

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**€ 3.20**

37.3%

High

BUYBACK PROGRAM COULD SUPPORT SHARE PRICE

ad pepper media International reported final Q1 figures which matched preliminary numbers. The company had a very good start to the year with EBIT doubling y/y to €0.5m due mainly to the strong performance of the Webgains subsidiary. Management is guiding towards 2019 EBITDA of €2m. The online performance marketing sector remains on its growth trajectory. The AGM on 21 May authorised management to initiate a share buyback program. Up to 50% of the shares can be repurchased. Given the company's high net cash position (€23.2m), the buyback program could have a strong positive impact on the share price. An updated DCF model still yields a €3.20 price target. We reiterate our Buy rating.

Q1 EBIT doubled Gross sales rose 9% y/y to €20.7m due mainly to strong growth at Webgains (+12% y/y). Revenue was up only 4% at €5.0m as ad agents' segment revenue declined 8%. Gross profit amounted to €4.9m (Q1/18: €4.7m). EBITDA more than doubled from €312km to €709k as operating expenses declined slightly despite higher revenue. EBIT doubled from €231k to €473k. Q1 figures show the high operating leverage of ad pepper's business model. Due to a net financial result of €-139k, EBT was below the previous year's figure (€334k versus €374k). A tax credit of €48k resulted in a higher net income attributable to ad pepper's shareholders (€285k versus €207k in Q1/18). EPS were unchanged y/y at €0.01.

Guidance: €2m EBITDA Following the preliminary Q1 figures, management provided more precise EBITDA guidance of ca. €2.0m for the current fiscal year, which is in line with our forecast. As 2018 EBITDA was €1.35m, this is equivalent to a rise of almost 50% y/y.

Stronger balance sheet metrics ad pepper does not have any interest-bearing debt. The cash position including short-term securities increased from €20.5m at the end of 2018 to €23.2m. The company thus has a very high net cash position.

(p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2016	2017	2018	2019E	2020E	2021E
Revenue (€m)	61.16	18.72	20.27	20.93	23.13	25.67
Y-o-y growth	9.2%	-69.4%	8.3%	3.3%	10.5%	11.0%
EBIT (€m)	1.61	1.82	1.03	1.71	2.67	3.03
EBIT margin	2.6%	9.7%	5.1%	8.2%	11.5%	11.8%
Net income (€m)	0.63	0.58	0.25	0.49	1.09	1.34
EPS (diluted) (€)	0.03	0.03	0.01	0.02	0.05	0.06
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-0.54	2.67	-1.62	3.22	2.34	2.67
Net gearing	-126.0%	-128.1%	-116.8%	-133.2%	-138.4%	-142.8%
Liquid assets (€m)	17.86	20.13	18.23	21.45	23.80	26.47

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 24 May 2019

Closing Price	€ 2.33
Shares outstanding	21.00m
Market Capitalisation	€ 48.93m
52-week Range	€ 2.06 / 4.15
Avg. Volume (12 Months)	7,362

Multiples	2018	2019E	2020E
P/E	198.1	99.1	45.1
EV/Sales	1.4	1.3	1.2
EV/EBIT	27.1	16.3	10.4
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Dec 2018

Liquid Assets	€ 18.23m
Current Assets	€ 36.35m
Intangible Assets	€ 0.22m
Total Assets	€ 39.61m
Current Liabilities	€ 22.56m
Shareholders' Equity	€ 16.51m

SHAREHOLDERS

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



Trade receivables, which were unusually high at the end of 2018 (€17.6m), were back at previous levels (€13.4m). Total equity increased 3% from €16.5m to €17.0m, and the equity ratio was slightly up at 42.0% (end 2018: 41.7%).

