

ad pepper media International N.V.

The Netherlands / Internet Services

Frankfurt

Bloomberg: APM GR

ISIN: NL0000238145

Q1 report

RATING**PRICE TARGET**

Return Potential

Risk Rating

ADD**€ 3.70**

15.6%

High

IN A STRONG POSITION TO GROW EVEN DURING THE RECESSION

ad pepper published its Q1 report. Final figures matched preliminary numbers. Revenues increased 16% y/y to €5.8m and EBIT jumped 77% y/y to €0.8m. The net result more than doubled to €0.6m. Currently, the positive effect of the shift towards higher digital ad spending is stronger than the negative impact of general ad budget cuts due to the recession. ad pepper expects this positive net effect to prevail in Q2 and forecasts accelerated growth especially for the Webgains segment. However, the company does not give guidance for the full year as a reliable forecast is still impossible because the development of the pandemic and the severity of the recession are difficult to predict. An updated DCF model still yields a €3.70 price target. We downgrade the stock from Buy to Add as the upside is now below 25%.

Very strong Q1 Gross sales were up 5% y/y at €21.6m. Net revenue increased 16% to €5.8m. All three segments contributed to this growth with ad pepper media being the outperformer (+31% y/y). EBIT rose 77% y/y to €1.1m. All three segments reported significantly rising EBIT contributions. The strongest increase came at Webgains where segment EBIT rose by 75% y/y to €0.5m. The net result more than doubled to €0.6m (see figure 1 overleaf).

Balance sheet remains strong Most balance sheet items were stable. The only significant change on the asset side is a lower cash position, which declined from €25.2m at the end of 2019 to €20.6m at the end of Q1. This decline was mainly caused by significantly lower payables (€13.8m versus €18.6m at the end of 2018). We believe that ad pepper deliberately decided to pay its bills early to give a sign of strength and reliability to its network amid the unfolding recession. This helped the publishers which were hit by advertising cuts and will certainly further improve ad pepper's reputation as a trustworthy partner, and strengthen network loyalty. Although the effect of the move will only be temporary and working capital will return to normal levels soon, the reputational gain will probably last much longer and is a very good basis for further business.

FINANCIAL HISTORY & PROJECTIONS

	2017	2018	2019	2020E	2021E	2022E
Revenue (€m)	18.72	20.27	21.79	22.45	24.91	27.41
Y-o-y growth	-69.4%	8.3%	7.5%	3.1%	11.0%	10.0%
EBIT (€m)	1.82	1.03	2.52	2.29	3.33	3.67
EBIT margin	9.7%	5.1%	11.6%	10.2%	13.3%	13.4%
Net income (€m)	0.58	0.25	1.35	1.17	1.80	1.89
EPS (diluted) (€)	0.03	0.01	0.06	0.06	0.08	0.09
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	2.67	-1.62	5.96	0.56	3.03	3.81
Net gearing	-127.9%	-116.4%	-134.4%	-125.7%	-126.2%	-129.6%
Liquid assets (€m)	20.13	18.23	25.23	25.11	27.45	30.58

RISKS

The main risks beyond covid-19 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 27 May 2020

Closing Price	€ 3.20
Shares outstanding	21.50m
Market Capitalisation	€ 68.80m
52-week Range	€ 2.22 / 3.20
Avg. Volume (12 Months)	7,956

Multiples	2019	2020E	2021E
P/E	49.7	57.3	37.4
EV/Sales	2.0	2.0	1.8
EV/EBIT	17.6	19.3	13.3
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Mar 2020

Liquid Assets	€ 20.57m
Current Assets	€ 35.47m
Intangible Assets	€ 0.53m
Total Assets	€ 39.03m
Current Liabilities	€ 18.61m
Shareholders' Equity	€ 18.75m

SHAREHOLDERS

EMA B.V.	44.1%
Dieter Koppitz	3.8%
Treasury shares	2.3%
Euro Serve Media GmbH	2.6%
Free Float	47.1%



Despite the large swing in payables, working capital requirement remained low. While it is usually negative, it amounted to €0.5m at the end of Q1. At the end of 2019, working capital amounted to €-3.7m. ad pepper had no liabilities to banks. Lease liabilities amounted to €2.2m resulting in a net cash position of €18.3m versus €23.0m at the end of 2019. Equity increased from €18.0m to €18.7m. Due to the lower balance sheet total (-11% q/q), the equity ratio increased from 41% to 48%.

