

ad pepper media International N.V.

The Netherlands / Internet Services

Frankfurt

Bloomberg: APM GR

ISIN: NL0000238145

2020 annual report

RATING**PRICE TARGET**

Return Potential

Risk Rating

BUY**€ 8.30**

32.2%

Medium

3RD PANDEMIC WAVE MEANS MORE ONLINE SHOPPING

ad pepper media International has published its 2020 annual report. Final figures match preliminaries. In 2020, the digitisation trend was reinforced by the pandemic, as many shops had to close their offline business for months. More online shopping means more digital advertising. As a pure digital performance marketing company, ad pepper immensely benefitted from this development. Currently, the 3rd pandemic wave is mounting in Europe, and we believe that ad pepper is very well positioned to serve its customers with its digital performance marketing products. For 2021, we forecast 10% revenue growth and an EBITDA margin increase to 27.5%. Management is guiding for double-digit growth, and we expect more concrete company guidance with the publication of the Q1 figures. ad pepper will hire new staff, and invest in new products, services & markets. We stick to our view that ad pepper is a company with a very attractive business model. ad pepper offers all the ingredients investors appreciate: growth, high profitability, a platform model (Webgains), a very strong balance sheet, strong free cash flow generation, and a share buyback programme. An updated DCF model yields a new price target of €8.30 (previously: €7.60). We confirm our Buy rating.

Strong revenue growth and high operating leverage Gross sales exceeded the €100m threshold with billings to customers rising 21% to €101.3m. Net revenue rose 18% y/y to €25.6m (see figure 1 overleaf). As costs rose only moderately, EBITDA soared 87% y/y to €6.6m. The EBITDA margin climbed from 16% to almost 26%. Slightly higher depreciation (€1.1m versus €1.0m in 2019), led to EBIT of €5.4m, which is 116% above the prior year figure. A revenue rise of 18% resulting in an EBIT jump of 116% nicely shows the operating leverage. The EBIT margin was up almost 10 PP at 21.3%. The net result soared from €1.4m to €3.7m (+171% y/y). The group performance was largely driven by the Webgains segment. The affiliate platform grew 28% y/y and increased segment EBITDA by 153% to €4.7m.

(p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2018	2019	2020	2021E	2022E	2023E
Revenue (€m)	20.27	21.79	25.62	28.18	30.99	34.09
Y-o-y growth	8.3%	7.5%	17.6%	10.0%	10.0%	10.0%
EBITDA (€m)	1.35	3.51	6.56	7.75	8.71	9.56
EBITDA margin	6.7%	16.1%	25.6%	27.5%	28.1%	28.0%
Net income (€m)	0.25	1.35	3.66	4.00	4.53	4.99
EPS (diluted) (€)	0.01	0.06	0.17	0.18	0.21	0.23
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-1.62	5.96	2.60	5.26	5.74	6.42
Net gearing	-116.4%	-134.4%	-115.0%	-115.5%	-115.4%	-115.8%
Liquid assets (€m)	18.23	25.23	24.33	29.05	34.26	40.14

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 06 Apr 2021

Closing Price	€ 6.28
Shares outstanding	20.92m
Market Capitalisation	€ 131.38m
52-week Range	€ 2.52 / 6.85
Avg. Volume (12 Months)	16,407

Multiples	2020	2021E	2022E
P/E	35.9	32.8	29.0
EV/Sales	4.3	3.9	3.5
EV/EBITDA	16.6	14.1	12.5
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Dec 2020

Liquid Assets	€ 24.33m
Current Assets	€ 44.72m
Intangible Assets	€ 0.74m
Total Assets	€ 48.84m
Current Liabilities	€ 26.76m
Shareholders' Equity	€ 20.84m

SHAREHOLDERS

EMA B.V.	44.1%
Euro Serve Media GmbH	2.6%
Treasury shares	3.5%
Free Float	49.8%

**Figure 1: ad pepper media group figures**

in €m	2020A	2019A	Delta
Gross sales	101.34	83.77	21%
Revenue	25.62	21.79	18%
Gross profit	24.69	20.97	18%
<i>Margin</i>	96.4%	96.2%	-
EBITDA	6.56	3.51	87%
<i>Margin</i>	25.6%	16.1%	-
EBIT	5.45	2.52	116%
<i>Margin</i>	21.3%	11.6%	-
EBT	5.33	2.31	131%
<i>Margin</i>	20.8%	10.6%	-
Net result	3.66	1.35	171%
<i>Margin</i>	14.3%	6.2%	-
EPS (diluted, in €)	0.17	0.06	171%

