

ad pepper media International N.V.

The Netherlands / Internet Services

Frankfurt

Bloomberg: APM GR

ISIN: NL0000238145

Q3/21 results

RATING**PRICE TARGET**

Return Potential

Risk Rating

BUY**€ 8.10**

38.7%

Medium

STRONG REVENUE GROWTH IN Q3, BUT LOWER EBITDA Y/Y

ad pepper increased Q3 revenue by 17% y/y to €7.0m and thus reached Q3 revenue guidance. However, EBITDA was below the prior year figure and our forecast (€1.2m versus €1.5m in Q3/20 and FBe of €1.7m). This is due to higher operating costs (more personnel) and a weak performance of the ad pepper media segment. Management is guiding towards Q4 revenue of up to €8.0m, which corresponds to 5% growth y/y at best (Q4/20: €7.6m) in Q4, which is the seasonally strongest quarter because of the Christmas business. We have lowered our forecasts for 2021E and the following years. We believe that current supply bottlenecks in many sectors result in lower advertising expenditures and expect a normalisation in Q1/22. Still, the market environment for digital performance marketing remains robust and we believe that ad pepper is well prepared for further growth in 2022E because of the higher headcount. An updated DCF model yields a new price target of €8.10 (previously: €8.40). We confirm our Buy recommendation.

17% revenue growth y/y in Q3, but EBITDA down 20% In Q3, ad pepper increased gross sales by 20% y/y to €27.7m and revenue by 17% y/y to €7.0m. The main reasons for the strong revenue growth were high growth rates at the Webgains and ad agents segments (both >30%). However, group EBITDA was below the previous year's figure (€1.2m versus €1.5m in Q3/20) and our forecast of €1.7m for two reasons; higher operating expenditures (headcount increased 15% at Webgains and 10% at ad agents y/y), and weak performance from the ad pepper media segment (Q3 EBITDA: €110k versus €497k in Q3/20). On a 9M basis, group revenue was up 14% at €20.4m, but group EBITDA declined almost 18% to €3.6m (see figure 1 overleaf).

ad pepper media segment suffering from low demand from large clients Q3 segment revenue fell 43% y/y to €708k as demand from large clients remained weak. Segment EBITDA dropped 78% y/y to €110k versus FBe of €288k. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2018	2019	2020	2021E	2022E	2023E
Revenue (€m)	20.27	21.79	25.62	28.24	31.38	34.52
Y-o-y growth	8.3%	7.5%	17.6%	10.2%	11.1%	10.0%
EBITDA (€m)	1.35	3.51	6.56	5.59	7.52	8.89
EBITDA margin	6.7%	16.1%	25.6%	19.8%	24.0%	25.8%
Net income (€m)	0.25	1.35	3.66	2.34	3.65	4.49
EPS (diluted) (€)	0.01	0.06	0.17	0.11	0.17	0.21
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-1.62	5.96	2.60	3.66	5.25	5.63
Net gearing	-116.4%	-134.4%	-115.0%	-116.8%	-118.3%	-117.5%
Liquid assets (€m)	18.23	25.23	24.33	27.42	32.08	37.14

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 20 Oct 2021

Closing Price	€ 5.84
Shares outstanding	20.69m
Market Capitalisation	€ 120.80m
52-week Range	€ 3.86 / 6.85
Avg. Volume (12 Months)	15,061

Multiples	2020	2021E	2022E
P/E	33.0	51.6	33.1
EV/Sales	3.9	3.5	3.2
EV/EBITDA	15.2	17.9	13.3
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	3.8%
Free Float	49.5%



We believe that it will take some time to develop new clients into large clients, as new clients often start off their partnership with a small portion of their ad-spend and increase their allotment over time. But as the segment has been winning new clients, we expect a return to growth in 2022E. Certainly, the base effect will be helpful, as segment revenue has been weak since the beginning of this year. On a nine month basis, segment revenue was down 30% y/y to €2.9m and EBITDA halved to €0.85m.

