

ad pepper media International N.V.

The Netherlands / Internet Services

Frankfurt

Bloomberg: APM GR

ISIN: NL0000238145

Profit warning

RATING**PRICE TARGET**

Return Potential

Risk Rating

BUY**€ 7.10**

44.3%

Medium

Q4 RESULTS LOWER THAN EXPECTED

ad pepper has lowered Q4 guidance due to weaker than expected performance of the ad pepper media and Webgains segments. The group is now guiding for Q4 revenue of €7m (previous guidance: €8m) and Q4 EBITDA in the range of €0.6m - €0.8m (no previous guidance, Q4/20: €2.2m). For 2021, ad pepper is guiding for €27.4m in revenue (2020: €25.6m, +7% y/y) and EBITDA in the range of €4.2m - €4.4m (2020: €6.6m, -33% to -36% y/y). Q4 is usually the strongest quarter of the year due to the Christmas business when digital advertising reaches its annual peak, especially in the Webgains segment. But the dependence on the Christmas business also lowers visibility as Q4 revenue hinges on clients' digital ad spending in the five weeks before Christmas, especially the days around Black Friday and Cyber Monday. The shopping behaviour and thus the digital ad spending in this short period are difficult to predict. The previous Q4 guidance was given on 19 October 2021 and has now had to be adjusted. Despite this setback, we believe that the fundamental drivers (increasing share of online shopping & digital advertising) are intact. However, in Q4/21, the pandemic effect, which was very strong in Q4/20 due to severe lockdowns, was overall lower than expected. In 2021, ad pepper invested in personnel and regional expansion. This burdens margins, but lays the foundations for further growth. Given the weaker 2021 figures, we have lowered our forecasts for 2022 and the following years. Based on ad pepper's 2021 guidance, we now assume that the top line will grow by 10% and EBITDA by 28% y/y in 2022. An updated DCF model yields a new price target of €7.10 (previously: €8.10). We confirm our Buy recommendation.

(p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2018	2019	2020	2021E	2022E	2023E
Revenue (€m)	20.27	21.79	25.62	27.41	30.16	33.17
Y-o-y growth	8.3%	7.5%	17.6%	7.0%	10.0%	10.0%
EBITDA (€m)	1.35	3.51	6.56	4.21	5.40	7.42
EBITDA margin	6.7%	16.1%	25.6%	15.4%	17.9%	22.4%
Net income (€m)	0.25	1.35	3.66	1.37	2.18	3.48
EPS (diluted) (€)	0.01	0.06	0.17	0.06	0.10	0.16
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-1.62	5.96	2.60	1.72	3.86	4.87
Net gearing	-116.4%	-134.4%	-115.0%	-113.0%	-116.5%	-117.3%
Liquid assets (€m)	18.23	25.23	24.33	25.48	28.75	33.03

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 13 Jan 2022

Closing Price	€ 4.92
Shares outstanding	20.66m
Market Capitalisation	€ 101.63m
52-week Range	€ 4.55 / 6.85
Avg. Volume (12 Months)	15,166

Multiples	2020	2021E	2022E
P/E	27.5	73.6	46.2
EV/Sales	3.1	2.9	2.7
EV/EBITDA	12.3	19.2	14.9
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	4.8%
Free Float	48.5%



ad pepper media segment still suffering from loss of large client at the beginning of 2021

Although the ad pepper media segment has been gaining new clients, this could not compensate for the loss of a major client at the beginning of 2021. However, due to the base effect, this loss will be digested in Q1/22 as the lost client did not generate much revenue in Q1/21. We thus expect the segment to return to growth in 2022 (see figure 1).

