

ad pepper media International N.V.

The Netherlands / Internet Services
 Frankfurt
 Bloomberg: APM GR
 ISIN: NL0000238145

Preliminary
 2019 figures

RATING
PRICE TARGET
 Return Potential 36.4%
 Risk Rating High

BUY
€ 3.90

EBITDA SIGNIFICANTLY ABOVE FORECAST

ad pepper media International has reported preliminary 2019 figures, which show high single digit revenue and very strong earnings growth. EBITDA amounted to €3.5m and was significantly above the €2.75-3.0m guidance range. All three segments contributed to the EBITDA increase. The EBITDA margin widened from 6.7% to 16.1%, which highlights the company's enormous operating leverage. Liquid funds rose by almost €5m to €25m. Digital performance marketing remains a growth sector and we expect the company to further exploit the operating leverage of its business model. All three segments are in good shape and increased their revenues and margins in 2019. For 2020E, we expect the group to grow by 9% and the EBITDA margin to widen to 16.8%. Given the very strong balance sheet and the expected 2020E free cash flow of >€2m, we believe that the stock is attractively valued at 2020E EV/EBIT of 12x. Both the excellent 2019 figures and growth prospects are not adequately reflected in the share price. We increase our forecasts for 2020E and the following years. An updated DCF model yields a new price target of €3.90 (previously: €3.30). We confirm our Buy rating.

2019 was a very successful year Revenue topped the prior year level by 7.5%, mainly driven by 19% growth in the ad agents segment. Group EBITDA was up 159% at €3.5m. A very strong Q4 (Christmas business!) added €1.4m or ca. 40% to annual EBITDA. The Webgains segment contributed €1.9m to group EBITDA, up from €0.6m in 2018.

Very strong balance sheet The cash position (including securities) rose from €20.5m to €25.2m. As ad pepper has no financial debt and ca. €2m of lease liabilities, we expect the net cash position to increase from €20.5m at the end of 2018 to €23m at the end of 2019. We note that the 2018 figure does not include the lease liabilities, which, according to IFRS 16, have to be accounted for since the beginning of 2019.

(p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2016	2017	2018	2019E	2020E	2021E
Revenue (€m)	61.16	18.72	20.27	21.79	23.73	26.10
Y-o-y growth	9.2%	-69.4%	8.3%	7.5%	8.9%	10.0%
EBIT (€m)	1.61	1.82	1.03	2.56	3.05	3.39
EBIT margin	2.6%	9.7%	5.1%	11.7%	12.9%	13.0%
Net income (€m)	0.63	0.58	0.25	0.98	1.35	1.59
EPS (diluted) (€)	0.03	0.03	0.01	0.05	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	5.18	2.02	2.52
Net gearing	-126.0%	-128.1%	-116.8%	-139.7%	-137.8%	-137.1%
Liquid assets (€m)	17.86	20.13	18.23	25.23	26.58	28.40

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 05 Feb 2020

Closing Price	€ 2.86
Shares outstanding	21.50m
Market Capitalisation	€ 61.49m
52-week Range	€ 2.10 / 3.13
Avg. Volume (12 Months)	7,143

Multiples	2018	2019E	2020E
P/E	243.2	61.1	44.4
EV/Sales	1.8	1.7	1.6
EV/EBIT	36.0	14.5	12.1
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	2.6%
Free Float	47.1%



High free cash flow The high cash position at year end suggests excellent working capital management and very high free cash flow of ca. €5m. As in former years, working capital (receivables /. payables, no inventory) is negative (FBe: ca. €-4m).

Figure 1: Reported group figures versus forecasts

All figures in €m	Q4-19A	Q4-19E	Delta	Q4-18A	Delta	2019A	2018A	Delta
Gross sales	24.12	28.95	-16.7%	24.74	-2.5%	83.77	82.65	1.4%
Net revenues	5.97	6.35	-6.0%	5.47	9.1%	21.79	20.27	7.5%
EBITDA	1.36	0.75	80.7%	0.43	216.6%	3.51	1.35	159.4%
margin	22.7%	11.8%	-	7.8%	-	16.1%	6.7%	-

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

Excellent results in all segments The ad agents segment showed a perfect turnaround following the restructuring in 2018. Segment revenue jumped by 19% y/y to almost €6m, and segment EBITDA was up from break-even at €0.8m (see figure 2). The segment EBITDA margin amounted to 13.6% versus 0.8% in 2018. Even compared to the 2017 EBITDA margin of 7.3%, the 2019 EBITDA margin is striking.

