

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**€ 3.30**

27.4%

High

2019 LOOKS SET TO BE A GOOD YEAR

ad pepper media International reported final 9M figures which matched preliminary numbers. EBIT was up 30% at €315k in Q3 and more than doubled on a nine month basis to €1.4m. High free cash flow of €2.0m shows that the business model remains cash-generative. The company reiterated its guidance (EBITDA between €2.75m and €3.0m), which it has raised two times this year. An updated DCF model still yields a €3.30 price target. Following the recent share price decline, we upgrade the stock from Add to Buy as the upside potential to our price target is now above our 25% threshold.

Net income more than doubled in 9M Nine month figures show how well the business developed compared to the previous year. Gross sales edged 3% higher to €59.7m and revenue was up 7% at €15.8m. EBITDA surged 133% y/y from €0.9m to €2.2m. The 9M EBITDA margin increased y/y from 6.3% to 13.6%. 9M EBIT more than doubled from €0.7m to €1.4m. This corresponds to a 9.3% EBIT margin versus 4.6% in 9M/18. The net result jumped from €226k to €583k (see figure 1 overleaf).

Q3 figures were not as spectacular as the 9M numbers, but also showed increasing operating margins. Gross sales declined 7% y/y to €18.8m. Revenue, however, was stable at €5.0m due to lower media costs. Q3 EBITDA increased 74% y/y from €324k to €565k. The main reason was lower sales and marketing costs (€3.05m versus €3.25m in Q3/18). The Q3 EBITDA margin rose from 9.8% to 11.2%. D&A of €734k resulted in EBIT of €315k (Q3/18: €242k, +30%y/y). Higher tax expenses and non-controlling interests led to a slightly negative net result of €-16k (Q3/18: €63k).

Balance sheet remains strong The cash position rose from €18.2m at the end of 2018 to €21.6m due mainly to the sale of securities. Given the balance sheet total of €38.0m, the share of the cash position amounted to 57%.

(p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2016	2017	2018	2019E	2020E	2021E
Revenue (€m)	61.16	18.72	20.27	22.17	23.73	26.10
Y-o-y growth	9.2%	-69.4%	8.3%	9.3%	7.0%	10.0%
EBIT (€m)	1.61	1.82	1.03	1.96	2.85	3.26
EBIT margin	2.6%	9.7%	5.1%	8.9%	12.0%	12.5%
Net income (€m)	0.63	0.58	0.25	0.57	1.21	1.50
EPS (diluted) (€)	0.03	0.03	0.01	0.03	0.06	0.07
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-0.54	2.67	-1.62	2.46	3.89	3.47
Net gearing	-126.0%	-128.1%	-116.8%	-128.6%	-149.9%	-156.4%
Liquid assets (€m)	17.86	20.13	18.23	22.21	26.10	29.57

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.

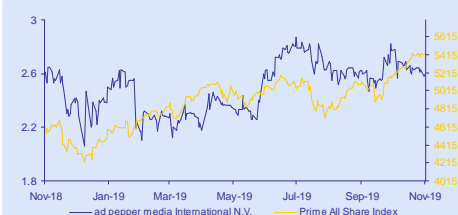
MARKET DATA

As of 19 Nov 2019

Closing Price	€ 2.59
Shares outstanding	21.50m
Market Capitalisation	€ 55.69m
52-week Range	€ 2.06 / 2.87
Avg. Volume (12 Months)	6,099

Multiples	2018	2019E	2020E
P/E	220.2	94.9	45.0
EV/Sales	1.8	1.6	1.5
EV/EBIT	35.2	18.4	12.7
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Sep 2019

Liquid Assets	€ 21.62m
Current Assets	€ 34.99m
Intangible Assets	€ 0.20m
Total Assets	€ 38.01m
Current Liabilities	€ 18.32m
Shareholders' Equity	€ 17.28m

SHAREHOLDERS

EMA B.V.	44.1%
Dieter Koppitz	3.8%
Treasury shares	2.3%
Euro Serve Media GmbH	2.1%
Free Float	47.6%



Based on IFRS 16, ad pepper accounted for lease liabilities of €2.15m resulting in a net cash position of €19.5m. ad pepper does not have any bank liabilities. Working capital was negative and amounted to €-1.5m as trade payables were higher than trade receivables.

