

ad pepper media International N.V.

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

Preliminary
 Q2 figures

RATING
PRICE TARGET

Return Potential
 Risk Rating

BUY
€ 4.70
 25.7%
 High

VERY STRONG Q2 EBITDA AND VERY POSITIVE 2020 OUTLOOK

Following publication of excellent preliminary Q2 figures management is guiding towards EBITDA of €4.5m in 2020 (2019 EBITDA: €3.5m). This corresponds to expected EBITDA growth of almost 29% in a year which will likely see the worst recession since World War II. If achieved, this would be an amazing performance, and we have no doubt that ad pepper will reach it. We had expected digitisation trends to counter recessionary headwinds. However, the pandemic has led to a much greater shift in advertising budgets from offline to online than we had anticipated. This massive shift has far outweighed shrinking ad budgets. And as a purely digital advertising company, ad pepper is benefitting tremendously from this shift. We increase our forecasts for 2020E and the following years. An updated DCF model yields a new price target of €4.70 (previously: €3.70). We upgrade the stock from Add to Buy.

Q2 EBITDA 35% above forecast and up 91% y/y ad pepper reported excellent Q2 figures. Gross sales increased 16% y/y to €23.4m (FBe: €23.4m) and revenue was up almost 7% at €6.1m (FBe: €6.1m). EBITDA amounted to €1.7m and exceeded our forecast by 35% and the previous year's figure by 91% (see figure 1 overleaf). The main reason for this was the outstanding performance of the Webgains segment, which quadrupled EBITDA.

Webgains showed very strong outperformance Given management's forecast of accelerated growth at Webgains in Q2, we expected strong figures. Segment revenue increased 27% y/y to €3.2m, which was still 6% ahead of our forecast. But EBITDA quadrupled from €0.4m to €1.6m and the segment EBITDA margin reached a very high 49% (FBe: 26%, Q2/19: 16%). As segment EBITDA growth in absolute terms (€+1.2m) was higher than segment revenue growth (€+0.7m), we believe that Webgains booked some extraordinary earnings.

(p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2017	2018	2019	2020E	2021E	2022E
Revenue (€m)	18.72	20.27	21.79	23.98	26.93	29.63
Y-o-y growth	-69.4%	8.3%	7.5%	10.1%	12.3%	10.0%
EBIT (€m)	1.82	1.03	2.52	3.46	4.67	5.18
EBIT margin	9.7%	5.1%	11.6%	14.4%	17.3%	17.5%
Net income (€m)	0.58	0.25	1.35	1.84	2.59	2.85
EPS (diluted) (€)	0.03	0.01	0.06	0.09	0.12	0.13
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	2.67	-1.62	5.96	1.55	4.04	4.96
Net gearing	-127.9%	-116.4%	-134.4%	-126.3%	-126.5%	-129.1%
Liquid assets (€m)	20.13	18.23	25.23	26.05	29.37	33.61

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 17 Jul 2020

Closing Price	€ 3.74
Shares outstanding	21.50m
Market Capitalisation	€ 80.41m
52-week Range	€ 2.22 / 3.74
Avg. Volume (12 Months)	8,318

Multiples	2019	2020E	2021E
P/E	58.1	42.7	30.4
EV/Sales	2.6	2.3	2.1
EV/EBIT	22.1	16.1	11.9
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%

**Figure 1: Reported preliminary Q2 group figures versus forecasts**

All figures in €m	Q2-20A	Q2-20E	Delta	Q2-19A	Delta	H1-20A	H1-19A	Delta
Gross sales	23.36	23.39	-0.1%	20.17	15.8%	45.01	40.82	10.2%
Revenue	6.12	6.06	0.9%	5.74	6.5%	11.96	10.79	10.8%
EBITDA	1.68	1.25	34.9%	0.88	90.7%	2.80	1.59	76.1%
margin on revenues	27.5%	20.6%		15.4%		23.5%	14.8%	

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

ad agents with double-digit sales and earnings growth ad agents' segment revenue rose 13% to €1.6m. Segment EBITDA growth outpaced revenue growth, and EBITDA topped the previous year's figure by 21% (see figure 2). The segment EBITDA margin widened from 11.1% to 11.8%.

ad pepper media weaker y/y due to very strong Q2/19 segment performance Given the extraordinarily good Q2/19 figures, we expected weaker results at the ad pepper media segment. Segment revenue retreated 27% to €1.3m and EBITDA declined 41% to €0.5m. The EBITDA margin fell almost 10PP to 38% (see figure 2).