Figure 1: Q1/19 figures

All figures in €m	Q1-19A	Q1-18A	Delta
Gross sales	20.65	19.00	8.7%
Revenue	5.05	4.87	3.8%
Gross profit	4.92	4.72	4.2%
<i>margin</i>	97.4%	97.0%	-
EBITDA	0.71	0.31	127.2%
<i>margin</i>	14.0%	6.4%	-
EBIT	0.47	0.23	104.8%
<i>margin</i>	9.4%	4.7%	-
EBT	0.33	0.37	-10.7%
<i>margin</i>	6.6%	7.7%	-
Net income	0.29	0.21	37.7%
<i>margin</i>	5.6%	4.3%	-

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

Very strong operating cash flow Much lower trade receivables (€+4.3m) resulted in very high operating cash flow of €3.0m. Investing cash flow was negligible and financing cash flow was €-0.2m due to the payment of lease liabilities. ad pepper thus reported net cash flow of €2.8m.

ad pepper media subsidiary shows solid growth Segment gross sales grew 4% y/y to €2.4m and revenue was up 2% at €1.2m. Gross profit increased 6% to €1.1m and the gross margin (gross profit/gross sales) climbed to a healthy 44.8%. Segment EBITDA was up 10% at €0.53m. The EBITDA margin (in terms of gross sales) increased by more than 1 PP to 22.5%. As expected, the segment topped the excellent Q1/18 results and remained on its profitable growth path. ad pepper media's lead generation and audience targeting products remain in high demand. The subsidiary continues to exploit its unique and proprietary platform iLead which helps to generate customised campaigns that are rapidly adapted to customers' markets. Based on iLead, ad pepper media has successfully launched and managed more than 30,000 campaigns worldwide and generated millions of qualified leads.

Figure 2: Group and segment gross profit

Gross profit in €k	Q1-19A	Q1-18A	Delta
ad pepper media	1,067	1,009	5.8%
Webgains	2,566	2,286	12.2%
ad agents	1,194	1,335	-10.6%
Admin / consolidation	90	91	-0.1%
Group	4,918	4,720	4.2%

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

Webgains with very strong figures Despite Brexit uncertainty, the UK subsidiary Webgains showed strong gross sales and revenue growth (+12% y/y respectively). Gross profit rose 12% to €2.6m, and the gross margin on gross sales was stable at 18.6%. EBITDA was eight times higher y/y at €0.4m. The jump in EBITDA demonstrates the enormous operating leverage of the affiliate marketing business model. Given that the likely Brexit date has been postponed to October, we are much more confident that a disorderly Brexit will be avoided. Webgains is one of the leading affiliate marketing networks with more than 250,000 publishers and has more than 1,750 customers in 14 countries.

**Figure 3: Group and segment EBITDA**

EBITDA in €k	Q1-19A	Q1-18A	Delta
ad pepper media	535	484	10.5%
Webgains	417	52	701.9%
ad agents	74	158	-53.2%
Admin / consolidation	-317	-382	-
Group	709	312	127.2%

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

ad agents' turnaround faster than expected Following the loss of three important clients last year, ad agents is already back on a profitable growth path. Gross sales increased 3% y/y to €4.5m. Higher media costs however resulted in an 8% revenue decline. EBITDA was still weak, but slightly positive at €74k (Q1/18: €158k). ad agents is a full-service performance marketing agency. The subsidiary has thorough knowledge of the entire digital advertising market and offers a comprehensive service portfolio. ad agents has positioned itself as an early mover in the segment for Amazon SEO and SEA (search engine optimisation and search engine advertising) services.

Holding costs reduced Holding expenses were lowered y/y from €485k to €450k. This resulted in segment EBITDA of €-312k versus €-381k in Q1/18. ad pepper keeps its lean holding structure.

Capital reduction by way of cancellation of treasury shares The AGM resolved to reduce the issued capital by means of cancellation of 1,500,000 treasury shares. After the share capital reduction, the share capital of ad pepper media International N.V. will amount to EUR 1,075,000 and will be divided into 21,500,000 shares with a proportional share in the share capital amounting to EUR 0.05 per share. At the end of 2018, ad pepper held 1,999,292 treasury shares.