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

All three segments highly profitable, two segments with strong growth Webgains was the star of the year 2020. The segment saw unprecedented levels of e-commerce activity fuelled by global pandemic restriction measures. More than 1,800 customers worldwide rely on the services of Webgains' affiliate network to deliver sales in over 170 markets. The Webgains platform is based on partnerships with 250,000 publishers giving customers access to one of the world's leading performance affiliate marketing networks. Revenue rose 28% y/y to €13.2m, and EBITDA soared 153% y/y to €4.7m (see figure 2 overleaf). The segment EBITDA margin almost doubled from 18% to nearly 36%. The affiliate platform has once again shown its strength, especially in Q4 with 45% growth y/y.

ad agents was last year's positive surprise. The online performance marketing agency has a very good overview of the entire digital advertising market and offers a comprehensive service portfolio. For years, national and international companies from many industries have relied on its services. With 19% sales growth y/y and 85% EBITDA growth the segment performance was much better than initially forecast. The 2020 segment EBITDA margin reached 21% after almost 14% in the prior year (see figure 2 overleaf).

ad pepper media specialises in lead generation and the targeting of specific audiences. It works with customers to develop online marketing strategies for over 50 countries worldwide. Based on its iLead platform ad pepper media quickly generates customised campaigns. The segment was the only one to report a decline in sales and EBITDA. 2020 segment sales were down 3% y/y to €5.3m and segment EBITDA fell 9% y/y to €1.9m (see figure 2 overleaf). The main reason for the weaker figures was the exposure to Spain which has been hit particularly hard by the pandemic. Segment sales in Spain declined 17% from €2.3m to €1.9m. The segment EBITDA margin of 35% nevertheless shows the segment's high profitability.

**Figure 2: ad pepper media segment figures (external revenue & EBITDA)**

All figures in €m	2020A	2019A	Delta
ad pepper media			
Revenue	5.33	5.51	-3%
EBITDA	1.87	2.06	-9%
margin	35.0%	37.4%	-
Webgains			
Revenue	13.22	10.33	28%
EBITDA	4.70	1.86	153%
margin	35.6%	18.0%	-
ad agents			
Revenue	7.06	5.95	19%
EBITDA	1.50	0.81	85%
margin	21.2%	13.6%	-
Admin & Consolidation			
Revenue	0.00	0.00	-
EBITDA	-1.49	-1.20	-
Intersegment elimination			
Revenue	0.00	0.00	-
EBITDA	-0.02	-0.02	-
Group			
Revenue	25.62	21.79	18%
EBITDA	6.56	3.51	87%
margin	25.6%	16.1%	-

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

Very strong balance sheet The cash position was down to €24.3m from €25.2m at the end of 2019. Listed debt securities amounted to €1.0m (YE 2019: €0). We add these to liquid funds as they can be sold quickly. Lease liabilities declined from €2.25m to €1.65m. ad pepper did not have any bank liabilities. This results in a net cash position of €23.7m versus €23.0m at YE 2019 (see figure 3).

Figure 3: Selected balance sheet items

in €m	2020A	2019A	Delta
Intangible goods & Goodwill	0.74	0.36	105%
Property, plant & equipment	0.41	0.39	5%
Right-of-use assets	1.57	2.13	-26%
Listed debt securities	1.01	0.00	n.m.
Financial assets	0.39	0.44	-11%
Non-current assets, total	4.12	3.32	24%
Receivables	19.73	14.90	32%
Cash and cash equivalents	24.33	25.23	-4%
Current assets, total	44.72	40.73	10%
Equity	20.84	18.04	16%
Equity ratio	42.7%	41.0%	4%
Financial debt (long-term)	0.00	0.00	-
Financial debt (short-term)	0.00	0.00	-
Lease liabilities	1.65	2.25	-27%
Net cash incl. debt securities	23.69	22.98	3%
Payables	20.74	18.59	12%
Balance sheet total	48.84	44.05	11%

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



Working capital remained negative (trade receivables of €19.7m ./ trade payables of €20.7m = €-1.0m. The working capital ratio (working capital / revenue) was -3.9%. In 2019, working capital was €-3.7m, and the working capital ratio was -17.0%. The working capital requirement is generally low. This is a result of the digital business model (no inventory!) and the strong market position, which leads to favourable payment terms. Equity increased from €18.0m to €20.8m. The equity ratio rose from 41.0% to 42.7%. ad pepper thus maintains its very solid equity ratio.