Despite the loss of a large client, the Webgains segment grew 2% y/y. Profitability was much higher due to cost savings. Segment EBITDA rose €1.2m to €1.9m. This corresponds to an increase in the EBITDA margin from 6.2% to 18.0%.

The ad pepper media segment topped its very good 2018 results and grew 8% y/y. The segment remains a profit machine and increased its EBITDA contribution to €2m (+26% y/y). The EBITDA margin rose to a stunning 37.0% (2018: 31.6%).

Holding costs resulted in Admin EBITDA of €-1.2m versus €-0.9m in 2018.

Figure 2: Reported segment figures versus forecasts

All figures in €m	Q4-19A	Q4-19E	Delta	Q4-18A	Delta	2019A	2018A	Delta
ad pepper media								
Revenue	1.36	1.39	-2.7%	1.14	19.1%	5.51	5.11	7.8%
EBITDA	0.27	0.01	1946.2%	-0.02	-	2.04	1.62	26.2%
margin	19.6%	0.9%	-	-1.5%	-	37.0%	31.6%	-
Webgains								
Revenue	2.93	3.36	-12.8%	3.10	-5.3%	10.33	10.15	1.8%
EBITDA	0.86	0.56	54.1%	0.41	110.6%	1.86	0.63	194.8%
margin	29.2%	16.5%	-	13.1%	-	18.0%	6.2%	-
ad agents								
Revenue	1.68	1.59	5.4%	1.23	36.2%	5.95	5.01	18.7%
EBITDA	0.32	0.27	19.2%	-0.04	-	0.81	0.04	1927.5%
margin	18.9%	16.7%	-	-3.1%	-	13.6%	0.8%	-
Admin & Consolidation								
Revenue	0.00	0.00	-	0.00	-	0.00	0.00	-
EBITDA	-0.08	-0.08	-	-0.01	-	-1.20	-0.83	-
Group								
Revenue	5.97	6.35	-6.0%	5.47	9.1%	21.79	20.27	7.5%
EBITDA	1.36	0.75	80.7%	0.43	216.6%	3.51	1.35	159.4%
margin	22.7%	11.8%	-	7.8%	-	16.1%	6.7%	-

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



Forecasts raised Given ad pepper's excellent 2019 results and an improving macroeconomic environment (Brexit decided, US-China trade agreement), we confirm our growth forecast (2020E: +9% y/y) and increase our EBIT estimate to reflect the high operating leverage (see figure 3).

Figure 3: Revisions to forecasts

All figures in €m	2019E			2020E			2021E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Revenue	22.17	21.79	-1.7%	23.73	23.73	0.0%	26.10	26.10	0.0%
EBIT	1.96	2.56	30.2%	2.85	3.05	7.1%	3.26	3.39	4.0%
margin	8.8%	11.7%		12.0%	12.9%		12.5%	13.0%	
Net income	0.57	0.98	71.4%	1.21	1.35	11.8%	1.50	1.59	6.1%
margin	2.6%	4.5%		5.1%	5.7%		5.8%	6.1%	
EPS (diluted)	0.03	0.05	71.3%	0.06	0.06	11.8%	0.07	0.07	6.1%

Source: First Berlin Equity Research

Buy confirmed at higher price target An updated DCF model, which accounts for the higher forecasts and improved risk profile (WACC lowered from 11.0% to 10.3%), yields a new price target of €3.90 (previously: €3.30). ad pepper has a very strong balance sheet (ca. €23m net cash), negative working capital, and is generating high free cash flows (2020E: >€2m). We thus believe that the stock is attractively valued at 2020E EV/EBIT of 12x. Both the excellent 2019 figures and growth prospects are not adequately reflected in the share price. We confirm our Buy rating.