Webgains' Christmas business weaker than expected

In Q4/20, Webgains presented stellar results (segment revenue and EBITDA: €4.2m and €2.2m respectively), but the segment could not repeat this performance in Q4/21 (FBe segment revenue and EBITDA: €3.9m and €0.7m respectively). Especially in the UK, Webgains' main market, a very relaxed anti-pandemic policy resulted in customers returning to classical offline shopping channels, which led to lower digital ad spending. Investments in personnel (+15% at the end of Q3/21) and international expansion have burdened EBITDA. But these investments should pay off in 2022. We assume segment growth of 10% and an increasing EBITDA margin due to operating leverage (see figure 1).

ad agents has probably shown the best segment performance

We expect the segment to have grown almost 16% in 2021. The increase in EBITDA is probably only small as newly hired personnel (+10% at the end of Q3/21) burdened margins, but the additional staff should pave the way for profitable growth in 2022 (see figure 1).

Figure 1: Segment forecasts for 2021 and 2022

Figures in €m	2020A	2021E	Delta	2022E	Δ22/21
ad pepper media					
Revenue	5.33	3.72	-30.2%	4.09	10.0%
EBITDA	1.87	0.67	-64.1%	0.98	46.6%
margin	35.0%	18.0%	-	24.0%	-
Webgains					
Revenue	13.22	15.53	17.5%	17.09	10.0%
EBITDA	4.70	3.57	-24.1%	4.30	20.4%
margin	35.6%	23.0%	-	25.2%	-
ad agents					
Revenue	7.06	8.16	15.5%	8.98	10.0%
EBITDA	1.50	1.55	3.5%	1.80	15.8%
margin	21.2%	19.0%	-	20.0%	-
Admin & Consolidation					
Revenue	0.00	0.00	-	0.00	-
EBITDA	-1.49	-1.58	-	-1.68	-
Intersegment elimination					
Revenue	0.00	0.00	-	0.00	-
EBITDA	-0.02	0.00	-	0.00	-
Group					
Revenue	25.62	27.41	7.0%	30.16	10.0%
EBITDA	6.56	4.21	-35.8%	5.40	28.3%
margin	25.6%	15.4%	-	17.9%	-

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



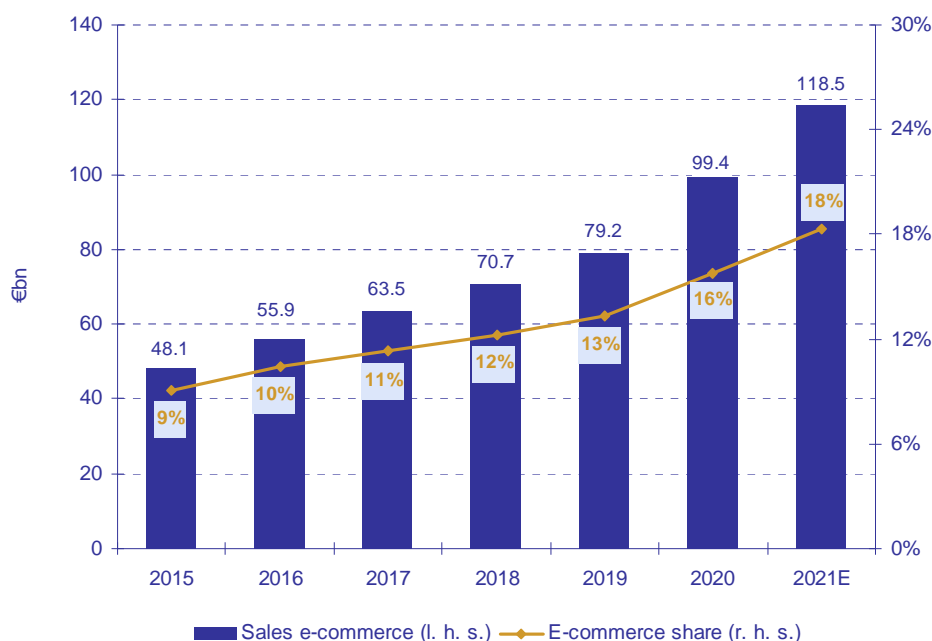
Forecasts revised Given the lowered 2021 guidance, we have dialled back our forecasts for 2021 and the coming years (see figure 2). But we continue to see ad pepper as a growth stock which will benefit from structural digitalisation drivers. According to the Institut der deutschen Wirtschaft (iW, German Economic Institute), German e-commerce sales increased by ca. 150% from €48bn in 2015 to €119bn in 2021E. The share of e-commerce sales in total retail sales doubled in the same period (see figure 3). It goes without saying that increasing e-commerce goes hand in hand with growing digital ad spending.