AGM authorised Management Board to buy back company stock for a period of 18 months The AGM authorised the Management Board to repurchase own shares up to a maximum amount of 50% of the company's issued share capital for a period of 18 months from the date of the General Meeting (21 May 2019).

Buy rating reiterated at unchanged price target Based on unchanged forecasts our DCF model still yields a €3.20 price target. We believe that the share buyback program could be an important share price driver in the coming months. We reiterate our Buy rating.



VALUATION MODEL

DCF valuation model								
All figures in EUR '000	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Net revenue	20,931	23,129	25,673	28,497	31,631	35,101	38,920	43,081
NOPLAT	1,171	1,861	2,113	2,345	2,627	2,942	3,292	3,677
+ depreciation & amortisation	290	250	227	230	245	264	286	311
Net operating cash flow	1,460	2,110	2,340	2,575	2,873	3,207	3,579	3,988
- total investments (CAPEX and WC)	1,737	209	309	208	205	229	252	272
Capital expenditures	-188	-208	-231	-256	-279	-303	-329	-356
Working capital	1,926	417	540	464	484	532	581	629
Free cash flows (FCF)	3,197	2,319	2,649	2,783	3,077	3,436	3,831	4,260
PV of FCF's	3,002	1,961	2,018	1,910	1,903	1,913	1,922	1,926

All figures in thousands	
PV of FCFs in explicit period (2019E-2033E)	28,713
PV of FCFs in terminal period	16,131
Enterprise value (EV)	44,844
+ Net cash / - net debt	21,064
+ Investments / minority interests	3,095
Shareholder value	69,003
Number of shares (diluted)	21,555
Fair value per share in EUR	3.20

WACC		Terminal growth rate						
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
7.0%	Cost of equity	4.59	4.75	4.94	5.17	5.45	5.81	6.26
8.0%	Pre-tax cost of debt	4.05	4.16	4.28	4.42	4.59	4.80	5.05
9.0%	Tax rate	3.64	3.72	3.80	3.90	4.01	4.13	4.29
10.0%	After-tax cost of debt	3.33	3.38	3.44	3.50	3.58	3.66	3.76
11.0%	Share of equity capital	3.08	3.11	3.15	3.20	3.25	3.31	3.38
12.0%	Share of debt capital	2.87	2.90	2.93	2.96	3.00	3.04	3.09
13.0%		2.70	2.72	2.75	2.77	2.80	2.83	2.86
14.0%		2.56	2.58	2.59	2.61	2.63	2.65	2.68