VALUATION MODEL

DCF valuation model								
All figures in EUR '000	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Net revenue	21,787	23,729	26,102	28,973	32,159	35,687	39,570	43,801
NOPLAT	1,800	2,127	2,367	2,810	3,126	3,475	3,859	4,277
+ depreciation & amortisation	957	928	934	667	826	803	791	787
Net operating cash flow	2,756	3,055	3,301	3,477	3,952	4,278	4,650	5,064
- total investments (CAPEX and WC)	2,541	-1,060	-804	-2,744	-261	-273	-267	-232
Capital expenditures	-218	-214	-235	-261	-284	-308	-335	-362
Working capital	2,759	-846	-569	-2,483	23	36	68	130
Free cash flows (FCF)	5,297	1,995	2,498	733	3,691	4,005	4,383	4,832
PV of FCF's	0	1,827	2,074	552	2,522	2,482	2,463	2,463

All figures in thousands	
PV of FCFs in explicit period (2019E-2033E)	31,718
PV of FCFs in terminal period	28,994
Enterprise value (EV)	60,712
+ Net cash / - net debt	23,076
+ Investments / minority interests	967
Shareholder value	84,755
Number of shares (diluted)	21,555
Fair value per share in EUR	3.93

WACC		Terminal growth rate							
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	
Cost of equity	10.3%	6.3%	5.68	6.16	6.75	7.47	8.39	9.58	11.22
Pre-tax cost of debt	6.0%	7.3%	4.88	5.21	5.60	6.06	6.61	7.30	8.18
Tax rate	30.0%	8.3%	4.29	4.53	4.80	5.11	5.48	5.91	6.44
After-tax cost of debt	4.2%	9.3%	3.85	4.02	4.21	4.43	4.69	4.98	5.33
Share of equity capital	100.0%	10.3%	3.49	3.62	3.77	3.93	4.12	4.32	4.56
Share of debt capital	0.0%	11.3%	3.21	3.31	3.42	3.54	3.68	3.83	4.01
		12.3%	2.98	3.06	3.15	3.24	3.34	3.46	3.58
		13.3%	2.79	2.85	2.92	2.99	3.07	3.16	3.26
Price target in EUR	3.90								

* 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	83,774	91,241	100,365
Media costs	n.a.	n.a.	56,839	62,381	61,987	67,512	74,263
Revenues	n.a.	n.a.	18,724	20,272	21,787	23,729	26,102
Cost of sales	40,165	45,076	376	726	763	831	914
Gross profit	15,844	16,088	18,348	19,546	21,024	22,898	25,188
S&M	10,575	9,055	10,771	12,621	12,100	13,366	14,930
G&A	6,382	6,155	6,087	5,925	6,539	6,706	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	3,512	3,977	4,327
Depreciation and amortisation	296	140	391	327	957	928	934
Operating income (EBIT)	244	1,608	1,818	1,027	2,555	3,049	3,393
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	2,438	3,075	3,419
Income taxes	308	594	664	302	756	923	1,026
Minority interests	-168	-467	-556	-288	-700	-800	-800
Net income / loss	-33	629	581	247	982	1,353	1,594
Diluted EPS (in €)	0.00	0.03	0.03	0.01	0.05	0.06	0.07
Ratios							
Gross margin in % of gross sales	28.3%	26.3%	24.3%	23.6%	25.1%	25.1%	25.1%
Gross margin in % of revenues	n.a.	n.a.	98.0%	96.4%	96.5%	96.5%	96.5%
EBITDA margin in % of revenues	1.0%	2.9%	11.8%	6.7%	16.1%	16.8%	16.6%
EBIT margin	0.4%	2.6%	9.7%	5.1%	11.7%	12.9%	13.0%
Net margin	-0.1%	1.0%	3.1%	1.2%	4.5%	5.7%	6.1%
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%	74.0%	74.0%	74.0%
S&M (as % of revenues)	18.9%	14.8%	57.5%	62.3%	55.5%	56.3%	57.2%
G&A (as % of revenues)	11.4%	10.1%	32.5%	29.2%	30.0%	28.3%	26.8%
Depreciation and amortisation	0.5%	0.2%	2.1%	1.6%	4.4%	3.9%	3.6%
Other operating expenses	0.1%	0.5%	2.1%	2.3%	2.1%	2.0%	1.0%
Y-Y Growth							
Gross sales	n.a.	9.2%	23.5%	9.4%	1.4%	8.9%	10.0%
Net revenues	n.a.	n.a.	n.a.	8.3%	7.5%	8.9%	10.0%
Operating income	n.a.	559.0%	13.0%	-43.5%	148.8%	19.3%	11.3%
Net income/ loss	n.a.	n.m.	-7.7%	-57.5%	297.7%	37.7%	17.8%



