

ad pepper media International N.V.

The Netherlands / Internet Services

Frankfurt

Bloomberg: APM GR

ISIN: NL0000238145

Preliminary Q3 figures

RATING**PRICE TARGET**

Return Potential

Risk Rating

BUY**€ 4.00**

37.5%

High

GUIDANCE LOWERED FOLLOWING WEAK Q3 EBITDA

ad pepper media International has reported preliminary 9M figures and lowered EBITDA guidance for the full year. Given the weak Q3 EBITDA and a more cautious Q4 outlook, management believes that the company is no longer likely to reach a full-year EBITDA which is at least as high as the previous year's figure of €2.2m. The main reason for the lower guidance is disappointing results from the ad agents segment. We lower our forecast for 2018E and the following years. An updated DCF model yields a new price target of €4.00 (previously: €4.90). Given the share price decline of recent months, we believe that recent negative newsflow is already reflected in the share price. We forecast that ad pepper will return to a profitable growth path in 2019E and maintain our Buy recommendation.

9M figures show solid sales growth and slightly weaker EBITDA 9M revenues were up 19% like-for-like at €27.6m and slightly below our expectation (FBe: €28.1m). Gross profit was 9% above the previous year's level at €14.3m (FBe: €13.8m). An increased cost basis resulted in a 3% EBITDA decline y/y to €926k (FBe: €1.36m). EBT increased 14% y/y to €0.73m (see figure 1 overleaf). The calculation of the Q3 figures reveals that third quarter EBITDA was weak. It declined more than 29% y/y to €0.32m and was significantly below our estimate (FBe: €0.78m). The main reason for this weakness was slightly negative EBITDA in the ad agents segment.

Guidance lowered On the basis of weak Q3 results and a more cautious outlook for Q4, management believes that the company is no longer likely to reach a full-year EBITDA which is at least as high as the previous year's figure of €2.2m.

Divergent segment development ad pepper's three segments showed very divergent performance in Q3. The ad pepper media segment grew strongly, Webgains was back on the growth path, but profitability was weak, while ad agents' sales declined and the segment was loss-making. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2015	2016	2017	2018E	2019E	2020E
Revenue (€m) *	56.01	61.16	75.56	39.38	43.62	48.99
Y-o-y growth	n.a.	9.2%	23.5%	-47.9%	10.8%	12.3%
EBIT (€m)	0.24	1.61	1.82	1.48	3.42	5.00
EBIT margin	0.4%	2.6%	2.4%	3.8%	7.9%	10.2%
Net income (€m)	-0.03	0.63	0.58	0.55	1.70	2.74
EPS (diluted) (€)	0.00	0.03	0.03	0.03	0.08	0.13
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	1.60	-0.54	2.67	0.69	2.67	4.26
Net gearing	-107.6%	-126.0%	-128.1%	-128.0%	-130.7%	-134.0%
Liquid assets (€m)	16.93	17.86	20.13	20.81	23.48	27.74

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

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 15 Oct 2018

Closing Price	€ 2.91
Shares outstanding	21.00m
Market Capitalisation	€ 61.11m
52-week Range	€ 2.79 / 4.42
Avg. Volume (12 Months)	18,228

Multiples	2017	2018E	2019E
P/E	105.4	111.5	36.0
EV/Sales	0.5	1.0	0.9
EV/EBIT	22.6	27.7	12.0
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: Reported figures versus forecasts**

All figures in €m	Q3-18A	Q3-18E	Delta	Q3-17A	Delta	9M-18A	9M-17A	Delta
Sales	9.55	9.98	-4.4%	8.50	12.4%	27.64	23.31	18.6%
Gross profit	4.88	4.40	10.9%	4.40	10.9%	14.29	13.07	9.3%
margin	51.2%	44.1%		51.8%		51.7%	56.0%	
EBITDA	0.32	0.78	-58.5%	0.45	-28.6%	0.93	0.96	-3.0%
margin	3.4%	7.8%		5.3%		3.3%	4.1%	
EBIT	0.24	0.68	-64.3%	0.35	-30.6%	0.68	0.65	4.8%
margin	2.5%	6.8%		4.1%		2.5%	2.8%	
EBT	0.24	0.68	-65.0%	0.35	-31.2%	0.73	0.64	14.2%
margin	2.5%	6.8%		4.1%		2.6%	2.7%	

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

Stellar growth at ad pepper media segment In Q3, segment sales jumped 87% to €3.0m (FBe: €2.3m). EBITDA was similarly strong with a +83% increase y/y to €0.6m (FBe: €0.5m). The EBITDA margin declined slightly from 20.8% to 20.4%. The segment is currently showing amazing competitive strength and is benefiting from high demand for its core competence, lead generation and audience targeting (see figure 2).