Strong free cash flow generation Despite a higher working capital requirement (€2m), ad pepper generated free cash flow of €2.6m. Cash flow from investing activities was €-1.8m (€-0.8m CAPEX and €-1.0m for purchase of securities). Financing cash flow amounted to €-2.3m, mainly for the purchase of treasury shares (€-1.1m) and the payment of lease liabilities (€-0.8m). Net cash flow was €-0.9m (see figure 4).

Figure 4: Selected cash flow figures

in €m	2020A	2019A
Operating cash flow	3.38	6.48
CAPEX	-0.79	-0.52
Free cash flow	2.60	5.96
Cash flow investing	-1.77	1.64
Cash flow financing	-2.28	-1.17
Net cash flow	-0.90	7.00

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

Share buyback programme In 2020, ad pepper acquired 252,527 shares and held 579,819 treasury shares at YE 2020 equivalent 2.69% of the share capital. A shareholder resolution of 19 May 2020 authorised ad pepper to repurchase up to 50% of the issued capital within the next 18 months. In 2020, the company spent €1.142m on the repurchase. The shares can be used for stock option plans or cancellations. The number of shares issued and outstanding at YE 2020 totalled 20,920,181 (YE 2019: 21,000,708). We have adjusted our model accordingly.

Risk rating lowered from “High” to “Medium” Given the strong balance sheet and thus low financial risk, high earnings quality, and the excellent competitive position, we have lowered our risk rating from “High” to “Medium”. We have reduced our WACC from 9.1% to 8.6%.

Forecasts unchanged: more profitable growth We stick to our 2021 revenue forecast and anticipate 10% growth. Our EBITDA margin assumption is 27.5% resulting in EBITDA of €7.75 (+18% y/y).

Buy reiterated at higher price target An updated DCF model yields a new price target of €8.30 (previously: €7.60). A 2021 EV/EBITDA of 14x still looks attractive for a growth stock. We confirm our Buy rating.



VALUATION MODEL

DCF valuation model								
All figures in EUR '000								
	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
Net revenue	28,177	30,994	34,093	37,503	41,252	45,366	49,855	54,703
NOPLAT	4,672	5,300	5,861	6,493	7,210	8,005	8,880	9,836
+ depreciation & amortisation	1,108	1,130	1,173	1,211	1,258	1,303	1,349	1,396
Net operating cash flow	5,780	6,430	7,033	7,704	8,468	9,308	10,229	11,231
- total investments (CAPEX and WC)	-550	-725	-652	-677	-715	-754	-793	-833
Capital expenditures	-620	-682	-716	-788	-836	-887	-938	-990
Working capital	70	-43	64	110	121	133	145	157
Free cash flows (FCF)	5,230	5,706	6,382	7,027	7,753	8,554	9,436	10,398
PV of FCF's	4,922	4,944	5,092	5,162	5,244	5,328	5,412	5,490

All figures in thousands

PV of FCFs in explicit period (2021E-2035E)	79,743	
PV of FCFs in terminal period	77,502	
Enterprise value (EV)	157,245	
+ Net cash / - net debt	22,680	Terminal growth 2.0%
+ Investments / minority interests	2,169	Terminal EBIT margin 25.6%
Shareholder value	182,094	
Number of shares (diluted)	21,843	
Fair value per share in EUR	8.34	

WACC		Terminal growth rate						
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
4.6%	Cost of equity	15.64	17.11	19.06	21.76	25.75	32.22	44.59
5.6%	Pre-tax cost of debt	12.38	13.21	14.24	15.55	17.29	19.69	23.24
6.6%	Tax rate	10.22	10.73	11.33	12.07	12.99	14.16	15.70
7.6%	After-tax cost of debt	8.70	9.03	9.41	9.86	10.40	11.06	11.87
8.6%	Share of equity capital	7.57	7.79	8.04	8.34	8.68	9.08	9.56
9.6%	Share of debt capital	6.70	6.85	7.03	7.23	7.46	7.72	8.02
10.6%		6.01	6.13	6.25	6.39	6.55	6.73	6.93
11.6%		5.46	5.55	5.64	5.74	5.85	5.98	6.12