Figure 1: Reported final Q1/20 figures

All figures in €m	Q1-20A	Q1-19A	Delta
Gross sales	21.65	20.65	4.8%
Revenue	5.84	5.05	15.7%
EBITDA	1.12	0.71	58.0%
<i>margin</i>	19.2%	14.0%	-
EBIT	0.84	0.47	77.4%
<i>margin</i>	14.4%	9.4%	-
EBT	0.81	0.33	142.2%
<i>margin</i>	13.9%	6.6%	-
Net income	0.65	0.29	127.0%
<i>margin</i>	11.1%	5.6%	-
EPS (diluted)	0.03	0.01	127.0%

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

Negative operating cash flow due to lower payables Operating cash flow was €-4.1m due mainly to a €4.7m reduction in payables. CAPEX of €0.3m resulted in free cash flow of €-4.4m. Cash flow from financing activities was just €-0.2m leading to net cash flow of €-4.6m.

All three operating segments show rising sales and EBIT The ad pepper media segment grew 31% y/y to €1.5m. Segment EBIT rose 26% y/y to €0.7m. The EBIT margin, which was at a very high level in Q1/19, declined 1.6 PP to 42.6%. Webgains' revenue was up 6% y/y. This sounds relatively low, but Q1/19 was a very strong quarter compared to Q2 and Q3/19. Segment EBIT was 75% higher at €0.5m. The segment EBIT margin increased from 10.6% to 17.5%. ad agents reported 21% revenue growth to €1.5m. Segment EBIT was up 79% at €59k. The segment EBIT margin rose from 2.6% to 3.8%. The admin segment, which contains the holding costs, posted stable EBIT of €-359k.

Strong Q2 expected Digital advertising and particularly affiliate marketing has continued to benefit from the accelerating shift towards digital ad spending. ad pepper has given positive Q2 guidance and sees accelerated growth particularly in the Webgains segment. For the current fiscal year, the net effect of the two opposing trends (shift towards digital ad spending versus general recession-induced ad spending cuts) is still difficult to estimate. Although many European countries were relatively successful in containing the spread of the pandemic and have started to ease restrictions, the unfolding recession will probably be the worst since World War II. The level of uncertainty remains high, but we are convinced that ad pepper will weather the recession very well and will significantly benefit from the accelerating trend towards digital ad spending in the medium and long term. For the time being, we stick to our forecasts for 2020E and the following years.

Stock downgraded to Add following share price increase An updated DCF model still yields a €3.70 price target. Since our last publication of 24 April, the stock has appreciated by 14% (€3.20 versus €2.80). As the upside to our price target is now below 25%, we downgrade the stock from Buy to Add.



VALUATION MODEL

DCF valuation model								
All figures in EUR '000								
	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Net revenue	22,455	24,914	27,405	30,146	33,160	36,467	40,075	43,972
NOPLAT	1,598	2,320	2,562	2,819	3,107	3,424	3,770	4,145
+ depreciation & amortisation	1,048	1,047	1,085	1,126	1,143	1,169	1,201	1,237
Net operating cash flow	2,646	3,367	3,647	3,945	4,250	4,593	4,971	5,382
- total investments (CAPEX and WC)	-2,111	-366	138	-212	-246	-261	-277	-297
Capital expenditures	-404	-448	-493	-482	-518	-557	-597	-640
Working capital	-1,706	82	631	270	272	296	321	343
Free cash flows (FCF)	536	3,001	3,785	3,733	4,004	4,332	4,694	5,085
PV of FCF's	506	2,568	2,938	2,628	2,556	2,509	2,466	2,423

All figures in thousands	
PV of FCFs in explicit period (2020E-2034E)	33,435
PV of FCFs in terminal period	21,712
Enterprise value (EV)	55,147
+ Net cash / - net debt	22,983
+ Investments / minority interests	935
Shareholder value	79,065
Number of shares (diluted)	21,470
Fair value per share in EUR	3.68

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%	5.46	5.76	6.12	6.56	7.12	7.86	8.86
Pre-tax cost of debt	6.0%	7.3%	4.73	4.92	5.15	5.42	5.75	6.15	6.67
Tax rate	30.0%	8.3%	4.19	4.32	4.47	4.65	4.86	5.11	5.40
After-tax cost of debt	4.2%	9.3%	3.78	3.87	3.98	4.10	4.24	4.40	4.59
Share of equity capital	100.0%	10.3%	3.45	3.52	3.60	3.68	3.78	3.89	4.02
Share of debt capital	0.0%	11.3%	3.19	3.24	3.30	3.36	3.43	3.51	3.60
		12.3%	2.98	3.01	3.06	3.10	3.16	3.21	3.28
		13.3%	2.80	2.83	2.86	2.90	2.93	2.98	3.02
Price target in EUR	3.70								