Webgains resumed growth path, but profitability was still weak Webgains' revenue growth in Q3 met our expectation and was almost 7% above the previous year's figure. The market uncertainty following the introduction of the General Data Protection Regulation in the EU, which led to the growth dip in Q2 (-6% y/y), now seems to have been overcome. EBITDA however declined y/y from €0.2m to €0.1m and was below our forecast of €0.4m. We believe that a higher cost base caused the weaker operating profitability. The EBITDA margin fell from 6.7% to 2.3% (see figure 2).

ad agents with disappointing performance Contrary to our expectations, ad agents' Q3 sales declined significantly (-11%) and segment EBITDA was negative (€-0.1m versus €0.3m in Q3/17, see figure 2). So far, ad agents' investments in Amazon SEA/SEO have not paid off. Furthermore, among ad agents' clients are companies such as Saturn and Gerry Weber which recently reported weak business development. This may have affected ad agents' business in Q3.

Figure 2: Reported segment figures versus forecasts

All figures in €m	Q3-18A	Q3-18E	Delta	Q3-17A	Delta	9M-18A	9M-18E	9M-17A	Delta
ad pepper media									
Sales	3.04	2.34	29.8%	1.63	86.7%	8.05	7.35	4.84	66.4%
EBITDA	0.62	0.46	35.7%	0.34	82.9%	1.63	1.47	1.06	54.8%
margin	20.4%	19.5%	-	20.8%	-	20.3%	20.0%	21.8%	-
Webgains									
Sales	2.49	2.46	1.0%	2.33	6.5%	7.06	7.03	6.96	1.3%
EBITDA	0.06	0.36	-84.3%	0.16	-64.1%	0.23	0.53	0.55	-59.1%
margin	2.3%	14.5%	-	6.7%	-	3.2%	7.5%	7.9%	-
ad agents									
Sales	4.02	5.18	-22.4%	4.53	-11.2%	12.54	13.69	11.51	8.9%
EBITDA	-0.08	0.42	-	0.29	-	0.08	0.58	0.75	-89.7%
margin	-1.9%	8.1%	-	6.4%	-	0.6%	4.2%	6.6%	-
Admin & Consolidation									
Sales	0.00	0.00	-	0.00	-	0.00	0.00	0.00	-
EBITDA	-0.28	-0.45	-	-0.33	-	-1.01	-1.18	-1.41	-
Group									
Sales	9.55	9.98	-4.4%	8.49	12.5%	27.64	28.08	23.31	18.6%
EBITDA	0.32	0.78	-59.1%	0.46	-29.5%	0.93	1.39	0.96	-3.0%
margin	3.4%	7.9%	-	5.4%	-	3.3%	5.0%	4.1%	-

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



Forecasts reduced Following the weak Q3 figures and the cautious outlook for Q4, we have lowered our forecast for 2018E and the following years (see figure 3). We nevertheless believe that ad pepper will return to profitable growth in 2019E (sales +11% y/y, EBITDA €3.8m). 2019E EBITDA should be driven by a continuing strong performance from ad pepper media (FBe segment EBITDA: €2.4m), the scalability of Webgains' business model (FBe segment EBITDA: €1.7m), and the turnaround at ad agents (FBe segment EBITDA: €0.8m). Administration costs lower EBITDA by €1.1m on our estimates.

