

ad pepper media International N.V.

The Netherlands / Internet Services

Frankfurt

Bloomberg: APM GR

ISIN: NL0000238145

Final H1 figures

RATING**PRICE TARGET**

Return Potential

Risk Rating

BUY**€ 4.90**

31.7%

High

MUCH STRONGER EARNINGS EXPECTED IN H2

ad pepper's final H1 figures confirm the preliminary numbers. H1 figures showed strong growth (sales: +22% y/y, EBITDA: +20% y/y). H2 earnings looks set to be much stronger than in H1 due to the typical seasonality of the advertising business. Following investments in personnel and technology in H1, ad pepper should fully participate in the seasonal upturn. Whereas H1 EBITDA amounted to €0.6m, we expect EBITDA of €2.5m in H2. We confirm our full-year forecast (EBITDA: €3.1m). We maintain our Buy rating at an unchanged €4.90 price target. Upside: 32%.

Positive net result in H1 Sales increased 22% y/y on a like-for-like basis to €18.1m and gross profit grew almost 9% y/y to €9.4m EBITDA was up 20% at €0.6m and EBIT amounted to €0.4m (+46% y/y). A better financial result and lower taxes resulted in a net profit attributable to shareholders of €0.2m. This is an improvement of €0.4m compared to the H1/17 result of €-0.2m. EPS were €0.01 versus €-0.01 in H1/17 (see figure 1 overleaf).

The main earnings driver was the ad pepper media segment, which contributed EBITDA of €1.0m (Webgains & ad agents: each almost €0.2m, admin: €-0.7m).

Guidance reiterated ad pepper is still guiding towards higher EBITDA y/y. For the remainder of the year, the company expects revenues and EBITDA to be stronger than in H1. This reflects the typical seasonality of the advertising business. The 4th quarter is particularly strong due to Christmas business.

Strong balance sheet ad pepper has no bank debt, and cash and short-term securities of €20.8m. The net cash position is thus also €20.8m. Equity remained largely stable in H1 and amounted to €16.7m. The equity ratio increased from 42.8% to 48.5% due to a lower balance sheet total (€34.4m versus €38.6m at the end of 2017). Both receivables and payables declined significantly. Compared to the end of 2017, trade receivables were down €2.6m at €11.6m and trade payables €3.5m at €14.3m. Working capital thus remained negative at €-2.8m versus €-3.7m at the end of 2017.

(p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2015	2016	2017	2018E	2019E	2020E
Revenue (€m)	56.01	61.16	75.56	40.49	44.54	51.03
Y-o-y growth	n.a.	9.2%	23.5%	-46.4%	10.0%	14.6%
EBIT (€m)	0.24	1.61	1.82	2.79	4.52	5.80
EBIT margin	0.4%	2.6%	2.4%	6.9%	10.1%	11.4%
Net income (€m)	-0.03	0.63	0.58	1.35	2.45	3.30
EPS (diluted) (€)	0.00	0.03	0.03	0.06	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	1.80	3.21	3.64
Net gearing	-107.6%	-126.0%	-128.1%	-128.5%	-128.8%	-126.1%
Liquid assets (€m)	16.93	17.86	20.13	21.93	25.13	28.78

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 22 Aug 2018

Closing Price	€ 3.72
Shares outstanding	21.00m
Market Capitalisation	€ 78.12m
52-week Range	€ 2.40 / 4.42
Avg. Volume (12 Months)	19,878

Multiples	2017	2018E	2019E
P/E	134.7	57.9	31.8
EV/Sales	0.8	1.4	1.3
EV/EBIT	31.9	20.8	12.8
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2018

Liquid Assets	€ 18.29m
Current Assets	€ 30.77m
Intangible Assets	€ 0.29m
Total Assets	€ 34.35m
Current Liabilities	€ 17.31m
Shareholders' Equity	€ 16.67m

