

ad pepper media International N.V.

The Netherlands / Internet Services

Frankfurt

Bloomberg: APM GR

ISIN: NL0000238145

Q3 2021 results

RATING**PRICE TARGET**

Return Potential

Risk Rating

BUY**€ 8.10**

66.0%

Medium

BLACK FRIDAY AND CYBER MONDAY TO DRIVE Q4 EARNINGS

ad pepper media (APM) has published its Q3 report. Final Q3 figures matched preliminary numbers. Despite higher revenue (+17% y/y) and gross profit (+16% y/y), Q3 EBIT fell 26% y/y to €95k and net income was down 38% y/y at €556k due mainly to higher S&M and G&A costs. APM increased staff by 7% y/y to 246 employees and has invested in the expansion of its international business. We believe that the investments in human resources and internationalisation will pay off next year and expect 11% revenue and almost 35% EBITDA growth in 2022. For Q4/21, management has issued revenue guidance of up to €8m. We expect Q4 revenue of €7.8m and EBITDA of €2.0m driven by the Webgains segment benefitting from the digital Christmas business. Given the strength of the fourth pandemic wave in many countries we believe that e-commerce shopping (and thus digital advertising) is appealing for many customers even without lockdowns. Based on unchanged forecasts we stick to our Buy rating and €8.10 price target. Recent share price weakness results in increased upside potential of more than 60% to our DCF-based price target. A 2022E EV/EBITDA of 10x also suggests an attractive valuation for a growth stock with a rock-solid balance sheet and strong free cash flow generation.

Q3 bottom line higher than expected We analysed gross sales, revenue and EBITDA figures in our comment of 21 October 2021. Final figures show that Q3 EBIT fell 26% y/y to €925k, in line with our forecast. Lower than expected tax expenses resulted in net income of €556k (versus FBe: €397k). Compared to the prior year figure of €896k, this is a decline of 38% (see figure 1 overleaf). On a nine month basis, EBIT declined by €0.8m to €2.7m (-24% y/y), although gross profit rose by €2.3m to €19.7m (+10% y/y). The delta is mainly attributable to higher selling and marketing expenses, which increased by more than €1.8m or 19% y/y. We trace this increase back to more staff and international expansion.

(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 19 Nov 2021

Closing Price	€ 4.88
Shares outstanding	20.66m
Market Capitalisation	€ 100.80m
52-week Range	€ 4.30 / 6.85
Avg. Volume (12 Months)	14,079

Multiples	2020	2021E	2022E
P/E	26.5	41.5	26.6
EV/Sales	3.0	2.7	2.4
EV/EBITDA	11.6	13.6	10.1
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Sep 2021

Liquid Assets	€ 22.13m
Current Assets	€ 39.76m
Intangible Assets	€ 0.67m
Total Assets	€ 43.26m
Current Liabilities	€ 21.67m
Shareholders' Equity	€ 20.95m

SHAREHOLDERS

EMA B.V.	44.1%
Euro Serve Media GmbH	2.6%
Treasury shares	3.9%
Free Float	49.4%

**Figure 1: Reported figures versus forecasts**

All figures in €m	Q3-21A	Q3-21E	Delta	Q3-20A	Delta	9M-21A	9M-20A	Delta
Gross sales	27.72	27.72	0.0%	23.15	19.7%	81.76	68.16	20.0%
Revenue	7.00	7.00	0.0%	6.01	16.5%	20.40	17.97	13.6%
EBITDA	1.22	1.22	0.0%	1.51	-19.5%	3.56	4.31	-17.5%
margin	17.4%	17.4%	-	25.1%	-	17.4%	24.0%	-
EBIT	0.93	0.92	1.1%	1.25	-25.8%	2.68	3.51	-23.6%
margin	13.2%	13.1%		20.7%		13.1%	19.5%	
EBT	0.90	0.89	0.6%	1.22	-26.6%	2.59	3.42	-24.1%
margin	12.8%	12.7%		20.3%		12.7%	19.0%	
Net income	0.56	0.40	40.1%	0.90	-37.9%	1.55	2.75	-43.7%
margin	7.9%	1.5%		14.9%		7.6%	15.3%	
EPS (diluted) in €	0.03	0.02	50.0%	0.04	-25.0%	0.07	0.13	-42.5%

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

Balance sheet metrics remain strong In the first nine months of 2021, equity edged slightly higher to €21.0m. Given the lower balance sheet total of €43.2m (versus €48.1m at the end of 2020), the equity ratio rose from 43% to 48%. Liquid funds (including securities) dipped 9% to €23.1m. Zero bank liabilities and lease liabilities of €0.6m result in a net cash position (including securities) of €22.5m (end 2020: €22.7m). Working capital remained negative at €-1.0m.