Figure 2: Reported preliminary Q2 segment figures versus forecasts

All figures in €m	Q2-20A	Q2-20E	Delta	Q2-19A	Delta	H1-20A	H1-19A	Delta
ad pepper media								
Revenue	1.34	1.56	-14.1%	1.83	-26.7%	2.88	3.00	-4.1%
EBITDA	0.50	0.63	-20.0%	0.86	-41.5%	1.21	1.39	-13.1%
margin	37.6%	40.4%	-	47.1%	-	41.9%	46.3%	-
Webgains								
Revenue	3.17	2.99	5.8%	2.49	27.1%	5.93	5.09	16.4%
EBITDA	1.57	0.78	101.4%	0.39	303.4%	2.17	0.81	169.3%
margin	49.4%	26.0%	-	15.6%	-	36.6%	15.8%	-
ad agents								
Revenue	1.61	1.51	6.7%	1.43	13.0%	3.15	2.70	16.8%
EBITDA	0.19	0.19	2.1%	0.16	20.9%	0.31	0.23	33.2%
margin	11.8%	12.4%	-	11.1%	-	9.8%	8.6%	-
Admin & Consolidation								
Revenue	0.00	0.00		0.00	-	0.00	0.00	-
EBITDA	-0.58	-0.35	-	-0.52	-	-0.88	-0.84	-
Group								
Revenue	6.12	6.06	0.9%	5.74	6.5%	11.96	10.79	10.8%
EBITDA	1.68	1.25	34.9%	0.88	90.5%	2.80	1.59	76.7%
margin	27.5%	20.6%	-	15.4%	-	23.5%	14.7%	-

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

Liquid funds up 9% y/y At the end of H1/20, liquid funds amounted to €22.1m versus €20.4m in H1/19 and €20.6m at the end of Q1/20. As expected, the dip in liquid funds in Q1 was only temporary.

2020 guidance: €4.5m EBITDA With the publication of the preliminary Q2 results, ad pepper gave full-year 2020 guidance for the first time. Management expects ca. €24.0m in revenue and EBITDA of ca. €4.5m. Compared to the 2019 figures this implies 10% revenue and 29% EBITDA growth y/y. This means accelerated revenue growth and high operating leverage. Given H1 EBITDA of €2.8m, EBITDA guidance is rather conservative, as it implies H2 EBITDA of just €1.7m.



Forecasts increased Given the better than expected Q2 EBITDA, and business development that seems immune to recessionary headwinds, we increase our forecasts for 2020E and the following years. ad pepper is benefitting from low exposure to segments which have been massively hit by the pandemic such as hotels, travel and leisure. Furthermore, the structural shift in advertising budgets from offline to online is a key growth driver for a pure digital advertiser such as ad pepper. The pandemic has significantly accelerated this shift. The high operating leverage translates single-digit revenue forecast increases in 2020-2022 into EBIT forecasts rising by 40% - 51% (see figure 3).

Figure 3: Revisions to forecasts

All figures in €m	2020E			2021E			2022E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Revenue	22.45	23.98	6.8%	24.91	26.93	8.1%	27.41	29.63	8.1%
EBIT	2.29	3.46	51.2%	3.33	4.67	40.2%	3.67	5.18	41.3%
margin	10.2%	14.4%		13.4%	17.3%		13.4%	17.5%	
Net income	1.17	1.84	57.4%	1.80	2.59	43.7%	1.89	2.85	50.8%
margin	5.2%	7.7%		7.2%	9.6%		6.9%	9.6%	
EPS (diluted)	0.06	0.09	57.3%	0.08	0.12	43.9%	0.09	0.13	50.9%

Source: First Berlin Equity Research

Upgrade to Buy at higher price target An updated DCF model, which takes our increased forecasts into consideration, yields a new price target of €4.70 (previously: €3.70). As the upside to our price target is now >25%, we upgrade the stock from Add to Buy.