Figure 1: Reported figures versus forecasts

All figures in €m	Q3-19A	Q3-19E	Delta	Q3-18A	Delta	9M-19A	9M-18A	Delta
Gross sales	18.83	19.87	-5.2%	20.19	-6.7%	59.66	57.91	3.0%
Revenue	5.03	5.48	-8.2%	5.04	-0.1%	15.82	14.81	6.8%
Gross profit	4.81	5.04	-4.5%	4.88	-1.6%	15.24	14.29	6.7%
margin	95.6%	91.9%		96.9%		96.3%	96.5%	
EBITDA	0.57	0.54	4.8%	0.32	74.4%	2.16	0.93	132.9%
margin	11.2%	9.8%	-	6.4%	-	13.6%	6.3%	-
EBIT	0.32	0.30	5.7%	0.24	29.6%	1.42	0.68	108.7%
margin	6.3%	5.4%		4.8%		9.0%	4.6%	
EBT	0.31	0.26	19.2%	0.24	30.3%	1.24	0.66	87.9%
margin	6.2%	4.7%		4.7%		7.9%	4.5%	
Net income	-0.02	0.01	-	0.30	-	0.58	0.23	158.0%
margin	-0.3%	0.1%		5.9%		3.7%	1.5%	
EPS (diluted) in €	0.00	0.00	-	0.00	-	0.03	0.01	158.0%

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

Strong operating cash flow At the end of Q3, operating cash flow amounted to €2.2m due mainly to net income of €1.0m and a lower working capital requirement (€+0.9m). The change in receivables brought cash inflow of €4.8m, and the change in payables a cash outflow of €-3.9m. CAPEX of €0.2m led to free cash flow of €2.0m, which shows that the business model is cash-generative. Cash flow from investing activities was €1.9m due to the proceeds from the sale of securities (€+2.2m). Cash flow from financing activities amounted to €-834k because of payments for lease liabilities (€-548k) and dividends to non-controlling interests (€-286k). Net cash flow was €3.4m.

All three operating segments with significant EBITDA contributions All three segments were profitable and contributed a significant share to group EBITDA. We especially welcome the strong performance of ad agents, which, following the restructuring in 2018, is back on a profitable growth track. ad agents' Q3 revenue surged 39% y/y to €1.6m and EBITDA amounted to €262k compared to €-77k in the prior year. The EBITDA margin climbed to 16.7% (see figure 2 overleaf). Growth was based on strong business with large new customers.

The ad pepper media subsidiary's figures were below the previous year's performance, since it was unable to repeat the large campaigns executed in Q3/18. Revenue fell 19% to €1.15m and EBITDA dipped 38% y/y to €384k. Nevertheless, the subsidiary was the largest contributor to group EBITDA and still had a high EBITDA margin of 33.5%.

The Webgains subsidiary increased EBITDA significantly (€200k versus €56k in Q3/18, +257%) despite a 7% decline in revenues. Lower personnel costs (staff was reduced from 104 to 93 y/y) and increased process automation were the main EBITDA drivers.

The Admin segment, which accounts for the holding costs, posted Q3 EBITDA of €-332k versus €-292k in Q3/18.

**Figure 2: Reported segment figures versus forecasts**

All figures in €m	Q3-19A	Q3-19E	Delta	Q3-18A	Delta	9M-19A	9M-18A	Delta
ad pepper media								
Revenue	1.15	1.60	-28.5%	1.42	-19.1%	4.15	3.97	4.5%
EBITDA	0.38	0.63	-38.7%	0.62	-38.4%	1.79	1.63	9.5%
margin	33.5%	39.1%	-	44.0%	-	43.1%	41.1%	-
Webgains								
Revenue	2.31	2.49	-7.1%	2.49	-7.0%	7.40	7.06	4.9%
EBITDA	0.20	0.26	-21.9%	0.06	257.1%	1.01	0.23	344.7%
margin	8.7%	10.3%	-	2.3%	-	13.6%	3.2%	-
ad agents								
Revenue	1.57	1.38	13.8%	1.14	38.5%	4.27	3.78	13.0%
EBITDA	0.26	0.12	120.2%	-0.08	-	0.49	0.08	533.3%
margin	16.7%	8.6%	-	-6.8%	-	11.6%	2.1%	-
Admin								
Revenue	0.00	0.01	-100.0%	0.00	-	0.00	0.00	-
EBITDA	-0.28	-0.46	-	-0.28	-	-1.12	-1.01	-
Intersegment elimination								
Revenue	0.00	0.00	-	0.00	-	0.00	0.00	-
EBITDA	0.00	0.00	-	0.00	-	-0.02	0.00	-
Group								
Revenue	5.03	5.48	-8.2%	5.04	-0.1%	15.82	14.81	6.8%
EBITDA	0.57	0.54	4.8%	0.32	74.4%	2.16	0.93	133.2%
margin	11.2%	9.8%	-	6.4%	-	13.6%	6.2%	-

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

Upgrade to Buy at unchanged price target An updated DCF model still yields a €3.30 price target. Given the strong 9M figures and the seasonally strong Q4, we are very confident that ad pepper will reach guidance. The company remains well-positioned in the advertising sector as it is strong in both online performance marketing and digital consultancy, i.e. helping companies to digitalise their marketing. Both areas have further growth potential. Following the recent share price decline, we upgrade the stock from Add to Buy as the upside potential to our price target is now above our 25% threshold.



