

ad pepper media International N.V.

The Netherlands / Internet Services
 Frankfurt
 Bloomberg: APM GR
 ISIN: NL0000238145

Sales warning

RATING
BUY

PRICE TARGET
€ 4.60

Return Potential 80.4%
 Risk Rating Medium

Q2 WEAKER THAN GUIDED, PREPARE FOR WEAKER H2

ad pepper media (APM) has lowered Q2 revenue guidance to €5.9m (previously: €6.3m to €6.5m) and expects Q3 and Q4 revenue to be lower than in the prior year periods. A deteriorating macroeconomic environment (persistently high inflation, increasing interest rates, slower growth and a looming recession, shrinking consumer confidence, supply chain disruptions) lowers demand for advertising resulting in lower sales and earnings for APM. We have reduced our forecasts for 2022E and the following years. An updated DCF model yields a new price target of €4.60 (previously: €6.20). We reiterate our Buy rating.

Q2 weaker than guided In April, APM guided for Q2 revenues of €6.3m - €6.5m. Weaker demand has now caused management to lower this guidance to €5.9m.

Prepare for a weaker H2 As the macroeconomic environment has deteriorated more than management expected, it is now guiding for Q3 and Q4 revenue to be lower than in the previous year. Instead of the expected "solid growth" in 2022, revenues look set to fall y/y (2021 revenue: €27.7m). Given the Q2/22 guidance of €5.9m, H1/22 revenue adds up to €11.8m, which is 12% below the prior year figure of €13.4m. We now forecast full-year 2022 sales to fall by 12% y/y to €24.3m. Given the higher cost base (number of employees in Q1/22 was 13% higher y/y at 265 and wages will be higher due to inflation), we expect the EBITDA margin to retreat from 15.8% in 2021 to just 1.6%.

Recovery in 2023 In view of the continuing trend towards an increasing market share of digital advertising and ad pepper's good positioning as a digital advertising pure play we expect the company to resume its growth trajectory in 2023E and forecast 10% revenue growth. This and cost savings should result in a significant EBITDA margin recovery (FBe: 9.6%).

(p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2019	2020	2021	2022E	2023E	2024E
Revenue (€m)	21.79	25.62	27.65	24.29	26.72	29.26
Y-o-y growth	7.5%	17.6%	7.9%	-12.1%	10.0%	9.5%
EBITDA (€m)	3.51	6.56	4.38	0.38	2.56	3.62
EBITDA margin	16.1%	25.6%	15.8%	1.6%	9.6%	12.4%
Net income (€m)	1.35	3.66	1.73	-0.68	0.67	1.22
EPS (diluted) (€)	0.06	0.17	0.08	-0.03	0.03	0.06
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	5.96	2.60	1.91	0.26	1.44	1.62
Net gearing	-134.4%	-115.0%	-104.2%	-106.0%	-106.4%	-104.8%
Liquid assets (€m)	25.23	24.33	20.70	20.32	21.11	22.07

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 30 Jun 2022

Closing Price	€ 2.55
Shares outstanding	20.26m
Market Capitalisation	€ 51.66m
52-week Range	€ 2.55 / 6.08
Avg. Volume (12 Months)	11,595

Multiples	2021	2022E	2023E
P/E	30.7	n.a.	78.6
EV/Sales	1.2	1.4	1.3
EV/EBITDA	7.8	90.3	13.3
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Mar 2022

Liquid Assets	€ 17.70m
Current Assets	€ 34.03m
Intangible Assets	€ 0.55m
Total Assets	€ 39.26m
Current Liabilities	€ 20.08m
Shareholders' Equity	€ 18.29m

SHAREHOLDERS

EMA B.V.	44.1%
Euro Serve Media GmbH	2.6%
Treasury shares	5.8%
Free Float	47.5%



Forecasts adjusted We have lowered our forecasts to reflect the macroeconomic headwinds (see figure 1). ad pepper has a strong balance sheet (net cash position of €19m at the end of Q1/22) and so has the financial means to weather the looming recession.

