

ad pepper media International N.V.

The Netherlands / Internet Services

Frankfurt

Bloomberg: APM GR

ISIN: NL0000238145

Final Q1 figures

RATING**PRICE TARGET**

Return Potential

Risk Rating

BUY**€ 4.90**

27.9%

High

FINAL Q1 FIGURES CONFIRM GROWTH STORY

ad pepper media International's final Q1 figures corresponded to preliminaries. Sales climbed 26% y/y to €9.0m, and EBITDA improved €5581 to €312k. The net result was slightly positive at €65k. Given that H2 is the seasonally stronger half-year in the advertising business we see ad pepper well on track to increase its EBITDA and expect more concrete guidance after publication of the H1 report. We stick to our 2018E EBITDA forecast of €3.6m (+61% y/y) and believe that potential uncertainty regarding new EU data protection regulation is only of temporary nature. We reiterate our €4.90 price target and Buy rating.

Strong sales growth and positive net result Sales grew 26% y/y to €9.0m on a like-for-like basis and were particularly driven by the ad pepper media segment (+58% y/y) reflecting strong demand for lead generation and audience targeting. The ad agents segment grew 27% y/y and Webgains 4%. Gross profit rose 15% to €4.7m (see figure 1 overleaf). EBITDA amounted to €312k (Q1/17: €246k) and was mainly driven by the ad pepper media segment which doubled EBITDA and contributed €483k (see figure 2 overleaf). Group EBIT amounted to €231k versus €-350k in Q1/17, and the net result was positive at €65k (Q1/17: €-596k).

Guidance reiterated Management confirmed guidance (higher EBITDA y/y). Given the strong Q1 performance (Q1 EBITDA improvement of almost €0.6m) we see the company well on track to reach its target.

Balance sheet remains strong The (net) cash position fell from €20.1m at the end of 2017 to €14.4m, but liquid funds including securities remained at a high level of €19.5m (2017: €22.6m). In Q1, ad pepper purchased a security which was accounted for as "Securities held at cost" at a book value of €2.4m. Working capital remained negative and amounted to €-2.0m versus €-3.7m at the end of 2017. The increase in working capital resulted from a stronger decline in payables than in receivables. Equity rose slightly from €16.5m to €16.9m.

(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

* Please note that changed IFRS regulation results in lower revenues from 2018E on.

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 23 May 2018

Closing Price	€ 3.83
Shares outstanding	21.00m
Market Capitalisation	€ 80.43m
52-week Range	€ 1.95 / 4.42
Avg. Volume (12 Months)	21,486

Multiples	2017	2018E	2019E
P/E	138.7	51.5	32.8
EV/Sales	0.8	1.6	1.4
EV/EBIT	33.2	19.2	13.3
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Mar 2018

Liquid Assets	€ 14.38m
Current Assets	€ 11.41m
Intangible Assets	€ 0.32m
Total Assets	€ 33.16m
Current Liabilities	€ 15.91m
Shareholders' Equity	€ 16.86m

SHAREHOLDERS

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



The equity share however increased significantly from 43% to 51% as the balance sheet total declined by 14% from €38.6m to €33.2m.

Negative operating cash flow Operating cash flow was €-3.3m due mainly to lower payables (€-4.3m). Cash flow from investing activities amounted to €-2.4m as ad pepper purchased securities for €2.4m. Because there was no cash flow from financing activities the net cash outflow amounted to €5.8m.

Gross profit and EBITDA show significant improvement in almost all segments Gross profit growth of 15% y/y was driven by all segments, particularly the ad pepper media segment (see figure 1).

Figure 1: Gross profit (segments & group)

Gross profit in €k	Q1-18A	Q1-17A	Delta
ad pepper media	1,008	679	48.3%
Webgains	2,286	2,196	4.1%
ad agents	1,335	1,182	12.9%
Admin	92	58	56.8%
Group	4,720	4,116	14.7%

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

All operating segments contributed to Q1/18 group EBITDA, particularly the ad pepper media segment. EBITDA of the Admin segment, which contains holding costs, was significantly higher y/y. As a result, group EBITDA improved by almost €0.6m to €0.3m.

Figure 2: EBITDA (segments & group)

EBTIDA in €k	Q1-18A	Q1-17A	Delta
ad pepper media	483	189	155.8%
Webgains	51	-72	-
ad agents	158	239	-33.9%
Admin	-381	-602	-
Group	312	-246	-

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

Q2 figures could be affected by introduction of EU General Data Protection Regulation The EU GDPR will be effective from 25 May and has created some uncertainty among companies. This may lead to temporary caution regarding ad spending which could have an adverse effect on ad pepper's Q2 figures. Although we expect strong Q2 figures, growth may not be as strong as in Q1. The company intends to give more detailed guidance after assessing Q2 performance.