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: H1/18 figures**

All figures in €m	H1-18A	H1-17A	Delta
Sales	18.10	14.82	22.1%
Gross profit	9.40	8.66	8.5%
margin	52.0%	58.5%	
EBITDA	0.60	0.50	20.4%
margin	3.3%	3.4%	
EBIT	0.44	0.30	45.8%
margin	2.4%	2.0%	
EBT	0.49	0.29	68.6%
margin	2.7%	2.0%	
Net income	0.20	-0.18	-
margin	1.1%	-1.2%	
EPS (diluted)	0.01	-0.01	-

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

Negative operating cash flow Operating cash flow in H1 amounted to €-1.7m due mainly to higher working capital requirements. Free cash flow was also €-1.7m as CAPEX was negligible. As cash flows from investing and financing were both very small, net cash outflow was only slightly above the cash outflow from operations and amounted to €1.9m.

2018E EBITDA forecast confirmed We confirm our full-year EBITDA forecast of €3.1m. H2 earnings looks set to be much stronger than in H1 due to the typical seasonality of the advertising business (strong Q4 due to Christmas business). Following investments in personnel and technology in H1, ad pepper should fully participate in the seasonal upturn. Whereas H1 EBITDA amounted to €0.6m we expect EBITDA of €2.5m in H2 (see figure 2).

Figure 2: H1/18 segment figures and H2/18 forecast

All figures in €m	H1-18A	H2-18E	2018E
ad pepper media			
Sales	5.01	5.05	10.06
EBITDA	1.01	0.70	1.71
margin	20.2%	13.9%	17.0%
Webgains			
Sales	4.57	5.68	10.25
EBITDA	0.17	1.43	1.60
margin	3.7%	25.2%	15.6%
ad agents			
Sales	8.51	11.67	20.18
EBITDA	0.16	1.26	1.41
margin	1.8%	10.8%	7.0%
Admin & Consolidation			
Sales	0.00	0.00	0.00
EBITDA	-0.73	-0.86	-1.59
Group			
Sales	18.10	22.40	40.49
EBITDA	0.60	2.53	3.14
margin	3.3%	11.3%	7.7%

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

Buy reiterated at unchanged price target An updated DCF model still yields a €4.90 price target. We confirm our Buy rating.



VALUATION MODEL

DCF valuation model								
All figures in EUR '000	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Net sales	40,492	44,539	51,027	56,640	62,407	68,251	74,083	79,807
NOPLAT	1,876	3,104	4,042	5,137	5,720	6,321	6,931	7,543
+ depreciation & amortisation	343	461	418	443	481	521	560	598
Net operating cash flow	2,219	3,564	4,461	5,580	6,201	6,841	7,491	8,141
- total investments (CAPEX and WC)	-492	-408	-874	319	37	38	34	25
Capital expenditures	-364	-401	-459	-510	-550	-589	-626	-660
Working capital	-128	-7	-415	829	588	627	660	685
Free cash flows (FCF)	1,727	3,156	3,587	5,899	6,238	6,879	7,525	8,166
PV of FCF's	1,666	2,756	2,834	4,218	4,037	4,028	3,987	3,915

All figures in thousands	
PV of FCFs in explicit period (2018E-2032E)	50,663
PV of FCFs in terminal period	32,888
Enterprise value (EV)	83,551
+ Net cash / - net debt	20,127
+ Investments / minority interests	3,294
Shareholder value	106,972
Number of shares (diluted)	21,640
Fair value per share in EUR	4.94