Still free cash flow positive Operating cash flow was €1.1m. Due to CapEx of €0.2m for software, free cash flow amounted to €0.9m. Financing cash flow of €-3.3m reflected the purchase of treasury shares (€-1.4m), the cash settlement of stock option plans (€-0.8m), dividends to non-controlling interests (€-0.6m), and the payment of lease liabilities (€-0.6m). Net cash flow amounted to €-2.4m.

110,000 shares bought back for €618k from 2 Sep to 12 Nov On 2 August 2021, the Board of Managing Directors passed a resolution to repurchase up to a maximum of 500,000 APM shares for a total maximum amount of up to €3.0m. The share buy-back was scheduled for 1 September 2021 to 17 November 2022. The repurchased shares will be used exclusively to (1) meet ad pepper's obligations under the company's stock option plans and/or (2) reduce the capital of the company. On 15 Nov 2021, the number of treasury shares amounted to 844,035 (3.93%). Since the end of 2020, the number of treasury shares has increased by 264,216 resulting in shares outstanding of 20,655,965. In Q3, the number of stock options for management and employees was stable at 700,000.

Black Friday and Cyber Monday to drive Q4 earnings For Q4/21, management has issued revenue guidance of up to €8m revenue. We expect Q4 revenue of €7.8m and EBITDA of €2.0m driven by the Webgains segment benefitting from the digital Christmas business. Given the strength of the fourth pandemic wave in many countries we believe that e-commerce shopping (and thus digital advertising) is appealing for many customers even without lockdowns.

Buy reiterated at unchanged price target An updated DCF model yields an unchanged price target of €8.10. A 2022E EV/EBITDA of 10x also suggests an attractive valuation. A strong market position in the European digital performance marketing sector and a platform model (Webgains subsidiary) are the basis for double-digit revenue growth, high operating leverage, and strong free cash flow generation. Adding the share buy-back programme and a rock-solid balance sheet with a high net cash position, we believe that the recent share price weakness is a good opportunity to purchase the stock. We confirm our Buy recommendation.



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	-899	-974	-1,056	-1,143
Capital expenditures	-621	-690	-725	-794	-839	-886	-933	-980
Working capital	72	293	-260	748	-60	-89	-123	-163
Free cash flows (FCF)	3,769	5,215	5,599	7,138	7,001	7,704	8,473	9,309
PV of FCF's	3,734	4,758	4,703	5,520	4,985	5,052	5,116	5,174

All figures in thousands

PV of FCFs in explicit period (2021E-2035E)	74,870	
PV of FCFs in terminal period	73,470	
Enterprise value (EV)	148,340	
+ Net cash / - net debt	22,680	
+ Investments / minority interests	2,169	
Shareholder value	173,189	
Number of shares (diluted)	21,356	
Fair value per share in EUR	8.11	
		Terminal growth 2.0%
		Terminal EBIT margin 24.5%

WACC		Terminal growth rate						
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
4.6%	Cost of equity	15.08	16.42	18.20	20.66	24.29	30.20	41.47
5.6%	Pre-tax cost of debt	11.99	12.74	13.67	14.86	16.43	18.60	21.81
6.6%	Tax rate	9.95	10.40	10.95	11.61	12.43	13.48	14.87
7.6%	After-tax cost of debt	8.50	8.79	9.13	9.54	10.02	10.60	11.33
8.6%	Share of equity capital	7.43	7.62	7.85	8.11	8.41	8.77	9.19
9.6%	Share of debt capital	6.60	6.74	6.90	7.07	7.27	7.50	7.77
10.6%		5.95	6.05	6.16	6.28	6.42	6.58	6.76
11.6%	Price target in EUR	5.43	5.50	5.58	5.67	5.77	5.88	6.00

* 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	1.03	1.20	1.41
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	0.42
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%	-15.8%	34.6%	18.2%

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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...25	↓	↓	↓	↓
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	21 October 2021	€5.84	Buy	€8.10
34	Today	€4.88	Buy	€8.10

INVESTMENT HORIZON

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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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