Figure 3: Revisions to forecasts

All figures in €m	2018E			2019E			2020E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Sales	40.49	39.38	-2.7%	44.54	43.62	-2.1%	51.03	48.99	-4.0%
EBIT	2.79	1.48	-46.9%	4.52	3.42	-24.2%	5.80	5.00	-13.8%
margin	6.9%	3.8%		10.1%	7.9%		11.4%	10.2%	
Net income	1.35	0.55	-59.3%	2.45	1.70	-30.9%	3.30	2.74	-16.9%
margin	3.3%	1.4%		5.5%	3.9%		6.5%	5.6%	
EPS (diluted)	0.06	0.03	-59.3%	0.11	0.08	-30.8%	0.15	0.13	-17.0%

Source: First Berlin Equity Research

Buy reiterated at lower price target An updated DCF model, which accounts for the lower forecasts, yields a new price target of €4.00 (previously: €4.90). 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	39,382	43,621	48,990	54,379	59,916	65,526	71,125	76,621	
NOPLAT	988	2,348	3,485	4,057	4,462	4,872	5,279	5,677	
+ depreciation & amortisation	343	385	416	466	480	508	541	575	
Net operating cash flow	1,331	2,733	3,901	4,523	4,942	5,379	5,820	6,252	
- total investments (CAPEX and WC)	-704	-116	307	110	50	31	7	-24	
Capital expenditures	-354	-393	-441	-489	-528	-566	-601	-634	
Working capital	-349	276	748	600	578	597	608	610	
Free cash flows (FCF)	628	2,616	4,208	4,633	4,991	5,410	5,826	6,228	
PV of FCF's	615	2,319	3,375	3,362	3,278	3,216	3,133	3,031	

All figures in thousands	
PV of FCFs in explicit period (2018E-2032E)	39,367
PV of FCFs in terminal period	23,073
Enterprise value (EV)	62,440
+ Net cash / - net debt	20,127
+ Investments / minority interests	3,294
Shareholder value	85,861
Number of shares (diluted)	21,640
Fair value per share in EUR	3.97

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%	5.91	6.17	6.49	6.87	7.35	7.97	8.80
Pre-tax cost of debt	6.0%	7.5%	5.14	5.31	5.51	5.74	6.03	6.37	6.81
Tax rate	30.0%	8.5%	4.56	4.68	4.81	4.97	5.15	5.36	5.61
After-tax cost of debt	4.2%	9.5%	4.12	4.20	4.29	4.40	4.52	4.66	4.82
Share of equity capital	100.0%	10.5%	3.77	3.83	3.89	3.97	4.05	4.15	4.25
Share of debt capital	0.0%	11.5%	3.48	3.53	3.58	3.63	3.69	3.76	3.83
		12.5%	3.25	3.28	3.32	3.36	3.40	3.45	3.50
		13.5%	3.05	3.08	3.10	3.13	3.17	3.20	3.24
Price target in EUR	4.00								

* 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	39,382	43,621	48,990
Cost of goods sold	40,165	45,076	57,215	19,114	21,187	24,126
Gross profit	15,844	16,088	18,348	20,268	22,434	24,864
S&M	10,575	9,055	10,771	12,703	12,880	13,580
G&A	6,382	6,155	6,087	6,262	6,300	6,506
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	1,825	3,809	5,417
Depreciation and amortisation	296	140	391	343	385	416
Operating income (EBIT)	244	1,608	1,817	1,482	3,424	5,001
Net financial result	199	82	-17	60	49	54
Non-operating expenses	0	0	0	0	0	0
Pre-tax income (EBT)	443	1,690	1,800	1,542	3,473	5,055
Income taxes	308	594	664	493	1,077	1,516
Minority interests	-168	-467	-556	-500	-700	-800
Net income / loss	-33	629	580	548	1,696	2,738
Diluted EPS (in €)	0.00	0.03	0.03	0.03	0.08	0.13

Ratios

Gross margin	28.3%	26.3%	24.3%	51.5%	51.4%	50.8%
EBITDA margin on revenues	1.0%	2.9%	2.9%	4.6%	8.7%	11.1%
EBIT margin on revenues	0.4%	2.6%	2.4%	3.8%	7.9%	10.2%
Net margin on revenues	-0.1%	1.0%	0.8%	1.4%	3.9%	5.6%
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%	32.3%	29.5%	27.7%
G&A	11.4%	10.1%	8.1%	15.9%	14.4%	13.3%
Depreciation and amortisation	0.5%	0.2%	0.5%	0.9%	0.9%	0.8%
Other operating expenses	0.1%	0.5%	0.5%	1.5%	1.6%	1.6%