Figure 1: Reported group figures versus forecasts

All figures in €m	Q3-21A	Q3-21E	Delta	Q3-20A	Delta	9M-21A	9M-20A	Delta
Gross sales	27.72	28.52	-2.8%	23.15	19.7%	81.76	68.16	20.0%
Revenue	7.00	7.01	-0.1%	6.01	16.5%	20.40	17.97	13.6%
EBITDA	1.22	1.66	-26.6%	1.51	-19.5%	3.56	4.31	-17.5%
margin	17.4%	23.6%	-	25.1%	-	17.4%	24.0%	-

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

Webgains with strong revenue growth, but lower EBITDA margin In Q3, Webgains' revenue was up 33% at €4.1m, but higher operating expenditure (15% higher headcount y/y) resulted in segment EBITDA growth of only 17% to €1.05m. The segment EBITDA margin declined from 29% in Q3/20 to 26% in Q3/21. We see the increased headcount as a sound basis for further growth in 2022E.

ad agents with outstanding performance ad agents topped our forecast (see figure 2) and increased revenue by 31% to €2.2m and EBITDA by 32% to €0.6m. On a nine month basis, segment revenue was up 22% at €5.9m and segment EBITDA rose by as much as 62% at €1.2m. We expect ad agents to continue on its growth trajectory in Q4/21E and in 2022E.

Figure 2: Reported segment figures versus forecasts

All figures in €m	Q3-21A	Q3-21E	Delta	Q3-20A	Delta	9M-21A	9M-20A	Delta
ad pepper media								
Revenue	0.71	1.10	-35.3%	1.25	-43.3%	2.87	4.13	-30.4%
EBITDA	0.11	0.29	-61.7%	0.50	-77.9%	0.85	1.70	-50.1%
margin	15.5%	26.2%	-	39.8%	-	29.5%	41.2%	-
Webgains								
Revenue	4.06	3.85	5.4%	3.06	32.7%	11.61	8.98	29.3%
EBITDA	1.05	1.23	-14.4%	0.89	17.3%	2.91	3.06	-5.1%
margin	25.9%	31.8%	-	29.3%	-	25.0%	34.1%	-
ad agents								
Revenue	2.24	2.07	8.3%	1.71	31.2%	5.92	4.86	21.8%
EBITDA	0.59	0.56	5.9%	0.45	31.8%	1.22	0.76	61.5%
margin	26.5%	27.1%	-	26.4%	-	20.6%	15.6%	-
Admin								
Revenue	0.00	0.00	-	0.00	-	0.00	0.00	-
EBITDA	-0.54	-0.42	-	-0.33	-	-1.42	-1.21	-
Group								
Revenue	7.00	7.01	-0.1%	6.01	16.5%	20.40	17.97	13.6%
EBITDA	1.22	1.66	-26.7%	1.51	-19.7%	3.56	4.31	-17.5%
margin	17.3%	23.6%	-	25.2%	-	17.4%	24.0%	-

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

Q4 revenue guidance of up to €8.0m Given Q4/20 revenue of €7.6m, the Q4/21 revenue guidance of up to €8.0m hints at 5% growth y/y at best. In our previous report, we forecasted €8.4m. We believe that the cautious revenue guidance takes current supply bottlenecks in many sectors into account which result in lower Q4 advertising budgets.



Forecasts lowered for 2021E and the following years Given the lower than expected Q4 revenue guidance, we have lowered our 2021 revenue forecast slightly to €28.2m. This, the lower Q3 EBITDA, and the assumption of a continuation of the weak performance of the ad pepper media segment in Q4 lead us to lower our group EBITDA forecast from €6.9m to €5.6m. We have also reduced our forecasts for the following years (see figure 3).

Figure 3: Revisions to forecasts

All figures in €m	2021E			2022E			2023E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Revenue	28.88	28.24	-2.2%	31.77	31.38	-1.2%	34.94	34.52	-1.2%
EBITDA	6.92	5.59	-19.2%	8.59	7.52	-12.4%	9.78	8.89	-9.1%
margin	24.0%	19.8%		27.0%	24.0%		28.0%	25.8%	
Net income	3.32	2.34	-29.5%	4.44	3.65	-17.6%	5.14	4.49	-12.7%
margin	11.5%	8.3%		14.0%	11.6%		14.7%	13.0%	
EPS (diluted)	0.15	0.11	-29.2%	0.20	0.17	-17.6%	0.24	0.21	-12.7%