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%	7.68	8.06	8.51	9.07	9.77	10.67	11.86
Pre-tax cost of debt	6.0%	7.5%	6.58	6.83	7.12	7.46	7.87	8.37	9.00
Tax rate	30.0%	8.5%	5.77	5.94	6.13	6.36	6.62	6.92	7.29
After-tax cost of debt	4.2%	9.5%	5.15	5.27	5.40	5.55	5.73	5.93	6.16
Share of equity capital	100.0%	10.5%	4.65	4.74	4.84	4.94	5.06	5.20	5.36
Share of debt capital	0.0%	11.5%	4.25	4.32	4.39	4.47	4.55	4.65	4.76
		12.5%	3.93	3.98	4.03	4.09	4.15	4.22	4.30
		13.5%	3.65	3.69	3.73	3.78	3.82	3.87	3.93
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	40,492	44,539	51,027
Cost of goods sold	40,165	45,076	57,215	19,792	19,919	23,472
Gross profit	15,844	16,088	18,348	20,700	24,620	27,555
S&M	10,575	9,055	10,771	12,165	12,930	13,973
G&A	6,382	6,155	6,087	5,921	7,340	8,006
Other operating income	1,406	1,059	723	780	873	1,004
Other operating expenses	49	329	396	601	703	781
EBITDA	540	1,748	2,208	3,136	4,981	6,217
Depreciation and amortisation	296	140	391	343	461	418
Operating income (EBIT)	244	1,608	1,817	2,793	4,520	5,799
Net financial result	199	82	-17	73	50	56
Non-operating expenses	0	0	0	0	0	0
Pre-tax income (EBT)	443	1,690	1,800	2,865	4,570	5,854
Income taxes	308	594	664	917	1,417	1,756
Minority interests	-168	-467	-556	-600	-700	-800
Net income / loss	-33	629	580	1,348	2,453	3,298
Diluted EPS (in €)	0.00	0.03	0.03	0.06	0.11	0.15

Ratios

Gross margin	28.3%	26.3%	24.3%	51.1%	55.3%	54.0%
EBITDA margin on revenues	1.0%	2.9%	2.9%	7.7%	11.2%	12.2%
EBIT margin on revenues	0.4%	2.6%	2.4%	6.9%	10.1%	11.4%
Net margin on revenues	-0.1%	1.0%	0.8%	3.3%	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%	30.0%	29.0%	27.4%
G&A	11.4%	10.1%	8.1%	14.6%	16.5%	15.7%
Depreciation and amortisation	0.5%	0.2%	0.5%	0.8%	1.0%	0.8%
Other operating expenses	0.1%	0.5%	0.5%	1.5%	1.6%	1.5%

Y-Y Growth

Revenues	n.a.	9.2%	23.5%	-46.4%	10.0%	14.6%
Operating income	n.a.	559.0%	13.0%	53.7%	61.9%	28.3%
Net income/ loss	n.a.	n.m.	-7.8%	132.5%	81.9%	34.4%

* Please note that the lower revenue figure in 2018 is due mainly to a change in the IFRS reporting standard.



BALANCE SHEET

All figures in EUR '000	2015A	2016A	2017A	2018E	2019E	2020E
Assets						
Current assets, total	27,726	28,672	34,896	36,988	41,026	46,191
Cash and cash equivalents	16,932	17,859	20,127	21,927	25,133	28,775
Short-term investments	297	138	27	27	27	27
Receivables	9,983	10,116	14,129	14,422	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	3,740	3,680	3,721
Property, plant & equipment	150	212	424	476	448	485
Goodwill & other intangibles	349	572	362	331	299	303
Other assets	5,815	1,922	2,933	2,933	2,933	2,933
Total assets	34,040	31,378	38,615	40,729	44,706	49,912
Shareholders' equity & debt						
Current liabilities, total	17,436	16,282	21,696	21,861	22,685	23,793
Short-term debt	0	0	0	0	0	0
Accounts payable	13,618	12,357	17,838	18,003	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	17,086	19,540	22,838
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	-43,693	-41,239	-37,941
Total consolidated equity and debt	34,040	31,378	38,615	40,729	44,706	49,912
Ratios						
Current ratio (x)	1.59	1.76	1.61	1.69	1.81	1.94
Quick ratio (x)	1.59	1.76	1.61	1.69	1.81	1.94
Net debt	-17,229	-17,997	-20,154	-21,954	-25,160	-28,802
Net gearing	-107.6%	-126.0%	-128.1%	-128.5%	-128.8%	-126.1%
Equity ratio	48.5%	47.7%	42.8%	45.3%	48.4%	51.5%
Book value per share (in €)	0.75	0.67	0.74	0.80	0.92	1.07
Return on equity (ROE)	-0.2%	4.4%	3.7%	7.9%	12.6%	14.4%
Return on investment (ROI)	-0.1%	2.0%	1.5%	3.3%	5.5%	6.6%
Return on assets (ROA)	0.1%	2.2%	1.5%	3.3%	5.5%	6.6%
Days of sales outstanding (DSO)	65.1	60.4	68.2	130.0	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	332.0	345.0	310.0



