

ad pepper media International N.V.

The Netherlands / Internet Services

Frankfurt

Bloomberg: APM GR

ISIN: NL0000238145

Final 9M figures

RATING**PRICE TARGET**

Return Potential

Risk Rating

BUY**€ 4.00**

52.7%

High

DO THEY KNOW IT'S CHRISTMAS TIME?

ad pepper media International published final 9M figures which corresponded to preliminaries. 9M sales were up 19% y/y like-for-like at €27.6m, but EBITDA declined 3% y/y to €926k due mainly to disappointing results from the ad agents segment. ad pepper's financial position remains very solid with net cash (including securities) of €19m. We expect a strong Q4 due to the Christmas business, but not as profitable as in the prior year. We reiterate our Buy recommendation and the €4.00 price target.

9M figures show solid sales growth and slightly weaker EBITDA 9M revenues were up 19% like-for-like at €27.6m. Gross profit was 9% above the previous year's level at €14.3m. Increasing costs resulted in a 3% EBITDA decline y/y to €925k. EBT increased 14% y/y to €0.73m and the net result was €0.3m versus €0.2m in the prior year period (see figure 1 overleaf). On a quarterly basis, Q3 figures reveal that EBITDA was weak. It declined 29% y/y to €0.32m. The main reason for this weakness was slightly negative EBITDA in the ad agents segment.

Guidance reiterated Management reiterated guidance, which it had lowered at the publication of the preliminary 9M results, and expects a continuation of the overall positive growth trend, albeit at lower profitability y/y due to weaker business at the ad agents segment. It is now unlikely that ad pepper will reach full-year EBITDA which is at least as high as the prior year's figure of €2.2m.

Balance sheet remains strong At the end of September 2018, ad pepper had a net cash position of €18.8m and consolidated equity of €16.8m. The equity ratio amounted to a very solid 46%.

Negative operating cash flow While gross cash flow (before working capital) was positive (€856k), operating cash flow was €-3.5m due mainly b... (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.

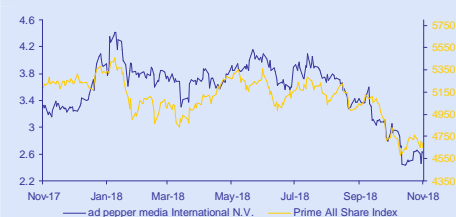
MARKET DATA

As of 15 Nov 2018

Closing Price	€ 2.62
Shares outstanding	21.00m
Market Capitalisation	€ 55.02m
52-week Range	€ 2.43 / 4.42
Avg. Volume (12 Months)	14,875

Multiples	2017	2018E	2019E
P/E	94.9	100.4	32.4
EV/Sales	0.5	0.9	0.8
EV/EBIT	19.2	23.6	10.2
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Sep 2018

Liquid Assets	€ 16.39m
Current Assets	€ 31.22m
Intangible Assets	€ 0.24m
Total Assets	€ 34.72m
Current Liabilities	€ 17.54m
Shareholders' Equity	€ 16.82m

SHAREHOLDERS

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



...lower trade payables (€-2.8m) and lower other liabilities (€-1.2m). As investing cash flow was negligible and financing cash flow only contained a €214k outflow for dividends to non-controlling interests, net cash flow amounted to €-3.7m.

Figure 1: Reported 9M/18 group figures

All figures in €m	9M-18A	9M-17A	Delta
Sales	27.64	23.31	18.6%
Gross profit	14.29	13.07	9.3%
<i>margin</i>	51.7%	56.0%	
EBITDA	0.93	0.96	-3.0%
<i>margin</i>	3.3%	4.1%	
EBIT	0.68	0.65	4.8%
<i>margin</i>	2.5%	2.8%	
EBT	0.73	0.64	14.2%
<i>margin</i>	2.6%	2.7%	
Net income	0.30	-0.16	-
<i>margin</i>	1.1%	-0.7%	
EPS (diluted) in €	0.01	-0.01	-

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

Divergent segment development ad pepper's three segments showed very divergent performance in the first nine months. The ad pepper media segment grew strongly, while Webgains showed weak growth and its profitability more than halved. ad agents' sales grew 9%, but EBITDA was almost completely wiped out (see figure 2).

Figure 2: Reported final 9M/18 segment figures

All figures in €m	9M-18A	9M-17A	Delta
ad pepper media			
Sales	8.05	4.93	63.4%
EBITDA	1.64	1.06	55.0%
<i>margin</i>	20.3%	21.4%	-
Webgains			
Sales	7.06	6.97	1.2%
EBITDA	0.23	0.55	-59.1%
<i>margin</i>	3.2%	7.9%	-
ad agents			
Sales	12.54	11.51	8.9%
EBITDA	0.08	0.75	-89.7%
<i>margin</i>	0.6%	6.6%	-
Admin			
Sales	0.32	0.19	64.9%
EBITDA	-1.01	-1.32	-
Intersegment elimination			
Sales	-0.32	-0.29	-
EBITDA	0.00	-0.09	-
Group			
Sales	27.64	23.31	18.6%
EBITDA	0.93	0.96	-3.0%
<i>margin</i>	3.4%	4.1%	-

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



Q3/18 heavily dependent on ad pepper media segment The Q3 segment EBITDA split shows that only ad pepper media's EBITDA contribution was significant (€622k). Webgains' EBITDA retreated 64% to only 54k, and ad agents' EBITDA was negative (€-77k), while contributing a solid €292k in the prior year's quarter (see figure 3). So far, ad agents' investments in Amazon SEA/SEO have not paid off. Furthermore, ad agents' clients include companies such as Saturn and Gerry Weber which reported weak business development. This may have affected ad agents' business in Q3.

