</b>	<b>20,127</b>	<b>22,272</b>	<b>25,387</b>	<b>29,007</b>
<b>EBITDA/share (in €)</b>	<b>0.03</b>	<b>0.08</b>	<b>0.10</b>	<b>0.17</b>	<b>0.23</b>	<b>0.29</b>
<b>Y-Y Growth</b>						
Operating cash flow	n.a.	-98.7%	13378.3%	-19.5%	40.9%	16.0%
Free cash flow	n.a.	n.m.	n.m.	-19.6%	45.3%	16.2%
EBITDA/share	n.a.	227.8%	26.3%	60.4%	38.2%	25.8%

### 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
2...1	↓	↓	↓	↓
2	25 January 2018	€4.42	Add	€4.50
3	10 April 2018	€3.68	Buy	€4.80
4	Today	€3.85	Buy	€4.90

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**BUY:** An expected favourable price trend of more than 25% percent.

**ADD:** An expected favourable price trend of between 0% and 25%.

**REDUCE:** An expected negative price trend of between 0% and -15%.

**SELL:** An expected negative price trend of more than -15%.

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- key sources of information in the preparation of this research report
- valuation methods and principles
- sensitivity of valuation parameters

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