

ad pepper media International N.V.

The Netherlands / Internet Services

Frankfurt

Bloomberg: APM GR

ISIN: NL0000238145

Higher 2020 guidance

RATING**PRICE TARGET**

Return Potential

Risk Rating

BUY**€ 6.70**

39.6%

High

EBITDA GUIDANCE RAISED BY 15% TO €6.3M

For the second time this year, ad pepper has raised its 2020 guidance. The company now expects ca. €25m in revenue and EBITDA of ca. €6.3m (previously: at least €5.5m). Business in Q4 has continued to be very strong and so far revenue has been well above the prior year figure. We have slightly raised our 2020 EBITDA forecast from €6.2m to €6.3m. An updated DCF model yields a new price target of €6.70 (previously: €6.00). We reiterate our Buy rating.

Very strong Q4 In the period from October to November, which includes important eCommerce trading days such as Singles Day, Black Friday and Cyber Monday, revenue was well above the prior year figure. ad pepper anticipates sustained strong demand for its performance marketing solutions in December, with further impetus from the Christmas shopping season.

2020 guidance raised Management has raised EBITDA guidance by 15% from at least €5.5m to ca. €6.3m. Gross sales are expected to be between €95m and €100m, and revenue at ca. €25m.

2020 EBITDA forecast slightly raised We have slightly raised our EBITDA forecast from €6.2m to €6.3m (see figure 1 overleaf). Our gross sales and revenue forecasts are in line with company guidance.

Buy rating confirmed at higher price target An updated DCF model yields a new price target of €6.70 (previously: €6.00). Valuation drivers are a lower long-term tax rate (25% versus 30%), a slightly lower working capital requirement assumption, which is in line with working capital requirements in recent years, and a lower WACC (9.6% versus 10.1%) due to lower cost of equity, as ad pepper's market capitalisation has broken through the €100m barrier. We confirm our Buy rating.

FINANCIAL HISTORY & PROJECTIONS

	2017	2018	2019	2020E	2021E	2022E
Revenue (€m)	18.72	20.27	21.79	25.15	27.92	30.71
Y-o-y growth	-69.4%	8.3%	7.5%	15.4%	11.0%	10.0%
EBITDA (€m)	2.21	1.35	3.51	6.33	7.59	8.49
EBITDA margin	11.8%	6.7%	16.1%	25.2%	27.2%	27.6%
Net income (€m)	0.58	0.25	1.35	2.99	3.79	4.27
EPS (diluted) (€)	0.03	0.01	0.06	0.14	0.18	0.20
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	2.67	-1.62	5.96	1.43	5.12	5.78
Net gearing	-127.9%	-116.4%	-134.4%	-118.5%	-118.1%	-118.1%
Liquid assets (€m)	20.13	18.23	25.23	25.94	30.33	35.39

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 09 Dec 2020

Closing Price	€ 4.80
Shares outstanding	21.00m
Market Capitalisation	€ 100.80m
52-week Range	€ 2.22 / 4.98
Avg. Volume (12 Months)	12,921

Multiples	2019	2020E	2021E
P/E	74.6	33.7	26.6
EV/Sales	3.6	3.1	2.8
EV/EBITDA	22.2	12.3	10.3
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Sep 2020

Liquid Assets	€ 23.23m
Current Assets	€ 37.56m
Intangible Assets	€ 0.75m
Total Assets	€ 41.89m
Current Liabilities	€ 20.06m
Shareholders' Equity	€ 20.59m

SHAREHOLDERS

EMA B.V.	44.1%
Dieter Koppitz	3.8%
Euro Serve Media GmbH	2.6%
Treasury shares	2.8%
Free Float	46.7%

**Figure 1: Revisions to forecasts**

All figures in €m	2020E			2021E			2022E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Revenue	25.15	25.15	0.0%	27.92	27.92	0.0%	30.71	30.71	0.0%
EBITDA	6.23	6.33	1.6%	7.59	7.59	0.0%	8.49	8.49	0.0%
<i>margin</i>	24.8%	25.2%		27.2%	27.2%		27.6%	27.6%	
Net income	2.92	2.99	2.4%	3.79	3.79	0.0%	4.27	4.27	0.0%
<i>margin</i>	11.6%	11.9%		13.6%	13.6%		13.9%	13.9%	
EPS (diluted)	0.14	0.14	2.4%	0.18	0.18	0.0%	0.20	0.20	0.0%