Figure 1: Revisions to forecasts

All figures in €m	2022E			2023E			2024E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Revenue	28.81	24.29	-15.7%	31.69	26.72	-15.7%	34.70	29.26	-15.7%
EBITDA	4.23	0.38	-91.1%	5.80	2.56	-55.8%	7.49	3.62	-51.7%
margin	14.7%	1.6%		18.3%	9.6%		21.6%	12.4%	
Net income	1.38	-0.68	-	2.54	0.67	-73.5%	3.68	1.22	-66.9%
margin	4.8%	-2.8%		8.0%	2.5%		10.6%	4.2%	
EPS (diluted)	0.07	-0.03	-	0.12	0.03	-73.5%	0.17	0.06	-66.9%

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

Lower price target, Buy reiterated An updated DCF model based on our new forecasts yields a new price target of €4.60 (previously: €620). We reiterate our Buy rating.



VALUATION MODEL

DCF valuation model								
All figures in EUR '000	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
Net revenue	24,290	26,719	29,257	32,037	35,079	38,403	42,013	45,897
NOPLAT	-747	1,046	1,788	2,213	2,721	3,307	3,978	4,741
+ depreciation & amortisation	1,123	1,155	1,192	1,217	1,231	1,248	1,267	1,289
Net operating cash flow	377	2,201	2,980	3,430	3,952	4,554	5,245	6,029
- total investments (CAPEX and WC)	-280	-692	-1,294	-659	-661	-693	-724	-755
Capital expenditures	-559	-588	-673	-705	-746	-789	-833	-876
Working capital	279	-105	-621	46	85	96	108	121
Free cash flows (FCF)	97	1,509	1,686	2,771	3,290	3,862	4,521	5,274
PV of FCF's	93	1,307	1,327	1,982	2,139	2,281	2,427	2,573

All figures in thousands		
PV of FCFs in explicit period (2022E-2036E)	34,874	
PV of FCFs in terminal period	38,214	
Enterprise value (EV)	73,088	
+ Net cash / - net debt	19,458	Terminal growth 2.0%
+ Investments / minority interests	4,470	Terminal EBIT margin 22.0%
Shareholder value	97,016	
Number of shares (diluted)	20,876	
Fair value per share in EUR	4.65	

WACC	10.0%	Terminal growth rate							
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	
Cost of equity	10.0%	6.0%	7.84	8.34	8.96	9.73	10.72	12.03	13.86
Pre-tax cost of debt	4.0%	7.0%	6.51	6.83	7.20	7.66	8.21	8.90	9.78
Tax rate	25.0%	8.0%	5.55	5.76	6.01	6.30	6.64	7.04	7.54
After-tax cost of debt	3.0%	9.0%	4.84	4.99	5.15	5.35	5.57	5.82	6.13
Share of equity capital	100.0%	10.0%	4.29	4.40	4.51	4.65	4.80	4.97	5.17
Share of debt capital	0.0%	11.0%	3.86	3.94	4.02	4.12	4.22	4.34	4.48
		12.0%	3.51	3.57	3.63	3.70	3.78	3.86	3.96
		13.0%	3.23	3.27	3.32	3.37	3.43	3.49	3.56
Price target in EUR	4.60								

