

ad pepper media International N.V.

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

Preliminary Q3/22
 results

RATING
PRICE TARGET

Return Potential
 Risk Rating

BUY
€ 3.60
 60.0%
 Medium

RECESSION & INFLATION WILL HIT AD PEPPER

ad pepper media (APM) has reported preliminary Q3/22 results. Revenue declined 15% y/y to €5.9m and EBITDA 66% to €0.4m. While revenue was in line with guidance and our forecast, EBITDA came in slightly better than expected due to a higher contribution from the Webgains segment (€0.5m versus FBe: €0.2m). This shows that cost cutting had a positive effect on Q3 earnings. For Q4, APM is guiding towards lower revenue y/y and positive EBITDA contributions from all three segments. We expect a weak Q4 due to very low consumer confidence, high inflation, and the looming recession. The adverse macroeconomic environment looks set to persist in 2023. We thus expect companies to cut advertising budgets and expect APM's 2023 revenue to grow by only 1% y/y. Lower revenue and earnings forecasts and a higher WACC estimate yield a lower price target of €3.60 (previously: €4.40). Given APM's strong balance sheet, the company will certainly weather the recession, which may offer opportunities if weaker competitors exit the market. We stick to our Buy rating.

Q4 guidance: lower revenue y/y, but all three segments with positive EBITDA contribution APM expects Q4 revenue to be below the €7.2m in Q4/21. Given the adverse economic environment, we now expect Q4/22 revenue of €6.0m. Positive Q4 EBITDA in all three segments does not include holding costs (Q4/22 FBe: €0.4m). For the group, we forecast Q4 EBITDA of just €19k.

Q3/22: revenue and EBITDA decline y/y Group revenue retreated 15% y/y to €5.9m. All three segments contributed to this decline. Webgains showed the strongest decline with -19% y/y. Group EBITDA fell 66% y/y to €0.4m (see figure 1 overleaf). EBITDA for all three segments deteriorated significantly but stayed in positive territory. A comparison with Q2/22 shows that APM has made significant progress in adjusting its cost structure to the weak demand. While revenue was roughly the same in both quarters, Q3 EBITDA amounted to €0.4m versus €-0.2m in Q2.

(p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2019	2020	2021	2022E	2023E	2024E
Revenue (€ m)	21.79	25.62	27.65	23.72	23.96	26.35
Y-o-y growth	7.5%	17.6%	7.9%	-14.2%	1.0%	10.0%
EBITDA (€ m)	3.51	6.56	4.38	0.28	0.72	1.98
EBITDA margin	16.1%	25.6%	15.8%	1.2%	3.0%	7.5%
Net income (€ m)	1.35	3.66	1.73	-0.83	-0.57	0.29
EPS (diluted) (€)	0.06	0.17	0.08	-0.04	-0.03	0.01
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€ m)	5.96	2.60	1.91	-0.23	0.01	0.92
Net gearing	-134.4%	-115.0%	-104.2%	-104.1%	-103.9%	-103.7%
Liquid assets (€ m)	25.23	24.33	20.70	19.83	19.19	19.46

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 Oct 2022

Closing Price	€ 2.25
Shares outstanding	20.26m
Market Capitalisation	€ 45.58m
52-week Range	€ 1.44 / 5.94
Avg. Volume (12 Months)	10,422

Multiples	2021	2022E	2023E
P/E	27.4	n.a.	n.a.
EV/Sales	1.0	1.2	1.2
EV/EBITDA	6.5	102.7	39.3
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2022

Liquid Assets	€ 20.06m
Current Assets	€ 36.01m
Intangible Assets	€ 0.50m
Total Assets	€ 39.43m
Current Liabilities	€ 20.89m
Shareholders' Equity	€ 17.61m

SHAREHOLDERS

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

**Figure 1: Reported group figures**

All figures in €m	Q3-22A	Q3-22E	Delta	Q3-21A	Delta	9M-22A	9M-21A	Delta
Gross sales	23.64	23.54	0.4%	27.72	-14.7%	70.20	81.76	-14.1%
Revenue	5.93	6.00	-1.2%	7.00	-15.3%	17.68	20.40	-13.3%
EBITDA	0.41	0.11	259.6%	1.22	-66.3%	0.26	3.56	-92.8%

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

ad pepper media segment shows signs of stabilisation For the first time this year, the quarterly revenue decline was only single-digit (-8% y/y, versus -22% in Q2 and -44% in Q1). Despite low segment sales of €652k, EBITDA remained positive (€58k) and slightly ahead of our forecast (see figure 2).