* for layout purposes the model shows numbers only to 2028, but runs until 2035



INCOME STATEMENT

All figures in EUR '000	2017A	2018A	2019A	2020A	2021E	2022E	2023E
Gross sales	75,563	82,653	83,774	101,344	111,851	123,033	135,336
Media costs	56,839	62,381	61,987	75,729	83,674	92,039	101,243
Revenues	18,724	20,272	21,787	25,615	28,177	30,994	34,093
Cost of sales	376	726	820	928	1,127	1,221	1,330
Gross profit	18,348	19,546	20,967	24,687	27,050	29,773	32,764
S&M	10,771	12,621	12,225	13,411	13,760	14,580	16,024
G&A	6,087	5,925	6,853	7,108	7,446	7,763	8,523
Other operating income	723	494	943	1,514	1,245	744	818
Other operating expenses	396	467	313	234	450	589	648
EBITDA	2,209	1,354	3,512	6,559	7,747	8,715	9,560
Depreciation and amortisation	391	327	993	1,111	1,108	1,130	1,173
Operating income (EBIT)	1,818	1,027	2,519	5,448	6,639	7,584	8,387
Net financial result	-17	-190	-209	-116	28	31	34
Non-operating expenses	0	0	0	0	0	0	0
Pre-tax income (EBT)	1,801	837	2,310	5,332	6,667	7,615	8,421
Income taxes	664	302	390	991	1,967	2,285	2,526
Minority interests	-556	-288	-568	-677	-700	-800	-900
Net income / loss	581	247	1,352	3,664	4,000	4,531	4,995
Diluted EPS (in €)	0.03	0.01	0.06	0.17	0.18	0.21	0.23
Ratios							
Gross margin in % of gross sales	24.3%	23.6%	25.0%	24.4%	24.2%	24.2%	24.2%
Gross margin in % of revenues	98.0%	96.4%	96.2%	96.4%	96.0%	96.1%	96.1%
EBITDA margin in % of revenues	11.8%	6.7%	16.1%	25.6%	27.5%	28.1%	28.0%
EBIT margin	9.7%	5.1%	11.6%	21.3%	23.6%	24.5%	24.6%
Net margin	3.1%	1.2%	6.2%	14.3%	14.2%	14.6%	14.7%
Tax rate	36.9%	36.1%	16.9%	18.6%	29.5%	30.0%	30.0%
Expenses as % of sales or revenues							
Media costs (as % of gross sales)	75.2%	75.5%	74.0%	74.7%	74.8%	74.8%	74.8%
S&M (as % of revenues)	57.5%	62.3%	56.1%	52.4%	48.8%	47.0%	47.0%
G&A (as % of revenues)	32.5%	29.2%	31.5%	27.7%	26.4%	25.0%	25.0%
Depreciation and amortisation	2.1%	1.6%	4.6%	4.3%	3.9%	3.6%	3.4%
Other operating expenses	2.1%	2.3%	1.4%	0.9%	1.6%	1.9%	1.9%
Y-Y Growth							
Gross sales	23.5%	9.4%	1.4%	21.0%	10.4%	10.0%	10.0%
Net revenues	n.a.	8.3%	7.5%	17.6%	10.0%	10.0%	10.0%
Operating income	13.0%	-43.5%	145.3%	116.3%	21.9%	14.2%	10.6%
Net income/ loss	-7.7%	-57.5%	447.4%	171.0%	9.2%	13.3%	10.2%