VALUATION MODEL

DCF valuation model								
All figures in EUR '000	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Net revenue	23,980	26,932	29,625	32,588	35,846	39,420	43,321	47,534
NOPLAT	2,415	3,260	3,620	4,028	4,433	4,877	5,363	5,887
+ depreciation & amortisation	1,110	1,122	1,165	1,211	1,221	1,243	1,272	1,306
Net operating cash flow	3,525	4,381	4,785	5,239	5,654	6,120	6,635	7,194
- total investments (CAPEX and WC)	-2,003	-370	149	-229	-266	-282	-299	-321
Capital expenditures	-432	-485	-533	-521	-560	-602	-646	-691
Working capital	-1,571	115	683	292	295	320	347	371
Free cash flows (FCF)	1,522	4,011	4,935	5,010	5,388	5,839	6,336	6,873
PV of FCF's	1,457	3,483	3,886	3,578	3,490	3,430	3,376	3,322

All figures in thousands	
PV of FCFs in explicit period (2020E-2034E)	46,466
PV of FCFs in terminal period	30,016
Enterprise value (EV)	76,483
+ Net cash / - net debt	22,983
+ Investments / minority interests	935
Shareholder value	100,401
Number of shares (diluted)	21,470
Fair value per share in EUR	4.68

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%	7.17	7.56	8.03	8.61	9.35	10.31	11.63
Pre-tax cost of debt	6.0%	7.3%	6.15	6.40	6.70	7.05	7.48	8.01	8.67
Tax rate	30.0%	8.3%	5.40	5.57	5.77	6.00	6.27	6.59	6.98
After-tax cost of debt	4.2%	9.3%	4.83	4.95	5.09	5.24	5.42	5.63	5.87
Share of equity capital	100.0%	10.3%	4.38	4.47	4.57	4.68	4.80	4.94	5.10
Share of debt capital	0.0%	11.3%	4.02	4.08	4.16	4.24	4.33	4.42	4.54
		12.3%	3.72	3.77	3.83	3.89	3.95	4.02	4.10
		13.3%	3.48	3.51	3.55	3.60	3.65	3.70	3.76
Price target in EUR	4.70								

* 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	93,968	103,932	114,325
Media costs	56,839	62,381	61,987	69,988	77,000	84,700
Revenues	18,724	20,272	21,787	23,980	26,932	29,625
Cost of sales	376	726	820	1,492	1,564	1,185
Gross profit	18,348	19,546	20,967	22,488	25,368	28,440
S&M	10,771	12,621	12,225	12,412	13,937	15,405
G&A	6,087	5,925	6,853	6,910	7,158	7,999
Other operating income	723	494	943	745	845	711
Other operating expenses	396	467	313	450	450	563
EBITDA	2,209	1,354	3,512	4,571	5,790	6,350
Depreciation and amortisation	391	327	993	1,110	1,122	1,165
Operating income (EBIT)	1,818	1,027	2,519	3,461	4,668	5,184
Net financial result	-17	-190	-209	26	27	30
Non-operating expenses	0	0	0	0	0	0
Pre-tax income (EBT)	1,801	837	2,310	3,488	4,695	5,214
Income taxes	664	302	390	1,046	1,408	1,564
Minority interests	-556	-288	-568	-600	-700	-800
Net income / loss	581	247	1,352	1,841	2,586	2,850
Diluted EPS (in €)	0.03	0.01	0.06	0.09	0.12	0.13
Ratios						
Gross margin in % of gross sales	24.3%	23.6%	25.0%	23.9%	24.4%	24.9%
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%	19.1%	21.5%	21.4%
EBIT margin	9.7%	5.1%	11.6%	14.4%	17.3%	17.5%
Net margin	3.1%	1.2%	6.2%	7.7%	9.6%	9.6%
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%	74.5%	74.1%	74.1%
S&M (as % of revenues)	57.5%	62.3%	56.1%	51.8%	51.7%	52.0%
G&A (as % of revenues)	32.5%	29.2%	31.5%	28.8%	26.6%	27.0%
Depreciation and amortisation	2.1%	1.6%	4.6%	4.6%	4.2%	3.9%
Other operating expenses	2.1%	2.3%	1.4%	1.9%	1.7%	1.9%
Y-Y Growth						
Gross sales	23.5%	9.4%	1.4%	12.2%	10.6%	10.0%
Net revenues	n.a.	8.3%	7.5%	10.1%	12.3%	10.0%
Operating income	13.0%	-43.5%	145.3%	37.4%	34.9%	11.1%
Net income/ loss	-7.7%	-57.5%	447.4%	36.2%	40.5%	10.2%



