

ad pepper media International N.V.

The Netherlands / Internet Services

Frankfurt

Bloomberg: APM GR

ISIN: NL0000238145

Final Q2 figures

RATING**PRICE TARGET**

Return Potential

Risk Rating

BUY**€ 8.40**

46.9%

Medium

€2.3M FREE CASH FLOW IN H1

ad pepper's final Q2 figures matched preliminary numbers. With H1 revenue growth of 12% y/y and company Q3 revenue growth guidance of ca. 17% we see ad pepper on track to reach our 2021 revenue growth target of 13%. As is typical every year, the Christmas quarter will have the largest impact on full-year results. We see basic business drivers such as growing online marketing budgets and digitisation of consumer behaviour intact and expect strong H2 figures. We thus stick to our €6.9m EBITDA forecast for the full year (H1/21: €2.3m versus H1/20: €2.8m). H1 free cash flow amounted to €2.3m underlining the cash-generative business model. The new share buyback program starts on 1 September and bodes well for future share price development following recent weakness. We stick to our €8.40 price target and confirm our Buy recommendation.

H1 EBITDA weaker y/y due to one-off effect Despite strong H1 revenue growth of 12%, H1 EBITDA declined y/y from €2.8m to €2.3m. This owes chiefly to a €0.6m one-off effect in Q2/20. Taking this into account, EBITDA was largely stable. H1 EBIT retreated from €2.3m to €1.8m and net profit fell 47% to €1.0m (see figure 1 overleaf).

Mixed segment performance ad agents hit the road running. A 17% increase in segment revenue in H1 translated into a doubling of EBITDA to €0.6m. The segment EBITDA margin jumped from 10% to 17% (see figure 2 overleaf). The affiliate platform Webgains continued its growth trajectory with an impressive revenue growth rate of 28% y/y in H1. When we deduct the H1/20 one-off effect of €0.6m, segment EBITDA grew ca. 18% y/y in H1 to €19m. We trace the comparatively low segment EBITDA growth to the increased staff (112 at the end of H1 versus 92 in the prior year period, +22%). ad pepper media's performance remained weak due to subdued order activity from major customers. H1 segment revenue retreated 25% and segment EBITDA fell 38% to €0.7m. A segment EBITDA margin of 34% (versus 42% in H1/20) still indicates that operating business is highly profitable (see figure 2 overleaf). (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2018	2019	2020	2021E	2022E	2023E
Revenue (€m)	20.27	21.79	25.62	28.88	31.77	34.94
Y-o-y growth	8.3%	7.5%	17.6%	12.7%	10.0%	10.0%
EBITDA (€m)	1.35	3.51	6.56	6.92	8.59	9.78
EBITDA margin	6.7%	16.1%	25.6%	24.0%	27.0%	28.0%
Net income (€m)	0.25	1.35	3.66	3.32	4.44	5.14
EPS (diluted) (€)	0.01	0.06	0.17	0.15	0.20	0.24
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-1.62	5.96	2.60	4.59	5.63	6.56
Net gearing	-116.4%	-134.4%	-115.0%	-116.0%	-115.9%	-116.1%
Liquid assets (€m)	18.23	25.23	24.33	28.39	33.48	39.51

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 24 Aug 2021

Closing Price	€ 5.72
Shares outstanding	20.74m
Market Capitalisation	€ 118.62m
52-week Range	€ 3.32 / 6.85
Avg. Volume (12 Months)	15,923

Multiples	2020	2021E	2022E
P/E	32.4	35.7	26.7
EV/Sales	3.8	3.4	3.1
EV/EBITDA	14.9	14.1	11.3
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2021

Liquid Assets	€ 23.99m
Current Assets	€ 38.98m
Intangible Assets	€ 0.69m
Total Assets	€ 42.69m
Current Liabilities	€ 21.67m
Shareholders' Equity	€ 20.34m