BALANCE SHEET

All figures in EUR '000	2017A	2018A	2019A	2020A	2021E	2022E	2023E
Assets							
Current assets, total	34,896	36,346	40,731	44,718	49,787	55,299	62,285
Cash and cash equivalents	20,127	18,233	25,229	24,330	29,055	34,258	40,141
Short-term investments	27	55	47	29	29	29	29
Receivables	14,129	17,629	14,897	19,727	20,071	20,380	21,484
Inventories	0	0	0	0	0	0	0
Other current assets	613	429	558	632	632	632	632
Non-current assets, total	3,719	3,264	3,321	4,123	4,168	4,253	4,329
Property, plant & equipment	424	330	391	412	431	464	470
Goodwill & other intangibles	362	218	359	737	763	815	885
Right-of-use assets	0	0	2,129	1,568	1,568	1,568	1,568
Financial assets	2,933	2,716	442	1,406	1,406	1,406	1,406
Other assets	0	0	0	0	0	0	0
Total assets	38,615	39,610	44,052	48,841	53,955	59,552	66,615
Shareholders' equity & debt							
Current liabilities, total	21,696	22,560	24,299	26,761	27,175	27,441	28,609
Short-term debt	0	0	0	0	0	0	0
Accounts payable	17,838	18,967	18,593	20,738	21,152	21,418	22,586
Current provisions	0	0	0	0	0	0	0
Other current liabilities	3,858	3,593	4,907	5,280	5,280	5,280	5,280
Lease liabilities	0	0	799	743	743	743	743
Long-term liabilities, total	402	538	1,713	1,242	1,242	1,242	1,242
Long-term debt	0	0	0	0	0	0	0
Lease liabilities	0	0	1,447	953	953	953	953
Other liabilities	402	538	266	289	289	289	289
Minority interests	779	853	935	1,157	1,857	2,657	3,557
Shareholders' equity	15,738	15,659	17,105	19,681	23,681	28,212	33,207
Share capital	1,150	1,150	1,075	1,075	1,075	1,075	1,075
Capital reserve	61,312	60,999	63,782	63,782	63,782	63,782	63,782
Other reserves	-1,683	-1,208	0	0	0	0	0
Loss carryforward / retained earnings	-45,041	-45,281	-47,752	-45,176	-41,176	-36,645	-31,650
Total consolidated equity and debt	38,615	39,610	44,052	48,841	53,955	59,552	66,615
Ratios							
Current ratio (x)	1.61	1.61	1.68	1.67	1.83	2.02	2.18
Quick ratio (x)	1.61	1.61	1.68	1.67	1.83	2.02	2.18
Net debt	-20,127	-18,233	-22,983	-22,634	-27,359	-32,562	-38,445
Net gearing	-127.9%	-116.4%	-134.4%	-115.0%	-115.5%	-115.4%	-115.8%
Equity ratio	42.8%	41.7%	41.0%	42.7%	47.3%	51.8%	55.2%
Book value per share (in €)	0.74	0.74	0.81	0.93	1.08	1.29	1.52
Return on equity (ROE)	3.7%	1.6%	7.9%	18.6%	16.9%	16.1%	15.0%
Return on investment (ROI)	1.5%	0.6%	3.1%	7.5%	7.4%	7.6%	7.5%
Return on assets (ROA)	1.5%	0.6%	3.1%	7.5%	7.4%	7.6%	7.5%



CASH FLOW STATEMENT

All figures in EUR '000	2017A	2018A	2019A	2020A	2021E	2022E	2023E
EBIT	1,818	1,027	2,519	5,448	6,639	7,584	8,387
Depreciation and amortisation	391	327	993	1,111	1,108	1,130	1,173
EBITDA	2,209	1,354	3,512	6,559	7,747	8,715	9,560
Changes in working capital	3,095	-2,192	4,352	-1,527	70	-43	64
Other adjustments	-2,203	-684	-1,382	-1,650	-1,939	-2,254	-2,492
Operating cash flow	3,101	-1,522	6,482	3,382	5,878	6,418	7,132
Investments in PP&E	-378	-51	-221	-238	-225	-248	-239
Investments in intangibles	-55	-44	-303	-549	-394	-434	-477
Free cash flow	2,667	-1,617	5,958	2,595	5,258	5,737	6,416
Acquisitions & disposals, net	3	66	8	10	0	0	0
Other investments	0	-35	2,152	-994	0	0	0
Investment cash flow	-431	-64	1,636	-1,771	-620	-682	-716
Debt financing, net	0	0	0	0	0	0	0
Equity financing, net	105	0	0	-978	0	0	0
Dividends paid	0	0	0	0	0	0	0
Other financing	-467	-296	-1,173	-1,300	-533	-533	-533
Financing cash flow	-362	-296	-1,173	-2,278	-533	-533	-533
FOREX & other effects	-39	-12	51	-232	0	0	0
Net cash flows	2,269	-1,894	6,996	-899	4,725	5,203	5,883
Cash, start of the year	17,859	20,127	18,233	25,229	24,330	29,055	34,258
Cash, end of the year	20,128	18,233	25,229	24,330	29,055	34,258	40,141
EBITDA/share (in €)	0.10	0.06	0.17	0.31	0.35	0.40	0.44
Y-Y Growth							
Operating cash flow	13381.7%	n.m.	n.m.	-47.8%	73.8%	9.2%	11.1%
Free cash flow	n.m.	n.m.	n.m.	-56.4%	102.6%	9.1%	11.8%
EBITDA/share	26.3%	-39.0%	161.0%	87.1%	14.3%	12.5%	9.7%

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First Berlin's system for asset valuation is divided into an asset recommendation and a risk assessment.

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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.

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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...19	↓	↓	↓	↓
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	10 December 2020	€4.80	Buy	€6.70
27	9 February 2021	€6.05	Buy	€7.60
28	Today	€6.28	Buy	€8.30

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Legally required information regarding

- key sources of information in the preparation of this research report
- valuation methods and principles
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