Y-Y Growth

Revenues	n.a.	9.2%	23.5%	-47.9%	10.8%	12.3%
Operating income	n.a.	559.0%	13.0%	-18.5%	131.1%	46.1%
Net income/ loss	n.a.	n.m.	-7.8%	-5.5%	209.4%	61.4%

* 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	35,481	39,058	44,488
Cash and cash equivalents	16,932	17,859	20,127	20,815	23,480	27,741
Short-term investments	297	138	27	27	27	27
Receivables	9,983	10,116	14,129	14,026	14,939	16,106
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	3,730	3,738	3,763
Property, plant & equipment	150	212	424	469	484	512
Goodwill & other intangibles	349	572	362	328	321	318
Other assets	5,815	1,922	2,933	2,933	2,933	2,933
Total assets	34,040	31,378	38,615	39,212	42,796	48,250
Shareholders' equity & debt						
Current liabilities, total	17,436	16,282	21,696	21,244	22,433	24,348
Short-term debt	0	0	0	0	0	0
Accounts payable	13,618	12,357	17,838	17,386	18,575	20,490
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	1,279	1,979	2,779
Shareholders' equity	16,005	14,289	15,738	16,286	17,983	20,721
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	-44,493	-42,796	-40,058
Total consolidated equity and debt	34,040	31,378	38,615	39,212	42,796	48,250
Ratios						
Current ratio (x)	1.59	1.76	1.61	1.67	1.74	1.83
Quick ratio (x)	1.59	1.76	1.61	1.67	1.74	1.83
Net debt	-17,229	-17,997	-20,154	-20,842	-23,507	-27,768
Net gearing	-107.6%	-126.0%	-128.1%	-128.0%	-130.7%	-134.0%
Equity ratio	48.5%	47.7%	42.8%	44.8%	46.6%	48.7%
Book value per share (in €)	0.75	0.67	0.74	0.76	0.84	0.97
Return on equity (ROE)	-0.2%	4.4%	3.7%	3.4%	9.4%	13.2%
Return on investment (ROI)	-0.1%	2.0%	1.5%	1.4%	4.0%	5.7%
Return on assets (ROA)	0.1%	2.2%	1.5%	1.4%	4.0%	5.7%
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	320.0	310.0



CASH FLOW STATEMENT

All figures in EUR '000	2015A	2016A	2017A	2018E	2019E	2020E
EBIT	244	1,608	1,817	1,482	3,424	5,001
Depreciation and amortisation	296	140	391	343	385	416
EBITDA	540	1,748	2,208	1,825	3,809	5,417
Changes in working capital	2,257	-1,164	3,095	-349	276	748
Other adjustments	-1,014	-561	-2,203	-433	-1,028	-1,463
Operating cash flow	1,783	23	3,100	1,042	3,058	4,702
Investments in PP&E	-67	-144	-378	-236	-262	-294
Investments in intangibles	-118	-417	-55	-118	-131	-147
Free cash flow	1,598	-538	2,666	688	2,665	4,262
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	-354	-393	-441
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	688	2,665	4,262
Cash, start of the year	11,926	16,932	17,859	20,127	20,815	23,480
Cash, end of the year	17,088	17,859	20,127	20,815	23,480	27,741
EBITDA/share (in €)	0.03	0.08	0.10	0.09	0.18	0.25
Y-Y Growth						
Operating cash flow	n.a.	-98.7%	13378.3%	-66.4%	193.4%	53.8%
Free cash flow	n.a.	n.m.	n.m.	-74.2%	287.6%	59.9%
EBITDA/share	n.a.	227.8%	26.3%	-17.9%	108.8%	42.2%

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...4	↓	↓	↓	↓
5	24 May 2018	€3.83	Buy	€4.90
6	18 July 2018	€3.84	Buy	€4.90
7	23 August 2018	€3.72	Buy	€4.90
8	Today	€2.91	Buy	€4.00

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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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Legally required information regarding

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