* for layout purposes the model shows numbers only to 2029, but runs until 2036



INCOME STATEMENT

All figures in EUR '000	2019A	2020A	2021A	2022E	2023E	2024E
Gross sales	83,774	101,344	111,539	97,999	107,799	118,040
Media costs	61,987	75,729	83,893	73,709	81,080	88,783
Revenues	21,787	25,615	27,646	24,290	26,719	29,257
Cost of sales	820	928	1,059	1,002	1,155	1,170
Gross profit	20,967	24,687	26,587	23,288	25,564	28,087
S&M	12,225	13,411	15,739	16,364	16,482	17,500
G&A	6,853	7,108	7,707	7,811	7,922	8,310
Other operating income	943	1,514	530	602	754	702
Other operating expenses	313	234	477	462	508	556
EBITDA	3,512	6,559	4,378	377	2,561	3,615
Depreciation and amortisation	993	1,111	1,184	1,123	1,155	1,192
Operating income (EBIT)	2,519	5,448	3,194	-747	1,406	2,423
Net financial result	-209	-116	-38	-51	-73	-71
Non-operating expenses	0	0	0	0	0	0
Pre-tax income (EBT)	2,310	5,332	3,156	-798	1,333	2,353
Income taxes	390	991	592	-215	360	635
Minority interests	-568	-677	-839	-100	-300	-500
Net income / loss	1,352	3,664	1,725	-682	673	1,217
Diluted EPS (in €)	0.06	0.17	0.08	-0.03	0.03	0.06
Ratios						
Gross margin in % of gross sales	25.0%	24.4%	23.8%	23.8%	23.7%	23.8%
Gross margin in % of revenues	96.2%	96.4%	96.2%	95.9%	95.7%	96.0%
EBITDA margin in % of revenues	16.1%	25.6%	15.8%	1.6%	9.6%	12.4%
EBIT margin	11.6%	21.3%	11.6%	-3.1%	5.3%	8.3%
Net margin	6.2%	14.3%	6.2%	-2.8%	2.5%	4.2%
Tax rate	16.9%	18.6%	18.8%	27.0%	27.0%	27.0%
Expenses as % of sales or revenues						
Media costs (as % of gross sales)	74.0%	74.7%	75.2%	75.2%	75.2%	75.2%
S&M (as % of revenues)	56.1%	52.4%	56.9%	67.4%	61.7%	59.8%
G&A (as % of revenues)	31.5%	27.7%	27.9%	32.2%	29.6%	28.4%
Depreciation and amortisation	4.6%	4.3%	4.3%	4.6%	4.3%	4.1%
Other operating expenses	1.4%	0.9%	1.7%	1.9%	1.9%	1.9%
Y-Y Growth						
Gross sales	1.4%	21.0%	10.1%	-12.1%	10.0%	9.5%
Net revenues	7.5%	17.6%	7.9%	-12.1%	10.0%	9.5%
EBITDA	159.4%	86.8%	-33.3%	-91.4%	579.5%	41.2%
Operating income	145.3%	116.3%	-41.4%	n.m.	n.m.	72.3%
Net income/ loss	447.4%	171.0%	-52.9%	n.m.	n.m.	80.9%



BALANCE SHEET

All figures in EUR '000	2019A	2020A	2021A	2022E	2023E	2024E
Assets						
Current assets, total	40,731	44,718	40,753	37,685	39,405	41,240
Cash and cash equivalents	25,229	24,330	20,704	20,318	21,106	22,074
Short-term investments	47	29	26	26	26	26
Receivables	14,897	19,727	19,319	16,637	17,569	18,436
Inventories	0	0	0	0	0	0
Other current assets	558	632	704	704	704	704
Non-current assets, total	3,321	4,123	5,599	5,682	5,762	5,890
Property, plant & equipment	391	412	346	340	359	389
Goodwill & other intangibles	359	737	628	717	777	876
Right-of-use assets	2,129	1,568	1,177	1,177	1,177	1,177
Financial assets	442	1,406	3,448	3,448	3,448	3,448
Other assets	0	0	0	0	0	0
Total assets	44,052	48,841	46,352	43,366	45,166	47,130
Shareholders' equity & debt						
Current liabilities, total	24,299	26,761	25,318	22,915	23,742	23,988
Short-term debt	0	0	0	0	0	0
Accounts payable	18,593	20,738	20,247	17,844	18,671	18,917
Current provisions	0	0	0	0	0	0
Other current liabilities	4,907	5,280	4,566	4,566	4,566	4,566
Lease liabilities	799	743	505	505	505	505
Long-term liabilities, total	1,713	1,242	946	946	946	946
Long-term debt	0	0	0	0	0	0
Lease liabilities	1,447	953	741	741	741	741
Other liabilities	266	289	205	205	205	205
Minority interests	935	1,157	1,413	1,513	1,813	2,313
Shareholders' equity	17,105	19,681	18,675	17,993	18,666	19,883
Share capital	1,075	1,075	1,075	1,075	1,075	1,075
Capital reserve	63,782	63,782	63,782	63,782	63,782	63,782
Other reserves	0	0	0	0	0	0
Loss carryforward / retained earnings	-47,752	-45,176	-46,182	-46,864	-46,191	-44,974
Total consolidated equity and debt	44,052	48,841	46,352	43,366	45,166	47,130
Ratios						
Current ratio (x)	1.68	1.67	1.61	1.64	1.66	1.72
Quick ratio (x)	1.68	1.67	1.61	1.64	1.66	1.72
Net debt	-22,983	-22,634	-19,458	-19,072	-19,860	-20,828
Net gearing	-134.4%	-115.0%	-104.2%	-106.0%	-106.4%	-104.8%
Equity ratio	41.0%	42.7%	43.3%	45.0%	45.3%	47.1%
Book value per share (in €)	0.81	0.93	0.89	0.85	0.88	0.94
Return on equity (ROE)	7.9%	18.6%	9.2%	-3.8%	3.6%	6.1%
Return on investment (ROI)	3.1%	7.5%	3.7%	-1.6%	1.5%	2.6%
Return on assets (ROA)	3.1%	7.5%	3.7%	-1.6%	1.5%	2.6%