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	42,426	44,292	47,480
Cash and cash equivalents	16,932	17,859	20,127	18,233	25,229	26,580	28,402
Short-term investments	297	138	27	55	55	55	55
Receivables	9,983	10,116	14,129	17,629	16,713	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	1,179	2,260	2,018
Property, plant & equipment	150	212	424	330	285	256	259
Goodwill & other intangibles	349	572	362	218	174	158	157
Right-of-use assets	0	0	0	0	2,030	1,845	1,601
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	43,605	46,551	49,498
Shareholders' equity & debt							
Current liabilities, total	17,436	16,282	21,696	22,560	24,403	24,071	24,868
Short-term debt	0	0	0	0	0	0	0
Accounts payable	13,618	12,357	17,838	18,967	20,810	20,478	21,275
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	2,318	2,133	1,889
Long-term debt	0	0	0	0	0	0	0
Lease liabilities	0	0	0	0	2,030	1,845	1,601
Other liabilities	96	117	402	538	288	288	288
Minority interests	503	690	779	853	1,553	2,353	3,153
Shareholders' equity	16,005	14,289	15,738	15,659	16,641	17,994	19,587
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	-44,299	-42,946	-41,353
Total consolidated equity and debt	34,040	31,378	38,615	39,610	43,605	46,551	49,498
Ratios							
Current ratio (x)	1.59	1.76	1.61	1.61	1.74	1.84	1.91
Quick ratio (x)	1.59	1.76	1.61	1.61	1.74	1.84	1.91
Net debt	-17,229	-17,997	-20,154	-18,288	-23,254	-24,790	-26,856
Net gearing	-107.6%	-126.0%	-128.1%	-116.8%	-139.7%	-137.8%	-137.1%
Equity ratio	48.5%	47.7%	42.8%	41.7%	41.7%	43.7%	45.9%
Book value per share (in €)	0.75	0.67	0.74	0.74	0.78	0.84	0.92
Return on equity (ROE)	-0.2%	4.4%	3.7%	1.6%	5.9%	7.5%	8.1%
Return on investment (ROI)	-0.1%	2.0%	1.5%	0.6%	2.3%	2.9%	3.2%
Return on assets (ROA)	0.1%	2.2%	1.5%	0.6%	2.3%	2.9%	3.2%



CASH FLOW STATEMENT

All figures in EUR '000	2015A	2016A	2017A	2018A	2019E	2020E	2021E
EBIT	244	1,608	1,818	1,027	2,555	3,049	3,393
Depreciation and amortisation	296	140	391	327	957	928	934
EBITDA	540	1,748	2,209	1,354	3,512	3,977	4,327
Changes in working capital	2,257	-1,164	3,095	-2,192	2,759	-846	-569
Other adjustments	-1,014	-561	-2,203	-684	-873	-897	-1,000
Operating cash flow	1,783	23	3,101	-1,522	5,398	2,234	2,759
Investments in PP&E	-67	-144	-378	-51	-153	-142	-157
Investments in intangibles	-118	-417	-55	-44	-65	-71	-78
Free cash flow	1,598	-538	2,667	-1,617	5,180	2,021	2,524
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	2,248	-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	-650	-670	-701
Financing cash flow	176	-2,497	-362	-296	-650	-670	-701
FOREX & other effects	8	-167	-39	-12	0	0	0
Net cash flows	5,162	927	2,269	-1,894	6,996	1,351	1,823
Cash, start of the year	11,926	16,932	17,859	20,127	18,233	25,229	26,580
Cash, end of the year	17,088	17,859	20,128	18,233	25,229	26,580	28,402
EBITDA/share (in €)	0.03	0.08	0.10	0.06	0.16	0.19	0.20
Y-Y Growth							
Operating cash flow	n.a.	-98.7%	13381.7%	n.m.	n.m.	-58.6%	23.5%
Free cash flow	n.a.	n.m.	n.m.	n.m.	n.m.	-61.0%	24.9%
EBITDA/share	n.a.	227.8%	26.3%	-39.0%	159.4%	13.2%	8.8%

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...14	↓	↓	↓	↓
15	23 August 2019	€2.60	Buy	€3.30
16	18 October 2019	€2.82	Add	€3.30
17	20 November 2019	€2.59	Buy	€3.30
18	Today	€2.86	Buy	€3.90

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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.

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.

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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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