CASH FLOW STATEMENT

All figures in EUR '000	2015A	2016A	2017A	2018E	2019E	2020E
EBIT	244	1,608	1,817	2,793	4,520	5,799
Depreciation and amortisation	296	140	391	343	461	418
EBITDA	540	1,748	2,208	3,136	4,981	6,217
Changes in working capital	2,257	-1,164	3,095	-128	-7	-415
Other adjustments	-1,014	-561	-2,203	-844	-1,367	-1,701
Operating cash flow	1,783	23	3,100	2,164	3,607	4,102
Investments in PP&E	-67	-144	-378	-243	-267	-306
Investments in intangibles	-118	-417	-55	-121	-134	-153
Free cash flow	1,598	-538	2,666	1,800	3,206	3,643
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	-364	-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	1,800	3,206	3,643
Cash, start of the year	11,926	16,932	17,859	20,127	21,927	25,133
Cash, end of the year	17,088	17,859	20,127	21,927	25,133	28,775
EBITDA/share (in €)	0.03	0.08	0.10	0.15	0.23	0.29
Y-Y Growth						
Operating cash flow	n.a.	-98.7%	13378.3%	-30.2%	66.7%	13.7%
Free cash flow	n.a.	n.m.	n.m.	-32.5%	78.2%	13.6%
EBITDA/share	n.a.	227.8%	26.3%	41.1%	58.8%	24.8%

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...3	↓	↓	↓	↓
4	20 April 2018	€3.85	Buy	€4.90
5	24 May 2018	€3.83	Buy	€4.90
6	18 July 2018	€3.84	Buy	€4.90
7	Today	€3.72	Buy	€4.90

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The present financial analysis is based on the author's own knowledge and research. The author prepared this study without any direct or indirect influence exerted on the part of the analysed company. Parts of the financial analysis were possibly provided to the analysed company prior to publication in order to avoid inaccuracies in the representation of facts. However, no substantial changes were made at the request of the analysed company following any such provision.

ASSET VALUATION SYSTEM

First Berlin's system for asset valuation is divided into an asset recommendation and a risk assessment.

ASSET RECOMMENDATION

The recommendations determined in accordance with the share price trend anticipated by First Berlin in the respectively indicated investment period are as follows:

Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy ¹	An expected favourable price trend of:	> 50%	> 30%
Buy	An expected favourable price trend of:	> 25%	> 15%
Add	An expected favourable price trend of:	0% to 25%	0% to 15%
Reduce	An expected negative price trend of:	0% to -15%	0% to -10%
Sell	An expected negative price trend of:	< -15%	< -10%

¹ The expected price trend is in combination with sizable confidence in the quality and forecast security of management.

Our recommendation system places each company into one of two market capitalisation categories. Category 1 companies have a market capitalisation of €0 – €2 billion, and Category 2 companies have a market capitalisation of > €2 billion. The expected return thresholds underlying our recommendation system are lower for Category 2 companies than for Category 1 companies. This reflects the generally lower level of risk associated with higher market capitalisation companies.

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The First Berlin categories for risk assessment are low, average, high and speculative. They are determined by ten factors: Corporate governance, quality of earnings, management strength, balance sheet and financial risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, strength of brandname, market capitalisation and free float. These risk factors are incorporated into the First Berlin valuation models and are thus included in the target prices. First Berlin customers may request the models.

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Unless otherwise stated in the financial analysis, the ratings refer to an investment period of twelve months.

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Legally required information regarding

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

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