Webgains above forecasts Although segment sales and EBITDA declines y/y were hefty (-19% and -49% respectively), both figures beat our expectation (see figure 2). While the revenue delta was €0.8m, cost cutting reduced the EBITDA delta to only €0.5m and resulted in a solid EBITDA margin of 16%.

ad agents had a weak quarter The segment performed well in H1, however Q3 revenue declined 11% y/y to €2.0m and EBITDA fell 69% to €18k. On a nine month basis, ad agents was the only segment that showed slight top line growth (+2% y/y), and the EBITDA decline was less than in the other segments (-47% y/y versus -86% at Webgains and -74% at ad pepper media).

Holding costs reduced Holding costs fell from €537k to €371k in Q3 (-31% y/y). On a nine month basis, holding costs retreated from €1.417m to €1.015m (-28%). Cost cutting measures on the holding level have thus had visible effects.

Figure 2: Reported segment figures

All figures in €m	Q3-22A	Q3-22E	Delta	Q3-21A	Delta	9M-22A	9M-21A	Delta
ad pepper media								
Revenue	0.65	0.69	-5.9%	0.71	-7.9%	2.11	2.87	-26.6%
EBITDA	0.06	0.05	16.0%	0.11	-47.3%	0.22	0.85	-73.6%
margin	8.9%	7.2%	-	15.5%	-	10.6%	29.5%	-
Webgains								
Revenue	3.28	3.04	7.9%	4.06	-19.2%	9.54	11.61	-17.9%
EBITDA	0.54	0.24	120.5%	1.05	-48.7%	0.40	2.91	-86.2%
margin	16.4%	8.0%	-	25.9%	-	4.2%	25.0%	-
ad agents								
Revenue	2.00	2.27	-11.7%	2.24	-10.6%	6.04	5.92	2.0%
EBITDA	0.19	0.23	-19.6%	0.59	-68.8%	0.65	1.22	-47.0%
margin	9.2%	10.1%	-	26.5%	-	10.7%	20.6%	-
Admin								
Revenue	0.00	0.00	-	0.00	-	0.00	0.00	-
EBITDA	-0.37	-0.41	-	-0.54	-	-1.02	-1.42	-
Group								
Revenue	5.93	6.00	-1.1%	7.00	-15.3%	17.68	20.40	-13.3%
EBITDA	0.41	0.11	259.6%	1.22	-66.3%	0.26	3.56	-92.8%
margin	6.9%	1.9%	-	17.3%	-	1.4%	17.4%	-

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



Very adverse macroeconomic environment Leading German economic research institutes predict Germany will enter recession in H2/22 and a decline in the gross domestic product (GDP) by 0.4% y/y in 2023. Inflation is expected to increase from 8.4% in the current year to 8.8% in 2023. In ad pepper's second biggest market, the UK, GDP will probably shrink in 2023, too. Inflation in the UK has reached 10% and looks set to edge higher in coming months. In September, European consumer confidence fell to -29.9, the lowest figure since the series began in 1985.

WACC estimate raised The 10y German government bond, our proxy for the yield of riskless assets, now yields 2.3%. We have thus increased our WACC estimate from 10.5% to 10.9%.

Forecasts adjusted to weak macroeconomic environment APM's Q4 guidance is consistent with our previous forecast. Given the weak macroeconomic environment, we have nevertheless again lowered our Q4/22 estimates. The better than expected Q3/22 EBITDA results in a slightly higher annual EBITDA forecast of €0.28m (previously: €0.12m). We expect companies to cut advertising budgets and thus lower our targets for ad pepper for 2023E and the following years. We now expect revenue growth of only 1% in 2023E and of 10% in 2024E, when the recovery should kick in. The slight growth in 2023E is based on the assumption that digital performance marketing will gain market share from other advertising channels. APM as a pure digital performance marketing company is primed to benefit from this trend. As ad pepper has initiated a cost cutting program to adjust to the ad demand decline, we expect margins to recover slightly in 2023E. We now forecast a 1.2% EBITDA margin for this year and 3% in 2023 (see figure 3). Given ad pepper's high gross margin of ca. 96%, top line changes result in high operating leverage. In downturns, this bites into margins, but when the recovery restores growth, margins look set to rebound strongly.