Source: First Berlin Equity Research

Buy reiterated at slightly lower price target An updated DCF model yields a new price target of €8.10 (previously: €8.40). Given the still dynamic market environment for digital performance advertising, we expect ad pepper to return to its path of increasing profitability in 2022E. 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	28,239	31,383	34,521	37,801	41,391	45,313	49,572	54,154
NOPLAT	3,152	4,423	5,353	5,985	6,645	7,376	8,180	9,059
+ depreciation & amortisation	1,166	1,190	1,231	1,199	1,255	1,303	1,348	1,393
Net operating cash flow	4,318	5,613	6,584	7,184	7,900	8,679	9,529	10,451
- total investments (CAPEX and WC)	-549	-398	-985	-46	-775	-827	-882	-940
Capital expenditures	-621	-690	-725	-794	-839	-886	-933	-980
Working capital	72	293	-260	748	64	59	51	40
Free cash flows (FCF)	3,769	5,215	5,599	7,138	7,124	7,852	8,647	9,512
PV of FCF's	3,709	4,725	4,672	5,483	5,039	5,113	5,185	5,251

All figures in thousands

PV of FCFs in explicit period (2021E-2035E)	75,586	
PV of FCFs in terminal period	74,390	
Enterprise value (EV)	149,976	
+ Net cash / - net debt	22,680	Terminal growth 2.0%
+ Investments / minority interests	2,169	Terminal EBIT margin 24.5%
Shareholder value	174,825	
Number of shares (diluted)	21,608	
Fair value per share in EUR	8.09	

WACC		Terminal growth rate							
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	
Cost of equity	8.6%	4.6%	14.98	16.36	18.19	20.71	24.45	30.51	42.09
Pre-tax cost of debt	4.0%	5.6%	11.91	12.69	13.65	14.88	16.50	18.75	22.08
Tax rate	25.0%	6.6%	9.88	10.35	10.92	11.61	12.46	13.56	15.01
After-tax cost of debt	3.0%	7.6%	8.44	8.74	9.10	9.53	10.03	10.65	11.41
Share of equity capital	100.0%	8.6%	7.37	7.58	7.82	8.09	8.41	8.79	9.24
Share of debt capital	0.0%	9.6%	6.55	6.69	6.86	7.05	7.26	7.51	7.79
		10.6%	5.90	6.01	6.12	6.26	6.40	6.57	6.76
Price target in EUR	8.10	11.6%	5.38	5.46	5.54	5.64	5.74	5.86	5.99

* 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	118,902	132,140	145,354
Media costs	56,839	62,381	61,987	75,729	90,663	100,757	110,833
Revenues	18,724	20,272	21,787	25,615	28,239	31,383	34,521
Cost of sales	376	726	820	928	1,130	1,255	1,346
Gross profit	18,348	19,546	20,967	24,687	27,109	30,128	33,175
S&M	10,771	12,621	12,225	13,411	15,584	16,135	17,055
G&A	6,087	5,925	6,853	7,108	7,546	7,817	8,630
Other operating income	723	494	943	1,514	845	753	829
Other operating expenses	396	467	313	234	400	596	656
EBITDA	2,209	1,354	3,512	6,559	5,590	7,522	8,893
Depreciation and amortisation	391	327	993	1,111	1,166	1,190	1,231
Operating income (EBIT)	1,818	1,027	2,519	5,448	4,424	6,333	7,662
Net financial result	-17	-190	-209	-116	-112	31	35
Non-operating expenses	0	0	0	0	0	0	0
Pre-tax income (EBT)	1,801	837	2,310	5,332	4,313	6,364	7,697
Income taxes	664	302	390	991	1,272	1,909	2,309
Minority interests	-556	-288	-568	-677	-700	-800	-900
Net income / loss	581	247	1,352	3,664	2,340	3,655	4,488
Diluted EPS (in €)	0.03	0.01	0.06	0.17	0.11	0.17	0.21
Ratios							
Gross margin in % of gross sales	24.3%	23.6%	25.0%	24.4%	22.8%	22.8%	22.8%
Gross margin in % of revenues	98.0%	96.4%	96.2%	96.4%	96.0%	96.0%	96.1%
EBITDA margin in % of revenues	11.8%	6.7%	16.1%	25.6%	19.8%	24.0%	25.8%
EBIT margin	9.7%	5.1%	11.6%	21.3%	15.7%	20.2%	22.2%
Net margin	3.1%	1.2%	6.2%	14.3%	8.3%	11.6%	13.0%
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%	76.3%	76.3%	76.3%
S&M (as % of revenues)	57.5%	62.3%	56.1%	52.4%	55.2%	51.4%	49.4%
G&A (as % of revenues)	32.5%	29.2%	31.5%	27.7%	26.7%	24.9%	25.0%
Depreciation and amortisation	2.1%	1.6%	4.6%	4.3%	4.1%	3.8%	3.6%
Other operating expenses	2.1%	2.3%	1.4%	0.9%	1.4%	1.9%	1.9%
Y-Y Growth							
Gross sales	23.5%	9.4%	1.4%	21.0%	17.3%	11.1%	10.0%
Net revenues	n.a.	8.3%	7.5%	17.6%	10.2%	11.1%	10.0%
Operating income	13.0%	-43.5%	145.3%	116.3%	-18.8%	43.1%	21.0%
Net income/ loss	-7.7%	-57.5%	447.4%	171.0%	-36.1%	56.2%	22.8%