SHAREHOLDERS

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

**Figure 1: Reported group figures**

All figures in €m	Q2-21A	Q2-20A	Delta	H1-21A	H1-20A	Delta
Gross sales	25.93	23.36	11.0%	54.04	45.01	20.1%
Revenue	6.52	6.12	6.5%	13.40	11.96	12.1%
EBITDA	1.04	1.68	-38.5%	2.34	2.80	-16.5%
margin on revenues	15.9%	27.5%		17.5%	23.5%	
EBIT	0.74	1.42	-47.7%	1.75	2.26	-22.4%
margin	11.4%	23.2%		13.1%	18.9%	
EBT	0.72	1.39	-48.3%	1.70	2.20	-22.8%
margin	11.0%	22.7%		12.7%	18.4%	
Net income	0.31	1.20	-74.7%	0.99	1.85	-46.5%
margin	4.7%	19.7%		7.4%	15.5%	
EPS (diluted)	0.01	0.06	-81.8%	0.05	0.09	-44.4%

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

Figure 2: Reported segment figures

All figures in €m	Q2-21A	Q2-20A	Delta	H1-21A	H1-20A	Delta
ad pepper media						
Revenue	0.93	1.34	-30.2%	2.17	2.88	-24.8%
EBITDA	0.21	0.50	-58.4%	0.74	1.21	-38.4%
margin	22.4%	37.6%	-	34.3%	41.9%	-
Webgains						
Revenue	3.67	3.17	15.9%	7.56	5.93	27.6%
EBITDA	0.82	1.57	-47.7%	1.86	2.17	-14.4%
margin	22.3%	49.4%	-	24.5%	36.6%	-
ad agents						
Revenue	1.91	1.61	18.7%	3.68	3.15	16.7%
EBITDA	0.38	0.19	98.4%	0.63	0.31	103.6%
margin	19.8%	11.8%	-	17.1%	9.8%	-
Admin & Consolidation						
Revenue	0.00	0.00	-	0.00	0.00	-
EBITDA	-0.37	-0.58	-	-0.88	-0.88	-
Intersegment elimination						
Revenue	0.00	0.00	-	0.00	0.00	-
EBITDA	0.00	0.00	-	-0.01	0.00	-
Group						
Revenue	6.52	6.12	6.6%	13.40	11.96	12.1%
EBITDA	1.04	1.68	-38.5%	2.34	2.80	-16.5%
margin	15.9%	27.5%	-	17.5%	23.5%	-

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

Balance sheet remains very strong The balance sheet total was down 13% YTD to €43m due mainly to lower receivables (€13.9m versus €19.7m at the end of 2020). Payables retreated from €20.7m to €17.8m. This means that working capital (receivables ./ payables, no inventory) remained negative (€-3.9m). Again, the charm of ad pepper's business model is very visible: Favourable terms of payment mean that a 12% revenue growth in H1 goes hand in hand with negative working capital, which shrank from €-1.0m at the end of 2020 to €-3.9m. Fittingly, the company has no bank debt and a cash position including securities of €25.0m. Equity remained largely stable at €20.3m resulting in a significantly higher equity ratio of 48% versus 43% at the end of 2020.



High free cash flow At the end of H1, operating cash flow of €2.5m was propelled by much lower receivables (+€5.7m), which more than compensated for lower payables (€-2.6m). CapEx of €0.1m led to free cash flow of €24m. Cash flow from financing was €-2.8m and was largely driven by the purchase of treasury stocks (€-1.1m), the cash settlement of stock option plans (€-0.8m) and dividends to non-controlling interests (€-0.6m). Net cash flow amounted to €-0.5m.

Share buyback program should support share price On 2 August, ad pepper management decided to acquire up to a maximum of 500,000 of its shares in the period from 1 September 2021 to 17 November 2022 for a total maximum amount of up to €3m. Repurchased shares will be used exclusively to (i) meet obligations under the company's stock option plans and/or (ii) reduce the company's capital.

With the last share buyback program (9 Oct 2020 – 9 Apr 2021), ad pepper repurchased 447,236 shares for a total of €2.25m. At the end of H1/21, the company owned 762,128 treasury shares. The number of shares issued and outstanding declined from 21,000,708 at the end of H1/20 to 20,737,872.