* for layout purposes the model shows numbers only to 2027, but runs until 2034



INCOME STATEMENT

All figures in EUR '000	2017A	2018A	2019A	2020E	2021E	2022E
Gross sales	75,563	82,653	83,774	86,343	95,798	105,378
Media costs	56,839	62,381	61,987	63,888	70,884	77,972
Revenues	18,724	20,272	21,787	22,455	24,914	27,405
Cost of sales	376	726	820	1,397	1,447	1,096
Gross profit	18,348	19,546	20,967	21,058	23,467	26,309
S&M	10,771	12,621	12,225	12,250	13,437	14,963
G&A	6,087	5,925	6,853	6,810	7,100	7,811
Other operating income	723	494	943	745	845	658
Other operating expenses	396	467	313	450	450	521
EBITDA	2,209	1,354	3,512	3,342	4,372	4,757
Depreciation and amortisation	391	327	993	1,048	1,047	1,085
Operating income (EBIT)	1,818	1,027	2,519	2,293	3,325	3,672
Net financial result	-17	-190	-209	25	25	27
Non-operating expenses	0	0	0	0	0	0
Pre-tax income (EBT)	1,801	837	2,310	2,318	3,350	3,700
Income taxes	664	302	390	695	1,005	1,110
Minority interests	-556	-288	-568	-450	-550	-700
Net income / loss	581	247	1,352	1,172	1,795	1,890
Diluted EPS (in €)	0.03	0.01	0.06	0.06	0.08	0.09
Ratios						
Gross margin in % of gross sales	24.3%	23.6%	25.0%	24.4%	24.5%	25.0%
Gross margin in % of revenues	98.0%	96.4%	96.2%	93.8%	94.2%	96.0%
EBITDA margin in % of revenues	11.8%	6.7%	16.1%	14.9%	17.5%	17.4%
EBIT margin	9.7%	5.1%	11.6%	10.2%	13.3%	13.4%
Net margin	3.1%	1.2%	6.2%	5.2%	7.2%	6.9%
Tax rate	36.9%	36.1%	16.9%	30.0%	30.0%	30.0%
Expenses as % of sales or revenues						
Media costs (as % of gross sales)	75.2%	75.5%	74.0%	74.0%	74.0%	74.0%
S&M (as % of revenues)	57.5%	62.3%	56.1%	54.6%	53.9%	54.6%
G&A (as % of revenues)	32.5%	29.2%	31.5%	30.3%	28.5%	28.5%
Depreciation and amortisation	2.1%	1.6%	4.6%	4.7%	4.2%	4.0%
Other operating expenses	2.1%	2.3%	1.4%	2.0%	1.8%	1.9%
Y-Y Growth						
Gross sales	23.5%	9.4%	1.4%	3.1%	11.0%	10.0%
Net revenues	n.a.	8.3%	7.5%	3.1%	11.0%	10.0%
Operating income	13.0%	-43.5%	145.3%	-9.0%	45.0%	10.4%
Net income/ loss	-7.7%	-57.5%	447.4%	-13.3%	53.1%	5.3%



BALANCE SHEET

All figures in EUR '000	2017A	2018A	2019A	2020E	2021E	2022E
Assets						
Current assets, total	34,896	36,346	40,731	41,708	45,804	50,710
Cash and cash equivalents	20,127	18,233	25,229	25,108	27,452	30,584
Short-term investments	27	55	47	47	47	47
Receivables	14,129	17,629	14,897	15,995	17,747	19,522
Inventories	0	0	0	0	0	0
Other current assets	613	429	558	558	558	558
Non-current assets, total	3,719	3,264	3,321	3,241	3,324	3,414
Property, plant & equipment	424	330	391	383	398	426
Goodwill & other intangibles	362	218	359	404	471	533
Right-of-use assets	0	0	2,129	2,129	2,129	2,129
Financial assets	2,933	2,716	442	325	325	325
Other assets	0	0	0	0	0	0
Total assets	38,615	39,610	44,052	44,949	49,128	54,124
Shareholders' equity & debt						
Current liabilities, total	21,696	22,560	24,299	23,691	25,525	27,931
Short-term debt	0	0	0	0	0	0
Accounts payable	17,838	18,967	18,593	17,985	19,819	22,225
Current provisions	0	0	0	0	0	0
Other current liabilities	3,858	3,593	4,907	4,907	4,907	4,907
Lease liabilities	0	0	799	799	799	799
Long-term liabilities, total	402	538	1,713	1,596	1,596	1,596
Long-term debt	0	0	0	0	0	0
Lease liabilities	0	0	1,447	1,330	1,330	1,330
Other liabilities	402	538	266	266	266	266
Minority interests	779	853	935	1,385	1,935	2,635
Shareholders' equity	15,738	15,659	17,105	18,277	20,073	21,962
Share capital	1,150	1,150	1,075	1,075	1,075	1,075
Capital reserve	61,312	60,999	63,782	63,782	63,782	63,782
Other reserves	-1,683	-1,208	0	0	0	0
Loss carryforward / retained earnings	-45,041	-45,281	-47,752	-46,580	-44,784	-42,895
Total consolidated equity and debt	38,615	39,610	44,052	44,949	49,128	54,124
Ratios						
Current ratio (x)	1.61	1.61	1.68	1.76	1.79	1.82
Quick ratio (x)	1.61	1.61	1.68	1.76	1.79	1.82
Net debt	-20,127	-18,233	-22,983	-22,979	-25,323	-28,455
Net gearing	-127.9%	-116.4%	-134.4%	-125.7%	-126.2%	-129.6%
Equity ratio	42.8%	41.7%	41.0%	43.7%	44.8%	45.4%
Book value per share (in €)	0.74	0.74	0.81	0.86	0.95	1.04
Return on equity (ROE)	3.7%	1.6%	7.9%	6.4%	8.9%	8.6%
Return on investment (ROI)	1.5%	0.6%	3.1%	2.6%	3.7%	3.5%
Return on assets (ROA)	1.5%	0.6%	3.1%	2.6%	3.7%	3.5%