CASH FLOW STATEMENT

All figures in EUR '000	2019A	2020A	2021A	2022E	2023E	2024E
EBIT	2,519	5,448	3,194	-747	1,406	2,423
Depreciation and amortisation	993	1,111	1,184	1,123	1,155	1,192
EBITDA	3,512	6,559	4,378	377	2,561	3,615
Changes in working capital	4,352	-1,527	636	279	-105	-621
Other adjustments	-1,382	-1,650	-2,806	164	-433	-706
Operating cash flow	6,482	3,382	2,208	820	2,023	2,288
Investments in PP&E	-221	-238	-121	-219	-240	-263
Investments in intangibles	-303	-549	-178	-340	-347	-410
Free cash flow	5,958	2,595	1,909	261	1,436	1,615
Acquisitions & disposals, net	8	10	57	0	0	0
Other investments	2,152	-994	-1,999	0	0	0
Investment cash flow	1,636	-1,771	-2,241	-559	-588	-673
Debt financing, net	0	0	0	0	0	0
Equity financing, net	0	-978	-2,489	0	0	0
Dividends paid	0	0	0	0	0	0
Other financing	-1,173	-1,300	-1,340	-647	-647	-647
Financing cash flow	-1,173	-2,278	-3,829	-647	-647	-647
FOREX & other effects	51	-232	236	0	0	0
Net cash flows	6,996	-899	-3,626	-386	788	968
Cash, start of the year	18,233	25,229	24,330	20,704	20,318	21,106
Cash, end of the year	25,229	24,330	20,704	20,318	21,106	22,074
EBITDA/share (in €)	0.17	0.31	0.21	0.02	0.12	0.17
Y-Y Growth						
Operating cash flow	n.m.	-47.8%	-34.7%	-62.9%	146.8%	13.1%
Free cash flow	n.m.	-56.4%	-26.4%	-86.3%	449.8%	12.5%
EBITDA/share	161.0%	87.1%	-32.7%	-91.4%	579.5%	41.2%

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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

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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.

RISK ASSESSMENT

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...31	↓	↓	↓	↓
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	14 January 2022	€4.92	Buy	€7.10
36	18 February 2022	€4.69	Buy	€7.10
37	6 April 2022	€3.80	Buy	€6.80
38	26 April 2022	€3.66	Buy	€6.20
39	30 May 2022	€3.39	Buy	€6.20
40	Today	€2.55	Buy	€4.60

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

can be accessed through the following internet link: <https://firstberlin.com/disclaimer-english-link/>

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