VALUATION MODEL

DCF valuation model								
All figures in EUR '000	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Net revenue	22,167	23,729	26,102	28,973	32,159	35,687	39,570	43,801
NOPLAT	1,390	1,984	2,276	2,547	2,837	3,160	3,516	3,906
+ depreciation & amortisation	960	602	372	291	272	278	295	317
Net operating cash flow	2,350	2,586	2,648	2,837	3,109	3,438	3,811	4,223
- total investments (CAPEX and WC)	245	1,267	792	211	232	262	292	319
Capital expenditures	-200	-214	-235	-261	-284	-308	-335	-362
Working capital	445	1,481	1,027	472	516	570	627	681
Free cash flows (FCF)	2,595	3,853	3,440	3,049	3,342	3,700	4,103	4,542
PV of FCF's	2,565	3,429	2,759	2,202	2,175	2,169	2,167	2,161

All figures in thousands	
PV of FCFs in explicit period (2019E-2033E)	33,042
PV of FCFs in terminal period	17,355
Enterprise value (EV)	50,397
+ Net cash / - net debt	19,466
+ Investments / minority interests	967
Shareholder value	70,830
Number of shares (diluted)	21,555
Fair value per share in EUR	3.29

WACC		Terminal growth rate						
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
7.0%	4.72	4.89	5.10	5.35	5.65	6.03	6.52	
8.0%	4.16	4.28	4.41	4.57	4.75	4.97	5.25	
9.0%	3.74	3.82	3.91	4.01	4.13	4.28	4.44	
10.0%	3.41	3.47	3.53	3.60	3.68	3.78	3.89	
11.0%	3.15	3.19	3.23	3.29	3.34	3.41	3.48	
12.0%	2.93	2.96	3.00	3.03	3.08	3.12	3.17	
13.0%	2.75	2.78	2.80	2.83	2.86	2.90	2.93	
14.0%	2.60	2.62	2.64	2.66	2.69	2.71	2.74	

* 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	88,607	94,851	104,336
Media costs	n.a.	n.a.	56,839	62,381	66,440	71,122	78,234
Revenues	n.a.	n.a.	18,724	20,272	22,167	23,729	26,102
Cost of sales	40,165	45,076	376	726	1,055	935	1,044
Gross profit	15,844	16,088	18,348	19,546	21,112	22,794	25,058
S&M	10,575	9,055	10,771	12,621	13,280	13,866	14,930
G&A	6,382	6,155	6,087	5,925	6,040	6,306	6,995
Other operating income	1,406	1,059	723	494	623	704	392
Other operating expenses	49	329	396	467	453	481	261
EBITDA	540	1,748	2,209	1,354	2,922	3,447	3,635
Depreciation and amortisation	296	140	391	327	960	602	372
Operating income (EBIT)	244	1,608	1,818	1,027	1,962	2,845	3,263
Net financial result	199	82	-17	-190	-117	26	26
Non-operating expenses	0	0	0	0	0	0	0
Pre-tax income (EBT)	443	1,690	1,801	837	1,845	2,871	3,289
Income taxes	308	594	664	302	572	861	987
Minority interests	-168	-467	-556	-288	-700	-800	-800
Net income / loss	-33	629	581	247	573	1,210	1,502
Diluted EPS (in €)	0.00	0.03	0.03	0.01	0.03	0.06	0.07
Ratios							
Gross margin in % of gross sales	28.3%	26.3%	24.3%	23.6%	23.8%	24.0%	24.0%
Gross margin in % of revenues	n.a.	n.a.	98.0%	96.4%	95.2%	96.1%	96.0%
EBITDA margin in % of revenues	1.0%	2.9%	11.8%	6.7%	13.2%	14.5%	13.9%
EBIT margin	0.4%	2.6%	9.7%	5.1%	8.9%	12.0%	12.5%
Net margin	-0.1%	1.0%	3.1%	1.2%	2.6%	5.1%	5.8%
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%	75.0%	75.0%	75.0%
S&M (as % of revenues)	18.9%	14.8%	57.5%	62.3%	59.9%	58.4%	57.2%
G&A (as % of revenues)	11.4%	10.1%	32.5%	29.2%	27.2%	26.6%	26.8%
Depreciation and amortisation	0.5%	0.2%	2.1%	1.6%	4.3%	2.5%	1.4%
Other operating expenses	0.1%	0.5%	2.1%	2.3%	2.0%	2.0%	1.0%
Y-Y Growth							
Gross sales	n.a.	9.2%	23.5%	9.4%	7.2%	7.0%	10.0%
Net revenues	n.a.	n.a.	n.a.	8.3%	9.3%	7.0%	10.0%
Operating income	n.a.	559.0%	13.0%	-43.5%	91.0%	45.0%	14.7%
Net income/ loss	n.a.	n.m.	-7.7%	-57.5%	132.1%	111.0%	24.2%