CASH FLOW STATEMENT

All figures in EUR '000	2017A	2018A	2019A	2020E	2021E	2022E
EBIT	1,818	1,027	2,519	2,293	3,325	3,672
Depreciation and amortisation	391	327	993	1,048	1,047	1,085
EBITDA	2,209	1,354	3,512	3,342	4,372	4,757
Changes in working capital	3,095	-2,192	4,352	-1,706	82	631
Other adjustments	-2,203	-684	-1,382	-671	-980	-1,083
Operating cash flow	3,101	-1,522	6,482	965	3,474	4,306
Investments in PP&E	-378	-51	-221	-180	-199	-219
Investments in intangibles	-55	-44	-303	-225	-249	-274
Free cash flow	2,667	-1,617	5,958	560	3,026	3,813
Acquisitions & disposals, net	3	66	8	0	0	0
Other investments	0	-35	2,152	0	0	0
Investment cash flow	-431	-64	1,636	-404	-448	-493
Debt financing, net	0	0	0	0	0	0
Equity financing, net	105	0	0	0	0	0
Dividends paid	0	0	0	0	0	0
Other financing	-467	-296	-1,173	-681	-681	-681
Financing cash flow	-362	-296	-1,173	-681	-681	-681
FOREX & other effects	-39	-12	51	0	0	0
Net cash flows	2,269	-1,894	6,996	-121	2,344	3,131
Cash, start of the year	17,859	20,127	18,233	25,229	25,108	27,452
Cash, end of the year	20,128	18,233	25,229	25,108	27,452	30,584
EBITDA/share (in €)	0.10	0.06	0.17	0.16	0.21	0.22
Y-Y Growth						
Operating cash flow	13381.7%	n.m.	n.m.	-85.1%	260.2%	23.9%
Free cash flow	n.m.	n.m.	n.m.	-90.6%	440.0%	26.0%
EBITDA/share	26.3%	-39.0%	161.0%	-4.8%	30.8%	8.8%

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Anschrift:

First Berlin Equity Research GmbH
Mohrenstr. 34
10117 Berlin
Germany

Vertreten durch den Geschäftsführer: Martin Bailey

Telefon: +49 (0) 30-80 93 9 680

Fax: +49 (0) 30-80 93 9 687

E-Mail: info@firstberlin.com

Amtsgericht Berlin Charlottenburg HR B 103329 B

UST-Id.: 251601797

Ggf. Inhaltlich Verantwortlicher gem. § 6 MDStV

First Berlin Equity Research GmbH

Authored by: Dr. Karsten von Blumenthal, Analyst

All publications of the last 12 months were authored by Dr. Karsten von Blumenthal.

Company responsible for preparation: First Berlin Equity Research GmbH, Mohrenstraße 34, 10117 Berlin

The production of this recommendation was completed on 28 May 2020 at 09:26

Person responsible for forwarding or distributing this financial analysis: Martin Bailey

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PRICE TARGET DATES

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.

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...12	↓	↓	↓	↓
13	27 May 2019	€2.33	Buy	€3.20
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	20 November 2019	€2.59	Buy	€3.30
18	6 February 2020	€2.86	Buy	€3.90
19	31 March 2020	€2.52	Buy	€3.40
20	24 April 2020	€2.80	Buy	€3.70
21	Today	€3.20	Add	€3.70

INVESTMENT HORIZON

Unless otherwise stated in the financial analysis, the ratings refer to an investment period of twelve months.

UPDATES

At the time of publication of this financial analysis it is not certain whether, when and on what occasion an update will be provided. In general First Berlin strives to review the financial analysis for its topicality and, if required, to update it in a very timely manner in connection with the reporting obligations of the analysed company or on the occasion of ad hoc notifications.

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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: <https://firstberlin.com/disclaimer-english-link/>

SUPERVISORY AUTHORITY: Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Marie-Curie-Straße 24-28, 60439 Frankfurt am Main

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