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	48,193	53,378	59,549
Cash and cash equivalents	20,127	18,233	25,229	24,330	27,416	32,081	37,135
Short-term investments	27	55	47	29	29	29	29
Receivables	14,129	17,629	14,897	19,727	20,115	20,635	21,753
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	4,149	4,231	4,306
Property, plant & equipment	424	330	391	412	411	436	438
Goodwill & other intangibles	362	218	359	737	764	821	894
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	52,342	57,609	63,855
Shareholders' equity & debt							
Current liabilities, total	21,696	22,560	24,299	26,761	27,222	28,034	28,892
Short-term debt	0	0	0	0	0	0	0
Accounts payable	17,838	18,967	18,593	20,738	21,199	22,011	22,869
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	22,021	25,676	30,164
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	-42,836	-39,181	-34,693
Total consolidated equity and debt	38,615	39,610	44,052	48,841	52,342	57,609	63,855
Ratios							
Current ratio (x)	1.61	1.61	1.68	1.67	1.77	1.90	2.06
Quick ratio (x)	1.61	1.61	1.68	1.67	1.77	1.90	2.06
Net debt	-20,127	-18,233	-22,983	-22,634	-25,720	-30,385	-35,439
Net gearing	-127.9%	-116.4%	-134.4%	-115.0%	-116.8%	-118.3%	-117.5%
Equity ratio	42.8%	41.7%	41.0%	42.7%	45.6%	49.2%	52.8%
Book value per share (in €)	0.74	0.74	0.81	0.93	1.02	1.19	1.39
Return on equity (ROE)	3.7%	1.6%	7.9%	18.6%	10.6%	14.2%	14.9%
Return on investment (ROI)	1.5%	0.6%	3.1%	7.5%	4.5%	6.3%	7.0%
Return on assets (ROA)	1.5%	0.6%	3.1%	7.5%	4.5%	6.3%	7.0%



CASH FLOW STATEMENT

All figures in EUR '000	2017A	2018A	2019A	2020A	2021E	2022E	2023E
EBIT	1,818	1,027	2,519	5,448	4,424	6,333	7,662
Depreciation and amortisation	391	327	993	1,111	1,166	1,190	1,231
EBITDA	2,209	1,354	3,512	6,559	5,590	7,522	8,893
Changes in working capital	3,095	-2,192	4,352	-1,527	72	293	-260
Other adjustments	-2,203	-684	-1,382	-1,650	-1,384	-1,878	-2,275
Operating cash flow	3,101	-1,522	6,482	3,382	4,278	5,937	6,359
Investments in PP&E	-378	-51	-221	-238	-226	-251	-242
Investments in intangibles	-55	-44	-303	-549	-395	-439	-483
Free cash flow	2,667	-1,617	5,958	2,595	3,657	5,247	5,634
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	-621	-690	-725
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	-571	-582	-580
Financing cash flow	-362	-296	-1,173	-2,278	-571	-582	-580
FOREX & other effects	-39	-12	51	-232	0	0	0
Net cash flows	2,269	-1,894	6,996	-899	3,086	4,665	5,054
Cash, start of the year	17,859	20,127	18,233	25,229	24,330	27,416	32,081
Cash, end of the year	20,128	18,233	25,229	24,330	27,416	32,081	37,135
EBITDA/share (in €)	0.10	0.06	0.17	0.31	0.26	0.35	0.41
Y-Y Growth							
Operating cash flow	13381.7%	n.m.	n.m.	-47.8%	26.5%	38.8%	7.1%
Free cash flow	n.m.	n.m.	n.m.	-56.4%	40.9%	43.5%	7.4%
EBITDA/share	26.3%	-39.0%	161.0%	87.1%	-16.8%	34.6%	18.2%

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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...24	↓	↓	↓	↓
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	25 August 2021	€5.72	Buy	€8.40
33	Today	€5.84	Buy	€8.10

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

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