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	39,694	43,809	48,646
Cash and cash equivalents	16,932	17,859	20,127	18,233	22,205	26,097	29,569
Short-term investments	297	138	27	55	55	55	55
Receivables	9,983	10,116	14,129	17,629	17,005	17,228	18,593
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	3,030	2,688	2,546
Property, plant & equipment	150	212	424	330	542	483	350
Goodwill & other intangibles	349	572	362	218	458	175	166
Right-of-use assets	0	0	0	0	2,030	2,030	2,030
Financial assets	5,815	1,922	2,933	2,716	0	0	0
Other assets	0	0	0	0	0	0	0
Total assets	34,040	31,378	38,615	39,610	42,724	46,497	51,192
Shareholders' equity & debt							
Current liabilities, total	17,436	16,282	21,696	22,560	22,381	24,084	26,477
Short-term debt	0	0	0	0	0	0	0
Accounts payable	13,618	12,357	17,838	18,967	18,788	20,491	22,884
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	2,788	2,618	2,618
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	2,788	2,618	2,618
Minority interests	503	690	779	853	1,553	2,353	3,153
Shareholders' equity	16,005	14,289	15,738	15,659	17,312	17,442	18,944
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	-44,708	-43,498	-41,996
Total consolidated equity and debt	34,040	31,378	38,615	39,610	42,724	46,497	51,192
Ratios							
Current ratio (x)	1.59	1.76	1.61	1.61	1.77	1.82	1.84
Quick ratio (x)	1.59	1.76	1.61	1.61	1.77	1.82	1.84
Net debt	-17,229	-17,997	-20,154	-18,288	-20,107	-23,999	-27,471
Net gearing	-107.6%	-126.0%	-128.1%	-116.8%	-116.1%	-137.6%	-145.0%
Equity ratio	48.5%	47.7%	42.8%	41.7%	44.2%	42.6%	43.2%
Book value per share (in €)	0.75	0.67	0.74	0.74	0.81	0.82	0.89
Return on equity (ROE)	-0.2%	4.4%	3.7%	1.6%	3.3%	6.9%	7.9%
Return on investment (ROI)	-0.1%	2.0%	1.5%	0.6%	1.3%	2.6%	2.9%
Return on assets (ROA)	0.1%	2.2%	1.5%	0.6%	1.3%	2.6%	2.9%



CASH FLOW STATEMENT

All figures in EUR '000	2015A	2016A	2017A	2018A	2019E	2020E	2021E
EBIT	244	1,608	1,818	1,027	1,962	2,845	3,263
Depreciation and amortisation	296	140	391	327	960	615	377
EBITDA	540	1,748	2,209	1,354	2,922	3,460	3,640
Changes in working capital	2,257	-1,164	3,095	-2,192	445	1,481	1,027
Other adjustments	-1,014	-561	-2,203	-684	-689	-835	-961
Operating cash flow	1,783	23	3,101	-1,522	2,678	4,105	3,707
Investments in PP&E	-67	-144	-378	-51	-155	-142	-157
Investments in intangibles	-118	-417	-55	-44	-67	-71	-78
Free cash flow	1,598	-538	2,667	-1,617	2,456	3,892	3,472
Acquisitions & disposals, net	3,363	3,920	3	66	0	0	0
Other investments	16	209	0	-35	2,466	0	0
Investment cash flow	3,194	3,568	-431	-64	2,244	-214	-235
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	-950	0	0
Financing cash flow	176	-2,497	-362	-296	-950	0	0
FOREX & other effects	8	-167	-39	-12	0	0	0
Net cash flows	5,162	927	2,269	-1,894	3,972	3,892	3,472
Cash, start of the year	11,926	16,932	17,859	20,127	18,233	22,205	26,097
Cash, end of the year	17,088	17,859	20,128	18,233	22,205	26,097	29,569
EBITDA/share (in €)	0.03	0.08	0.10	0.06	0.14	0.16	0.17
Y-Y Growth							
Operating cash flow	n.a.	-98.7%	13381.7%	n.m.	n.m.	53.3%	-9.7%
Free cash flow	n.a.	n.m.	n.m.	n.m.	n.m.	58.4%	-10.8%
EBITDA/share	n.a.	227.8%	26.3%	-39.0%	115.8%	18.4%	5.2%

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...13	↓	↓	↓	↓
14	19 July 2019	€2.87	Add	€3.30
15	23 August 2019	€2.60	Buy	€3.30
16	18 October 2019	€2.82	Add	€3.30
17	Today	€2.59	Buy	€3.30

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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

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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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