Source: First Berlin Equity Research



VALUATION MODEL

DCF valuation model								
All figures in EUR '000								
	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Net revenue	25,150	27,922	30,714	33,786	37,163	40,869	44,913	49,281
NOPLAT	3,680	4,459	5,043	5,548	6,154	6,825	7,563	8,368
+ depreciation & amortisation	1,110	1,208	1,273	1,336	1,376	1,414	1,451	1,487
Net operating cash flow	4,790	5,667	6,316	6,884	7,530	8,239	9,014	9,855
- total investments (CAPEX and WC)	-3,265	-578	-569	-592	-620	-649	-678	-706
Capital expenditures	-604	-614	-676	-709	-750	-791	-833	-874
Working capital	-2,662	37	107	118	130	142	155	168
Free cash flows (FCF)	1,525	5,089	5,748	6,292	6,910	7,589	8,336	9,149
PV of FCF's	1,517	4,620	4,760	4,755	4,763	4,773	4,783	4,790

All figures in thousands	
PV of FCFs in explicit period (2020E-2034E)	66,461
PV of FCFs in terminal period	53,917
Enterprise value (EV)	120,378
+ Net cash / - net debt	22,983
+ Investments / minority interests	935
Shareholder value	144,296
Number of shares (diluted)	21,470
Fair value per share in EUR	6.72

WACC		Terminal growth rate							
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	
Cost of equity	9.6%	5.6%	6.6%	7.6%	8.6%	9.6%	10.6%	11.6%	12.6%
Pre-tax cost of debt	5.0%	11.19	11.96	12.93	14.16	15.79	18.04	21.37	
Tax rate	25.0%	9.30	9.78	10.36	11.06	11.93	13.04	14.51	
After-tax cost of debt	3.8%	7.96	8.28	8.64	9.08	9.60	10.23	11.02	
Share of equity capital	100.0%	8.6%	7.18	7.43	7.71	8.05	8.44	8.91	
Share of debt capital	0.0%	9.6%	6.35	6.52	6.72	6.95	7.20	7.51	
		10.6%	5.59	5.70	5.83	5.97	6.12	6.30	6.51
		11.6%	5.10	5.18	5.27	5.38	5.49	5.62	5.76
Price target in EUR	6.70	4.69	4.76	4.83	4.91	4.99	5.08	5.19	

* 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	99,045	110,805	121,885
Media costs	56,839	62,381	61,987	73,895	82,883	91,171
Revenues	18,724	20,272	21,787	25,150	27,922	30,714
Cost of sales	376	726	820	948	1,117	1,229
Gross profit	18,348	19,546	20,967	24,202	26,805	29,486
S&M	10,771	12,621	12,225	13,012	13,567	14,436
G&A	6,087	5,925	6,853	7,230	7,651	7,986
Other operating income	723	494	943	1,608	1,245	737
Other operating expenses	396	467	313	350	450	584
EBITDA	2,209	1,354	3,512	6,328	7,590	8,491
Depreciation and amortisation	391	327	993	1,110	1,208	1,273
Operating income (EBIT)	1,818	1,027	2,519	5,218	6,382	7,218
Net financial result	-17	-190	-209	-93	28	31
Non-operating expenses	0	0	0	0	0	0
Pre-tax income (EBT)	1,801	837	2,310	5,125	6,410	7,249
Income taxes	664	302	390	1,538	1,923	2,175
Minority interests	-556	-288	-568	-600	-700	-800
Net income / loss	581	247	1,352	2,988	3,787	4,274
Diluted EPS (in €)	0.03	0.01	0.06	0.14	0.18	0.20

Ratios

Gross margin in % of gross sales	24.3%	23.6%	25.0%	24.4%	24.2%	24.2%
Gross margin in % of revenues	98.0%	96.4%	96.2%	96.2%	96.0%	96.0%
EBITDA margin in % of revenues	11.8%	6.7%	16.1%	25.2%	27.2%	27.6%
EBIT margin	9.7%	5.1%	11.6%	20.7%	22.9%	23.5%
Net margin	3.1%	1.2%	6.2%	11.9%	13.6%	13.9%
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%	74.6%	74.8%	74.8%
S&M (as % of revenues)	57.5%	62.3%	56.1%	51.7%	48.6%	47.0%
G&A (as % of revenues)	32.5%	29.2%	31.5%	28.7%	27.4%	26.0%
Depreciation and amortisation	2.1%	1.6%	4.6%	4.4%	4.3%	4.1%
Other operating expenses	2.1%	2.3%	1.4%	1.4%	1.6%	1.9%