Buy confirmed at unchanged price target Strong Q3 revenue guidance of ca. €7m (+17% y/y) and the seasonally strong Christmas quarter indicate that ad pepper will deliver a strong H2 performance. We thus stick to our full-year EBITDA forecast of €6.9m. An updated DCF model yields an unchanged price target of €8.40. 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	28,880	31,768	34,945	38,265	41,899	45,868	50,181	54,819
NOPLAT	4,131	5,204	6,007	6,625	7,323	8,094	8,938	9,856
+ depreciation & amortisation	1,108	1,138	1,185	1,226	1,273	1,317	1,361	1,405
Net operating cash flow	5,238	6,342	7,192	7,851	8,597	9,411	10,299	11,261
- total investments (CAPEX and WC)	-539	-743	-668	-696	-846	-903	-965	-1,028
Capital expenditures	-635	-699	-734	-804	-849	-897	-944	-992
Working capital	97	-44	66	107	4	-7	-20	-37
Free cash flows (FCF)	4,700	5,599	6,524	7,155	7,751	8,507	9,335	10,233
PV of FCF's	4,565	5,008	5,373	5,425	5,412	5,470	5,526	5,577

All figures in thousands

PV of FCFs in explicit period (2021E-2035E)	80,566	
PV of FCFs in terminal period	77,458	
Enterprise value (EV)	158,024	
+ Net cash / - net debt	22,680	
+ Investments / minority interests	2,169	
Shareholder value	182,873	
Number of shares (diluted)	21,660	
Fair value per share in EUR	8.44	
		Terminal growth 2.0%
		Terminal EBIT margin 25.6%

WACC		Terminal growth rate						
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
4.6%	Cost of equity	15.72	17.15	19.05	21.69	25.57	31.89	43.95
5.6%	Pre-tax cost of debt	12.48	13.29	14.29	15.56	17.25	19.59	23.04
6.6%	Tax rate	10.34	10.83	11.42	12.13	13.02	14.15	15.66
7.6%	After-tax cost of debt	8.82	9.14	9.51	9.95	10.47	11.11	11.90
8.6%	Share of equity capital	7.70	7.91	8.16	8.44	8.77	9.16	9.63
9.6%	Share of debt capital	6.83	6.98	7.15	7.35	7.57	7.82	8.11
10.6%		6.15	6.26	6.38	6.52	6.67	6.84	7.03
11.6%		5.60	5.68	5.77	5.87	5.97	6.10	6.23

* 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	120,571	132,628	145,891
Media costs	56,839	62,381	61,987	75,729	91,691	100,860	110,946
Revenues	18,724	20,272	21,787	25,615	28,880	31,768	34,945
Cost of sales	376	726	820	928	1,155	1,252	1,363
Gross profit	18,348	19,546	20,967	24,687	27,725	30,516	33,582
S&M	10,771	12,621	12,225	13,411	15,061	15,510	16,424
G&A	6,087	5,925	6,853	7,108	7,446	7,717	8,736
Other operating income	723	494	943	1,514	945	762	839
Other operating expenses	396	467	313	234	350	604	664
EBITDA	2,209	1,354	3,512	6,559	6,920	8,586	9,781
Depreciation and amortisation	391	327	993	1,111	1,108	1,138	1,185
Operating income (EBIT)	1,818	1,027	2,519	5,448	5,813	7,448	8,596
Net financial result	-17	-190	-209	-116	-111	32	35
Non-operating expenses	0	0	0	0	0	0	0
Pre-tax income (EBT)	1,801	837	2,310	5,332	5,702	7,480	8,631
Income taxes	664	302	390	991	1,682	2,244	2,589
Minority interests	-556	-288	-568	-677	-700	-800	-900
Net income / loss	581	247	1,352	3,664	3,320	4,436	5,142
Diluted EPS (in €)	0.03	0.01	0.06	0.17	0.15	0.20	0.24
Ratios							
Gross margin in % of gross sales	24.3%	23.6%	25.0%	24.4%	23.0%	23.0%	23.0%
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%	24.0%	27.0%	28.0%
EBIT margin	9.7%	5.1%	11.6%	21.3%	20.1%	23.4%	24.6%
Net margin	3.1%	1.2%	6.2%	14.3%	11.5%	14.0%	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%	76.0%	76.0%	76.0%
S&M (as % of revenues)	57.5%	62.3%	56.1%	52.4%	52.2%	48.8%	47.0%
G&A (as % of revenues)	32.5%	29.2%	31.5%	27.7%	25.8%	24.3%	25.0%
Depreciation and amortisation	2.1%	1.6%	4.6%	4.3%	3.8%	3.6%	3.4%
Other operating expenses	2.1%	2.3%	1.4%	0.9%	1.2%	1.9%	1.9%
Y-Y Growth							
Gross sales	23.5%	9.4%	1.4%	21.0%	19.0%	10.0%	10.0%
Net revenues	n.a.	8.3%	7.5%	17.6%	12.7%	10.0%	10.0%
Operating income	13.0%	-43.5%	145.3%	116.3%	6.7%	28.1%	15.4%
Net income/ loss	-7.7%	-57.5%	447.4%	171.0%	-9.4%	33.6%	15.9%