BALANCE SHEET

All figures in EUR '000	2017A	2018A	2019A	2020E	2021E	2022E
Assets						
Current assets, total	34,896	36,346	40,731	43,740	49,157	55,316
Cash and cash equivalents	20,127	18,233	25,229	26,053	29,368	33,608
Short-term investments	27	55	47	47	47	47
Receivables	14,129	17,629	14,897	17,082	19,184	21,103
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	3,250	3,337	3,429
Property, plant & equipment	424	330	391	387	409	442
Goodwill & other intangibles	362	218	359	409	474	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	46,990	52,494	58,744
Shareholders' equity & debt						
Current liabilities, total	21,696	22,560	24,299	24,912	27,130	29,731
Short-term debt	0	0	0	0	0	0
Accounts payable	17,838	18,967	18,593	19,206	21,424	24,025
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	1,535	2,235	3,035
Shareholders' equity	15,738	15,659	17,105	18,946	21,533	24,383
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	-45,911	-43,324	-40,474
Total consolidated equity and debt	38,615	39,610	44,052	46,990	52,494	58,744
Ratios						
Current ratio (x)	1.61	1.61	1.68	1.76	1.81	1.86
Quick ratio (x)	1.61	1.61	1.68	1.76	1.81	1.86
Net debt	-20,127	-18,233	-22,983	-23,924	-27,239	-31,479
Net gearing	-127.9%	-116.4%	-134.4%	-126.3%	-126.5%	-129.1%
Equity ratio	42.8%	41.7%	41.0%	43.6%	45.3%	46.7%
Book value per share (in €)	0.74	0.74	0.81	0.89	1.02	1.15
Return on equity (ROE)	3.7%	1.6%	7.9%	9.7%	12.0%	11.7%
Return on investment (ROI)	1.5%	0.6%	3.1%	3.9%	4.9%	4.9%
Return on assets (ROA)	1.5%	0.6%	3.1%	3.9%	4.9%	4.9%



CASH FLOW STATEMENT

All figures in EUR '000	2017A	2018A	2019A	2020E	2021E	2022E
EBIT	1,818	1,027	2,519	3,461	4,668	5,184
Depreciation and amortisation	391	327	993	1,110	1,122	1,165
EBITDA	2,209	1,354	3,512	4,571	5,790	6,350
Changes in working capital	3,095	-2,192	4,352	-1,571	115	683
Other adjustments	-2,203	-684	-1,382	-1,020	-1,382	-1,535
Operating cash flow	3,101	-1,522	6,482	1,980	4,523	5,498
Investments in PP&E	-378	-51	-221	-192	-215	-237
Investments in intangibles	-55	-44	-303	-240	-269	-296
Free cash flow	2,667	-1,617	5,958	1,548	4,038	4,964
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	-432	-485	-533
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	-724	-724	-724
Financing cash flow	-362	-296	-1,173	-724	-724	-724
FOREX & other effects	-39	-12	51	0	0	0
Net cash flows	2,269	-1,894	6,996	824	3,314	4,240
Cash, start of the year	17,859	20,127	18,233	25,229	26,053	29,368
Cash, end of the year	20,128	18,233	25,229	26,053	29,368	33,608
EBITDA/share (in €)	0.10	0.06	0.17	0.22	0.27	0.30
Y-Y Growth						
Operating cash flow	13381.7%	n.m.	n.m.	-69.5%	128.5%	21.5%
Free cash flow	n.m.	n.m.	n.m.	-74.0%	160.9%	22.9%
EBITDA/share	26.3%	-39.0%	161.0%	30.2%	26.7%	9.7%

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PRICE TARGET DATES

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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.

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	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	28 May 2020	€3.20	Add	€3.70
22	Today	€3.74	Buy	€4.70

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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