* for layout purposes the model shows numbers only to 2026, but runs until 2033



INCOME STATEMENT

All figures in EUR '000	2015A	2016A	2017A	2018A	2019E	2020E	2021E
Gross sales	56,009	61,164	75,563	82,653	85,031	93,893	104,222
Media costs	n.a.	n.a.	56,839	62,381	64,100	70,764	78,549
Net revenues	n.a.	n.a.	18,724	20,272	20,931	23,129	25,673
Other cost of goods sold	40,165	45,076	376	726	805	911	1,027
Gross profit	15,844	16,088	18,348	19,546	20,126	22,218	24,646
S&M	10,575	9,055	10,771	12,621	12,580	13,466	14,736
G&A	6,382	6,155	6,087	5,925	6,009	6,306	7,009
Other operating income	1,406	1,059	723	494	623	704	385
Other operating expenses	49	329	396	467	453	481	257
EBITDA	540	1,748	2,209	1,354	1,996	2,919	3,256
Depreciation and amortisation	296	140	391	327	290	250	227
Operating income (EBIT)	244	1,608	1,818	1,027	1,707	2,669	3,029
Net financial result	199	82	-17	-190	23	25	26
Non-operating expenses	0	0	0	0	0	0	0
Pre-tax income (EBT)	443	1,690	1,801	837	1,730	2,694	3,055
Income taxes	308	594	664	302	536	808	917
Minority interests	-168	-467	-556	-288	-700	-800	-800
Net income / loss	-33	629	581	247	494	1,086	1,339
Diluted EPS (in €)	0.00	0.03	0.03	0.01	0.02	0.05	0.06
Ratios							
Gross margin in % of gross sales	28.3%	26.3%	24.3%	23.6%	23.7%	23.7%	23.6%
Gross margin in % of net revenues	n.a.	n.a.	98.0%	96.4%	96.2%	96.1%	96.0%
EBITDA margin in % of net revenues	1.0%	2.9%	11.8%	6.7%	9.5%	12.6%	12.7%
EBIT margin	0.4%	2.6%	9.7%	5.1%	8.2%	11.5%	11.8%
Net margin	-0.1%	1.0%	3.1%	1.2%	2.4%	4.7%	5.2%
Tax rate	69.5%	35.1%	36.9%	36.1%	31.0%	30.0%	30.0%
Expenses as % of sales or revenues							
Media costs (as % of gross sales)	n.a.	n.a.	75.2%	75.5%	75.4%	75.4%	75.4%
S&M (as % of net revenues)	18.9%	14.8%	57.5%	62.3%	60.1%	58.2%	57.4%
G&A (as % of net revenues)	11.4%	10.1%	32.5%	29.2%	28.7%	27.3%	27.3%
Depreciation and amortisation	0.5%	0.2%	2.1%	1.6%	1.4%	1.1%	0.9%
Other operating expenses	0.1%	0.5%	2.1%	2.3%	2.2%	2.1%	1.0%
Y-Y Growth							
Gross sales	n.a.	9.2%	23.5%	9.4%	2.9%	10.4%	11.0%
Net revenues	n.a.	n.a.	n.a.	8.3%	3.3%	10.5%	11.0%
Operating income	n.a.	559.0%	13.0%	-43.5%	66.2%	56.3%	13.5%
Net income/ loss	n.a.	n.m.	-7.7%	-57.5%	100.0%	119.8%	23.3%



BALANCE SHEET

All figures in EUR '000	2015A	2016A	2017A	2018A	2019E	2020E	2021E
Assets							
Current assets, total	27,726	28,672	34,896	36,346	37,421	41,074	45,244
Cash and cash equivalents	16,932	17,859	20,127	18,233	21,454	23,798	26,472
Short-term investments	297	138	27	55	55	55	55
Receivables	9,983	10,116	14,129	17,629	15,483	16,792	18,288
Inventories	0	0	0	0	0	0	0
Other current assets	514	559	613	429	429	429	429
Non-current assets, total	6,314	2,706	3,719	3,264	3,162	3,121	3,125
Property, plant & equipment	150	212	424	330	264	244	252
Goodwill & other intangibles	349	572	362	218	183	161	157
Other assets	5,815	1,922	2,933	2,716	2,716	2,716	2,716
Total assets	34,040	31,378	38,615	39,610	40,583	44,195	48,369
Shareholders' equity & debt							
Current liabilities, total	17,436	16,282	21,696	22,560	22,340	24,066	26,101
Short-term debt	0	0	0	0	0	0	0
Accounts payable	13,618	12,357	17,838	18,967	18,747	20,473	22,508
Current provisions	0	0	0	0	0	0	0
Other current liabilities	3,818	3,925	3,858	3,593	3,593	3,593	3,593
Long-term liabilities, total	96	117	402	538	538	538	538
Long-term debt	0	0	0	0	0	0	0
Deferred revenue	0	0	0	0	0	0	0
Other liabilities	96	117	402	538	538	538	538
Minority interests	503	690	779	853	1,553	2,353	3,153
Shareholders' equity	16,005	14,289	15,738	15,659	16,153	17,238	18,577
Share capital	1,150	1,150	1,150	1,150	1,150	1,150	1,150
Capital reserve	63,305	61,116	61,312	60,999	60,999	60,999	60,999
Other reserves	-2,199	-2,356	-1,683	-1,208	-1,208	-1,208	-1,208
Loss carryforward / retained earnings	-46,250	-45,621	-45,041	-45,281	-44,787	-43,702	-42,363
Total consolidated equity and debt	34,040	31,378	38,615	39,610	40,583	44,195	48,369
Ratios							
Current ratio (x)	1.59	1.76	1.61	1.61	1.68	1.71	1.73
Quick ratio (x)	1.59	1.76	1.61	1.61	1.68	1.71	1.73
Net debt	-17,229	-17,997	-20,154	-18,288	-21,509	-23,853	-26,527
Net gearing	-107.6%	-126.0%	-128.1%	-116.8%	-133.2%	-138.4%	-142.8%
Equity ratio	48.5%	47.7%	42.8%	41.7%	43.6%	44.3%	44.9%
Book value per share (in €)	0.75	0.67	0.74	0.74	0.76	0.81	0.87
Return on equity (ROE)	-0.2%	4.4%	3.7%	1.6%	3.1%	6.3%	7.2%
Return on investment (ROI)	-0.1%	2.0%	1.5%	0.6%	1.2%	2.5%	2.8%
Return on assets (ROA)	0.1%	2.2%	1.5%	0.6%	1.2%	2.5%	2.8%