Y-Y Growth

Gross sales	23.5%	9.4%	1.4%	18.2%	11.9%	10.0%
Net revenues	n.a.	8.3%	7.5%	15.4%	11.0%	10.0%
Operating income	13.0%	-43.5%	145.3%	107.1%	22.3%	13.1%
Net income/ loss	-7.7%	-57.5%	447.4%	121.0%	26.7%	12.9%



BALANCE SHEET

All figures in EUR '000	2017A	2018A	2019A	2020E	2021E	2022E
Assets						
Current assets, total	34,896	36,346	40,731	42,390	48,530	55,344
Cash and cash equivalents	20,127	18,233	25,229	25,937	30,331	35,385
Short-term investments	27	55	47	47	47	47
Receivables	14,129	17,629	14,897	15,848	17,595	19,354
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	3,422	3,552	3,679
Property, plant & equipment	424	330	391	447	447	469
Goodwill & other intangibles	362	218	359	521	651	756
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	45,812	52,083	59,023
Shareholders' equity & debt						
Current liabilities, total	21,696	22,560	24,299	22,588	24,372	26,238
Short-term debt	0	0	0	0	0	0
Accounts payable	17,838	18,967	18,593	16,882	18,666	20,532
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	20,093	23,880	28,154
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	-44,764	-40,977	-36,703
Total consolidated equity and debt	38,615	39,610	44,052	45,812	52,083	59,023
Ratios						
Current ratio (x)	1.61	1.61	1.68	1.88	1.99	2.11
Quick ratio (x)	1.61	1.61	1.68	1.88	1.99	2.11
Net debt	-20,127	-18,233	-22,983	-23,808	-28,202	-33,256
Net gearing	-127.9%	-116.4%	-134.4%	-118.5%	-118.1%	-118.1%
Equity ratio	42.8%	41.7%	41.0%	47.2%	50.1%	52.8%
Book value per share (in €)	0.74	0.74	0.81	0.95	1.13	1.33
Return on equity (ROE)	3.7%	1.6%	7.9%	14.9%	15.9%	15.2%
Return on investment (ROI)	1.5%	0.6%	3.1%	6.5%	7.3%	7.2%
Return on assets (ROA)	1.5%	0.6%	3.1%	6.5%	7.3%	7.2%



CASH FLOW STATEMENT

All figures in EUR '000	2017A	2018A	2019A	2020E	2021E	2022E
EBIT	1,818	1,027	2,519	5,218	6,382	7,218
Depreciation and amortisation	391	327	993	1,110	1,208	1,273
EBITDA	2,209	1,354	3,512	6,328	7,590	8,491
Changes in working capital	3,095	-2,192	4,352	-2,662	37	107
Other adjustments	-2,203	-684	-1,382	-1,630	-1,895	-2,144
Operating cash flow	3,101	-1,522	6,482	2,036	5,732	6,454
Investments in PP&E	-378	-51	-221	-252	-223	-246
Investments in intangibles	-55	-44	-303	-352	-391	-430
Free cash flow	2,667	-1,617	5,958	1,432	5,117	5,778
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	-604	-614	-676
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	708	4,393	5,054
Cash, start of the year	17,859	20,127	18,233	25,229	25,937	30,331
Cash, end of the year	20,128	18,233	25,229	25,937	30,331	35,385
EBITDA/share (in €)	0.10	0.06	0.17	0.30	0.36	0.40
Y-Y Growth						
Operating cash flow	13381.7%	n.m.	n.m.	-68.6%	181.5%	12.6%
Free cash flow	n.m.	n.m.	n.m.	-76.0%	257.3%	12.9%
EBITDA/share	26.3%	-39.0%	161.0%	80.2%	19.9%	11.9%

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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...17	↓	↓	↓	↓
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	20 July 2020	€3.74	Buy	€4.70
23	24 August 2020	€3.48	Buy	€4.70
24	19 October 2020	€3.86	Buy	€6.00
25	20 November 2020	€4.38	Buy	€6.00
26	Today	€4.80	Buy	€6.70

INVESTMENT HORIZON

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

UPDATES

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