Figure 2: Revisions to forecasts

All figures in €m	2021E			2022E			2023E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Revenue	28.24	27.41	-2.9%	31.38	30.16	-3.9%	34.52	33.17	-3.9%
EBITDA	5.59	4.21	-24.7%	7.52	5.40	-28.2%	8.89	7.42	-16.5%
margin	19.8%	15.4%		24.0%	17.9%		25.8%	22.4%	
Net income	2.34	1.37	-41.6%	3.66	2.18	-40.4%	4.49	3.48	-22.5%
margin	8.3%	5.0%		11.6%	7.2%		13.0%	10.5%	
EPS (diluted)	0.11	0.06	-40.9%	0.17	0.10	-39.6%	0.21	0.16	-21.6%

Source: First Berlin Equity Research

Figure 3: E-Commerce sales and e-commerce retail share in Germany 2015-2021E



Source: First Berlin Equity Research, Institut der deutschen Wirtschaft

Further newsflow in February We expect ad pepper to publish unaudited 2021 figures in early February 2022. The 2021 annual report will be published on 29 March 2022.

Buy reiterated at lower price target We have lowered our terminal EBIT margin assumption from 24.5% to 23% and have increased our WACC estimate from 8.6% to 9.1% to reflect more cautious margin assumptions and the lower quality of earnings. Based on our revised forecasts, an updated DCF model yields a new price target of €7.10 (previously: €8.10). 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	27,413	30,155	33,170	36,321	39,771	43,539	47,632	52,034	
NOPLAT	2,180	2,950	4,344	5,495	6,090	6,748	7,472	8,260	
+ depreciation & amortisation	1,166	1,205	1,246	1,216	1,284	1,339	1,389	1,436	
Net operating cash flow	3,346	4,155	5,590	6,710	7,374	8,087	8,861	9,696	
- total investments (CAPEX and WC)	-1,516	-326	-749	-547	-886	-942	-1,000	-1,060	
Capital expenditures	-630	-694	-763	-835	-882	-930	-979	-1,026	
Working capital	-886	368	14	289	-4	-12	-22	-34	
Free cash flows (FCF)	1,830	3,829	4,841	6,164	6,488	7,146	7,860	8,636	
PV of FCF's	1,830	3,521	4,080	4,761	4,593	4,637	4,675	4,707	

All figures in thousands

PV of FCFs in explicit period (2021E-2035E)	64,790	
PV of FCFs in terminal period	59,952	
Enterprise value (EV)	124,742	
+ Net cash / - net debt	22,680	
+ Investments / minority interests	2,169	
Shareholder value	149,591	
Number of shares (diluted)	21,162	
Fair value per share in EUR	7.07	
		Terminal growth 2.0%
		Terminal EBIT margin 23.0%

WACC		Terminal growth rate						
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
5.1%	12.37	13.33	14.56	16.18	18.43	21.76	27.16	
6.1%	10.08	10.65	11.34	12.20	13.30	14.75	16.77	
7.1%	8.50	8.86	9.29	9.80	10.42	11.19	12.17	
8.1%	7.36	7.60	7.88	8.20	8.58	9.04	9.59	
9.1%	6.49	6.66	6.85	7.07	7.32	7.61	7.95	
10.1%	5.82	5.94	6.07	6.23	6.40	6.59	6.81	
11.1%	5.28	5.37	5.47	5.58	5.70	5.83	5.98	
12.1%	4.84	4.91	4.98	5.06	5.15	5.25	5.35	