CASH FLOW STATEMENT

All figures in EUR '000	2015A	2016A	2017A	2018A	2019E	2020E	2021E
EBIT	244	1,608	1,818	1,027	1,707	2,669	3,029
Depreciation and amortisation	296	140	391	327	290	250	227
EBITDA	540	1,748	2,209	1,354	1,996	2,919	3,256
Changes in working capital	2,257	-1,164	3,095	-2,192	1,926	417	540
Other adjustments	-1,014	-561	-2,203	-684	-513	-783	-891
Operating cash flow	1,783	23	3,101	-1,522	3,409	2,553	2,906
Investments in PP&E	-67	-144	-378	-51	-126	-139	-154
Investments in intangibles	-118	-417	-55	-44	-63	-69	-77
Free cash flow	1,598	-538	2,667	-1,617	3,221	2,344	2,674
Acquisitions & disposals, net	3,363	3,920	3	66	0	0	0
Other investments	16	209	0	-35	0	0	0
Investment cash flow	3,194	3,568	-431	-64	-188	-208	-231
Debt financing, net	0	0	0	0	0	0	0
Equity financing, net	176	-2,217	105	0	0	0	0
Dividends paid	0	0	0	0	0	0	0
Other financing	0	-280	-467	-296	0	0	0
Financing cash flow	176	-2,497	-362	-296	0	0	0
FOREX & other effects	8	-167	-39	-12	0	0	0
Net cash flows	5,162	927	2,269	-1,894	3,221	2,344	2,674
Cash, start of the year	11,926	16,932	17,859	20,127	18,233	21,454	23,798
Cash, end of the year	17,088	17,859	20,128	18,233	21,454	23,798	26,472
EBITDA/share (in €)	0.03	0.08	0.10	0.06	0.09	0.14	0.15
Y-Y Growth							
Operating cash flow	n.a.	-98.7%	13381.7%	n.m.	n.m.	-25.1%	13.8%
Free cash flow	n.a.	n.m.	n.m.	n.m.	n.m.	-27.2%	14.1%
EBITDA/share	n.a.	227.8%	26.3%	-39.0%	47.5%	46.2%	11.6%

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...9	↓	↓	↓	↓
10	18 February 2019	€2.24	Buy	€3.00
11	1 April 2019	€2.23	Buy	€3.00
12	23 April 2019	€2.18	Buy	€3.20
13	Today	€2.33	Buy	€3.20

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

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