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	49,619	55,033	62,190
Cash and cash equivalents	20,127	18,233	25,229	24,330	28,386	33,484	39,509
Short-term investments	27	55	47	29	29	29	29
Receivables	14,129	17,629	14,897	19,727	20,572	20,889	22,020
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	4,184	4,278	4,360
Property, plant & equipment	424	330	391	412	437	473	481
Goodwill & other intangibles	362	218	359	737	773	831	905
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	53,802	59,311	66,550
Shareholders' equity & debt							
Current liabilities, total	21,696	22,560	24,299	26,761	27,703	27,975	29,173
Short-term debt	0	0	0	0	0	0	0
Accounts payable	17,838	18,967	18,593	20,738	21,680	21,952	23,150
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	23,001	27,436	32,578
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	-41,856	-37,421	-32,279
Total consolidated equity and debt	38,615	39,610	44,052	48,841	53,802	59,311	66,550
Ratios							
Current ratio (x)	1.61	1.61	1.68	1.67	1.79	1.97	2.13
Quick ratio (x)	1.61	1.61	1.68	1.67	1.79	1.97	2.13
Net debt	-20,127	-18,233	-22,983	-22,634	-26,690	-31,788	-37,813
Net gearing	-127.9%	-116.4%	-134.4%	-115.0%	-116.0%	-115.9%	-116.1%
Equity ratio	42.8%	41.7%	41.0%	42.7%	46.2%	50.7%	54.3%
Book value per share (in €)	0.74	0.74	0.81	0.93	1.06	1.27	1.50
Return on equity (ROE)	3.7%	1.6%	7.9%	18.6%	14.4%	16.2%	15.8%
Return on investment (ROI)	1.5%	0.6%	3.1%	7.5%	6.2%	7.5%	7.7%
Return on assets (ROA)	1.5%	0.6%	3.1%	7.5%	6.2%	7.5%	7.7%



CASH FLOW STATEMENT

All figures in EUR '000	2017A	2018A	2019A	2020A	2021E	2022E	2023E
EBIT	1,818	1,027	2,519	5,448	5,813	7,448	8,596
Depreciation and amortisation	391	327	993	1,111	1,108	1,138	1,185
EBITDA	2,209	1,354	3,512	6,559	6,920	8,586	9,781
Changes in working capital	3,095	-2,192	4,352	-1,527	97	-44	66
Other adjustments	-2,203	-684	-1,382	-1,650	-1,793	-2,212	-2,554
Operating cash flow	3,101	-1,522	6,482	3,382	5,224	6,330	7,293
Investments in PP&E	-378	-51	-221	-238	-231	-254	-245
Investments in intangibles	-55	-44	-303	-549	-404	-445	-489
Free cash flow	2,667	-1,617	5,958	2,595	4,589	5,631	6,559
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	-635	-699	-734
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	4,056	5,098	6,026
Cash, start of the year	17,859	20,127	18,233	25,229	24,330	28,386	33,484
Cash, end of the year	20,128	18,233	25,229	24,330	28,386	33,484	39,509
EBITDA/share (in €)	0.10	0.06	0.17	0.31	0.32	0.40	0.45
Y-Y Growth							
Operating cash flow	13381.7%	n.m.	n.m.	-47.8%	54.5%	21.2%	15.2%
Free cash flow	n.m.	n.m.	n.m.	-56.4%	76.8%	22.7%	16.5%
EBITDA/share	26.3%	-39.0%	161.0%	87.1%	3.0%	24.1%	13.9%

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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.

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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...23	↓	↓	↓	↓
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	7 April 2021	€6.28	Buy	€8.30
29	21 April 2021	€6.56	Buy	€8.40
30	25 May 2021	€5.82	Buy	€8.40
31	19 July 2021	€5.52	Buy	€8.40
32	Today	€5.72	Buy	€8.40

INVESTMENT HORIZON

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

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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

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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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