* 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	113,413	124,757	137,231
Media costs	56,839	62,381	61,987	75,729	86,000	94,602	104,061
Revenues	18,724	20,272	21,787	25,615	27,413	30,155	33,170
Cost of sales	376	726	820	928	1,047	1,225	1,314
Gross profit	18,348	19,546	20,967	24,687	26,366	28,930	31,856
S&M	10,771	12,621	12,225	13,411	15,784	16,651	17,382
G&A	6,087	5,925	6,853	7,108	7,646	8,111	8,422
Other operating income	723	494	943	1,514	509	602	754
Other operating expenses	396	467	313	234	400	573	630
EBITDA	2,209	1,354	3,512	6,559	4,211	5,402	7,422
Depreciation and amortisation	391	327	993	1,111	1,166	1,205	1,246
Operating income (EBIT)	1,818	1,027	2,519	5,448	3,045	4,197	6,176
Net financial result	-17	-190	-209	-116	-113	30	33
Non-operating expenses	0	0	0	0	0	0	0
Pre-tax income (EBT)	1,801	837	2,310	5,332	2,932	4,227	6,209
Income taxes	664	302	390	991	865	1,247	1,832
Minority interests	-556	-288	-568	-677	-700	-800	-900
Net income / loss	581	247	1,352	3,664	1,367	2,180	3,477
Diluted EPS (in €)	0.03	0.01	0.06	0.17	0.06	0.10	0.16
Ratios							
Gross margin in % of gross sales	24.3%	23.6%	25.0%	24.4%	23.2%	23.2%	23.2%
Gross margin in % of revenues	98.0%	96.4%	96.2%	96.4%	96.2%	95.9%	96.0%
EBITDA margin in % of revenues	11.8%	6.7%	16.1%	25.6%	15.4%	17.9%	22.4%
EBIT margin	9.7%	5.1%	11.6%	21.3%	11.1%	13.9%	18.6%
Net margin	3.1%	1.2%	6.2%	14.3%	5.0%	7.2%	10.5%
Tax rate	36.9%	36.1%	16.9%	18.6%	29.5%	29.5%	29.5%
Expenses as % of sales or revenues							
Media costs (as % of gross sales)	75.2%	75.5%	74.0%	74.7%	75.8%	75.8%	75.8%
S&M (as % of revenues)	57.5%	62.3%	56.1%	52.4%	57.6%	55.2%	52.4%
G&A (as % of revenues)	32.5%	29.2%	31.5%	27.7%	27.9%	26.9%	25.4%
Depreciation and amortisation	2.1%	1.6%	4.6%	4.3%	4.3%	4.0%	3.8%
Other operating expenses	2.1%	2.3%	1.4%	0.9%	1.5%	1.9%	1.9%
Y-Y Growth							
Gross sales	23.5%	9.4%	1.4%	21.0%	11.9%	10.0%	10.0%
Net revenues	n.a.	8.3%	7.5%	17.6%	7.0%	10.0%	10.0%
Operating income	13.0%	-43.5%	145.3%	116.3%	-44.1%	37.8%	47.2%
Net income/ loss	-7.7%	-57.5%	447.4%	171.0%	-62.7%	59.5%	59.5%