Buy reiterated at unchanged price target An updated DCF model based on unchanged forecasts still yields a €4.90 price target. We reiterate our 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
NOPLAT	2,119	3,104	4,042	5,137	5,720	6,321	6,931	7,543
+ 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	37	38	34	25
Capital expenditures	-350	-401	-459	-510	-550	-589	-626	-660
Working capital	-94	-41	-415	829	588	627	660	685
Free cash flows (FCF)	2,102	3,066	3,564	5,889	6,234	6,877	7,524	8,165
PV of FCF's	1,979	2,612	2,747	4,108	3,935	3,929	3,889	3,819

All figures in thousands	
PV of FCFs in explicit period (2018E-2032E)	49,675
PV of FCFs in terminal period	32,087
Enterprise value (EV)	81,762
+ Net cash / - net debt	20,127
+ Investments / minority interests	3,294
Shareholder value	105,183
Number of shares (diluted)	21,678
Fair value per share in EUR	4.85

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%	7.57	7.95	8.40	8.95	9.63	10.51	11.69
Pre-tax cost of debt	6.0%	7.5%	6.48	6.73	7.01	7.35	7.75	8.24	8.86
Tax rate	30.0%	8.5%	5.68	5.84	6.03	6.25	6.51	6.81	7.17
After-tax cost of debt	4.2%	9.5%	5.06	5.17	5.31	5.45	5.62	5.82	6.05
Share of equity capital	100.0%	10.5%	4.57	4.65	4.75	4.85	4.97	5.10	5.26
Share of debt capital	0.0%	11.5%	4.17	4.24	4.31	4.38	4.47	4.56	4.67
		12.5%	3.85	3.90	3.95	4.00	4.07	4.13	4.21
		13.5%	3.58	3.62	3.66	3.70	3.74	3.79	3.85
Price target 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
Revenues	56,009	61,164	75,563	38,886	44,539	51,027
Cost of goods sold	40,165	45,076	57,215	17,287	19,919	23,472
Gross profit	15,844	16,088	18,348	21,599	24,620	27,555
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
EBITDA	540	1,748	2,208	3,563	4,924	6,194
Depreciation and amortisation	296	140	391	427	404	395
Operating income (EBIT)	244	1,608	1,817	3,136	4,520	5,799
Net financial result	199	82	-17	43	50	56
Non-operating expenses	0	0	0	0	0	0
Pre-tax income (EBT)	443	1,690	1,800	3,179	4,570	5,854
Income taxes	308	594	664	1,017	1,417	1,756
Minority interests	-168	-467	-556	-600	-700	-800
Net income / loss	-33	629	580	1,562	2,453	3,298
Diluted EPS (in €)	0.00	0.03	0.03	0.07	0.11	0.15

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
Assets						
Current assets, total	27,726	28,672	34,896	37,294	41,280	46,423
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
Non-current assets, total	6,314	2,706	3,719	3,642	3,639	3,703
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
Total assets	34,040	31,378	38,615	40,936	44,919	50,126
Shareholders' equity & debt						
Current liabilities, total	17,436	16,282	21,696	21,856	22,685	23,793
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
Long-term liabilities, total	96	117	402	402	402	402
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
Minority interests	503	690	779	1,379	2,079	2,879
Shareholders' equity	16,005	14,289	15,738	17,300	19,753	23,051
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
Total consolidated equity and debt	34,040	31,378	38,615	40,936	44,919	50,126
Ratios						
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
EBIT	244	1,608	1,817	3,136	4,520	5,799
Depreciation and amortisation	296	140	391	427	404	395
EBITDA	540	1,748	2,208	3,563	4,924	6,194
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
Operating cash flow	1,783	23	3,100	2,495	3,516	4,079
Investments in PP&E	-67	-144	-378	-233	-267	-306
Investments in intangibles	-118	-417	-55	-117	-134	-153
Free cash flow	1,598	-538	2,666	2,145	3,115	3,619
Acquisitions & disposals, net	3,363	3,920	3	0	0	0
Other investments	16	209	0	0	0	0
Investment cash flow	3,194	3,568	-431	-350	-401	-459
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
Financing cash flow	176	-2,497	-362	0	0	0
FOREX & other effects	8	-167	-39	0	0	0
Net cash flows	5,162	927	2,268	2,145	3,115	3,619
Cash, start of the year	11,926	16,932	17,859	20,127	22,272	25,387
Cash, end of the year	17,088	17,859	20,127	22,272	25,387	29,007
EBITDA/share (in €)	0.03	0.08	0.10	0.17	0.23	0.29
Y-Y Growth						
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	20 April 2018	€3.85	Buy	€4.90
5	Today	€3.83	Buy	€4.90

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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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