Figure 3: Segment's EBITDA contributions in Q3/18

EBITDA in €k	Q3-18A	Q3-17A	Delta
ad pepper media	622	339	83.5%
Webgains	56	156	-64.1%
ad agents	-77	292	-
Admin	-278	-300	-
Elimination	0	-32	-
Group	323	455	-28.9%

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

Q4/18E strong, but not as profitable as in 2017 We forecast a Christmas quarter with the typical seasonal strength, but weaker EBITDA than in the prior year's period.

Figure 4: Q4/18E sales & EBITDA forecast (segments & group)

All figures in €m	Q4-18E	Q4-17A	Delta
ad pepper media			
Sales	3.15	1.97	59.7%
EBITDA	0.29	-0.08	n.a.
margin	9.2%	-4.2%	-
Webgains			
Sales	3.20	3.04	5.1%
EBITDA	0.87	0.76	15.6%
margin	27.3%	24.9%	-
ad agents			
Sales	5.39	5.85	-7.8%
EBITDA	-0.22	0.51	n.m.
margin	-4.1%	8.6%	-
Admin & Consolidation			
Sales	0.00	0.00	-
EBITDA	-0.05	-0.02	-
Group			
Sales	11.74	10.86	8.1%
EBITDA	0.90	1.25	-28.1%
margin	7.6%	11.5%	-

Source: First Berlin Equity Research

Brexit could affect Webgains in 2019E Although the British government and the EU finally closed a deal for an orderly British exit from the European Union, it is currently far from clear whether the British government will win the parliamentary vote on the deal. We believe that the British economy will suffer from an orderly Brexit, but would most certainly be severely affected by a no-deal Brexit. As ad pepper's British subsidiary Webgains generates most of its revenues in the UK (9M/18: €3.9m or 56% of total segment revenues), Brexit could weaken growth in the UK in 2019E.



Digital marketing remains a growth market Despite internal (ad agents) and external (Brexit) headwinds, ad pepper is active in a growth market and looks set to benefit from advertising budget migration from offline to digital media.

Buy rating and price target maintained Based on unchanged estimates, an updated DCF model still yields a €4.00 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	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	620	2,339	3,403	3,390	3,306	3,243	3,159	3,056	

All figures in thousands	
PV of FCFs in explicit period (2018E-2032E)	39,694
PV of FCFs in terminal period	23,265
Enterprise value (EV)	62,958
+ Net cash / - net debt	20,127
+ Investments / minority interests	3,294
Shareholder value	86,379
Number of shares (diluted)	21,640
Fair value per share in EUR	3.99

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%	5.93	6.20	6.52	6.90	7.39	8.01	8.84
Pre-tax cost of debt	6.0%	7.5%	5.16	5.33	5.53	5.77	6.06	6.40	6.84
Tax rate	30.0%	8.5%	4.59	4.70	4.84	4.99	5.17	5.39	5.64
After-tax cost of debt	4.2%	9.5%	4.14	4.23	4.32	4.42	4.54	4.68	4.85
Share of equity capital	100.0%	10.5%	3.79	3.85	3.92	3.99	4.08	4.17	4.28
Share of debt capital	0.0%	11.5%	3.50	3.55	3.60	3.65	3.71	3.78	3.86
		12.5%	3.27	3.30	3.34	3.38	3.42	3.47	3.53
		13.5%	3.07	3.10	3.12	3.15	3.19	3.22	3.26
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	580	623	704
Other operating expenses	49	329	396	401	453	481
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%	1.0%	1.0%	1.0%

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...5	↓	↓	↓	↓
6	18 July 2018	€3.84	Buy	€4.90
7	23 August 2018	€3.72	Buy	€4.90
8	16 October 2018	€2.91	Buy	€4.00
9	Today	€2.62	Buy	€4.00

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Unless otherwise indicated, current prices refer to the closing prices of the previous trading day.

AGREEMENT WITH THE ANALYSED COMPANY AND MAINTENANCE OF OBJECTIVITY

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.

RISK ASSESSMENT

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.

INVESTMENT HORIZON

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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

can be accessed through the following internet link: <http://firstberlin.com/disclaimer-english-link/>

SUPERVISORY AUTHORITY: Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Lurgiallee 12, 60439 Frankfurt

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