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	45,664	50,064	55,506
Cash and cash equivalents	20,127	18,233	25,229	24,330	25,476	28,749	33,035
Short-term investments	27	55	47	29	29	29	29
Receivables	14,129	17,629	14,897	19,727	19,527	20,654	21,810
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	4,158	4,234	4,339
Property, plant & equipment	424	330	391	412	432	462	502
Goodwill & other intangibles	362	218	359	737	752	798	864
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	49,823	54,298	59,845
Shareholders' equity & debt							
Current liabilities, total	21,696	22,560	24,299	26,761	25,675	27,170	28,341
Short-term debt	0	0	0	0	0	0	0
Accounts payable	17,838	18,967	18,593	20,738	19,652	21,147	22,318
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	21,048	23,228	26,706
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	-43,809	-41,629	-38,151
Total consolidated equity and debt	38,615	39,610	44,052	48,841	49,823	54,298	59,845
Ratios							
Current ratio (x)	1.61	1.61	1.68	1.67	1.78	1.84	1.96
Quick ratio (x)	1.61	1.61	1.68	1.67	1.78	1.84	1.96
Net debt	-20,127	-18,233	-22,983	-22,634	-23,780	-27,053	-31,339
Net gearing	-127.9%	-116.4%	-134.4%	-115.0%	-113.0%	-116.5%	-117.3%
Equity ratio	42.8%	41.7%	41.0%	42.7%	46.0%	47.7%	50.6%
Book value per share (in €)	0.74	0.74	0.81	0.93	0.98	1.10	1.26
Return on equity (ROE)	3.7%	1.6%	7.9%	18.6%	6.5%	9.4%	13.0%
Return on investment (ROI)	1.5%	0.6%	3.1%	7.5%	2.7%	4.0%	5.8%
Return on assets (ROA)	1.5%	0.6%	3.1%	7.5%	2.7%	4.0%	5.8%



CASH FLOW STATEMENT

All figures in EUR '000	2017A	2018A	2019A	2020A	2021E	2022E	2023E
EBIT	1,818	1,027	2,519	5,448	3,045	4,197	6,176
Depreciation and amortisation	391	327	993	1,111	1,166	1,205	1,246
EBITDA	2,209	1,354	3,512	6,559	4,211	5,402	7,422
Changes in working capital	3,095	-2,192	4,352	-1,527	-886	368	14
Other adjustments	-2,203	-684	-1,382	-1,650	-978	-1,217	-1,799
Operating cash flow	3,101	-1,522	6,482	3,382	2,348	4,553	5,637
Investments in PP&E	-378	-51	-221	-238	-247	-271	-299
Investments in intangibles	-55	-44	-303	-549	-384	-422	-464
Free cash flow	2,667	-1,617	5,958	2,595	1,717	3,860	4,874
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	-630	-694	-763
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	-587	-588
Financing cash flow	-362	-296	-1,173	-2,278	-571	-587	-588
FOREX & other effects	-39	-12	51	-232	0	0	0
Net cash flows	2,269	-1,894	6,996	-899	1,146	3,272	4,286
Cash, start of the year	17,859	20,127	18,233	25,229	24,330	25,476	28,749
Cash, end of the year	20,128	18,233	25,229	24,330	25,476	28,749	33,035
EBITDA/share (in €)	0.10	0.06	0.17	0.31	0.20	0.26	0.35
Y-Y Growth							
Operating cash flow	13381.7%	n.m.	n.m.	-47.8%	-30.6%	94.0%	23.8%
Free cash flow	n.m.	n.m.	n.m.	-56.4%	-33.8%	124.8%	26.3%
EBITDA/share	26.3%	-39.0%	161.0%	87.1%	-36.6%	29.7%	37.4%

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Anschrift:

First Berlin Equity Research GmbH
Mohrenstr. 34
10117 Berlin
Germany

Vertreten durch den Geschäftsführer: Martin Bailey

Telefon: +49 (0) 30-80 93 9 680

Fax: +49 (0) 30-80 93 9 687

E-Mail: info@firstberlin.com

Amtsgericht Berlin Charlottenburg HR B 103329 B

UST-Id.: 251601797

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First Berlin Equity Research GmbH

Authored by: Dr. Karsten von Blumenthal, Analyst

All publications of the last 12 months were authored by Dr. Karsten von Blumenthal.

Company responsible for preparation: First Berlin Equity Research GmbH, Mohrenstraße 34, 10117 Berlin

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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...26	↓	↓	↓	↓
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	22 November 2021	€4.88	Buy	€8.10
35	Today	€4.92	Buy	€7.10

INVESTMENT HORIZON

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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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