Figure 3: Revisions to forecasts

All figures in €m	2022E			2023E			2024E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Revenue	24.29	23.72	-2.4%	26.72	23.96	-10.3%	29.26	26.35	-9.9%
EBITDA	0.12	0.28	135.5%	2.56	0.72	-71.9%	3.62	1.98	-45.3%
margin	0.5%	1.2%		9.6%	3.0%		12.4%	7.5%	
Net income	-0.95	-0.83	-	0.67	-0.57	-	1.22	0.29	-75.8%
margin	-3.9%	-3.5%		2.5%	-2.4%		4.2%	1.1%	
EPS (diluted)	-0.05	-0.04	-	0.03	-0.03	-	0.06	0.01	-75.0%

Source: First Berlin Equity Research

Buy reiterated at lower price target Lower forecasts and an increased WACC estimate yield a new price target of €3.60 (previously: €4.40). Thanks to its strong balance sheet, APM can weather the recession, while we expect some competitors with weaker balance sheets to struggle for survival. This could lead to opportunities to gain new customers or even to acquire competitors at attractive prices. We stick to our Buy rating.



VALUATION MODEL

DCF valuation model								
All figures in EUR '000	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
Net revenue	23,719	23,956	26,352	28,855	31,595	34,589	37,841	41,338
NOPLAT	- 848	- 429	618	1,783	2,188	2,655	3,190	3,799
+ depreciation & amortisation	1,123	1,148	1,158	1,167	1,171	1,182	1,196	1,212
Net operating cash flow	275	720	1,776	2,949	3,359	3,837	4,386	5,011
- total investments (CAPEX and WC)	-620	-771	-783	-594	-627	-661	-696	-732
Capital expenditures	-546	-527	-606	-635	-672	-711	-750	-789
Working capital	-74	-244	-177	41	45	49	53	57
Free cash flows (FCF)	-345	-51	994	2,356	2,732	3,175	3,690	4,279
PV of FCF's	- 338	- 45	791	1,690	1,767	1,851	1,938	2,026

All figures in thousands		
PV of FCFs in explicit period (2022E- 2036E)	25,300	
PV of FCFs in terminal period	25,184	
Enterprise value (EV)	50,484	Terminal growth 2.0%
+ Net cash / - net debt	19,458	Terminal EBIT margin 19.5%
+ Investments / minority interests	4,470	
Shareholder value	74,412	
Number of shares (diluted)	20,876	
Fair value per share in EUR	3.56	

WACC		Terminal growth rate						
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
6.9%	5.54	5.81	6.13	6.52	7.00	7.60	8.37	
7.9%	4.74	4.93	5.14	5.38	5.67	6.02	6.45	
8.9%	4.15	4.28	4.42	4.59	4.78	5.00	5.26	
9.9%	3.70	3.79	3.89	4.01	4.13	4.28	4.45	
10.9%	3.34	3.41	3.48	3.56	3.66	3.76	3.87	
11.9%	3.06	3.11	3.16	3.22	3.29	3.36	3.44	
12.9%	2.82	2.86	2.90	2.95	2.99	3.05	3.11	
13.9%	2.63	2.66	2.69	2.72	2.76	2.80	2.84	

* 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	95,695	96,652	106,317
Media costs	61,987	75,729	83,893	71,976	72,696	79,965
Revenues	21,787	25,615	27,646	23,719	23,956	26,352
Cost of sales	820	928	1,059	978	1,033	1,054
Gross profit	20,967	24,687	26,587	22,741	22,923	25,298
S&M	12,225	13,411	15,739	16,309	16,251	16,800
G&A	6,853	7,108	7,707	7,511	7,400	7,810
Other operating income	943	1,514	530	682	754	632
Other operating expenses	313	234	477	451	455	501
EBITDA	3,512	6,559	4,378	275	720	1,978
Depreciation and amortisation	993	1,111	1,184	1,123	1,148	1,158
Operating income (EBIT)	2,519	5,448	3,194	-848	-429	819
Net financial result	-209	-116	-38	-153	-76	-74
Non-operating expenses	0	0	0	0	0	0
Pre-tax income (EBT)	2,310	5,332	3,156	-1,001	-505	746
Income taxes	390	991	592	-270	-136	201
Minority interests	-568	-677	-839	-100	-200	-250
Net income / loss	1,352	3,664	1,725	-830	-568	294
Diluted EPS (in €)	0.06	0.17	0.08	-0.04	-0.03	0.01
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%	1.2%	3.0%	7.5%
EBIT margin	11.6%	21.3%	11.6%	-3.6%	-1.8%	3.1%
Net margin	6.2%	14.3%	6.2%	-3.5%	-2.4%	1.1%
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%	68.8%	67.8%	63.8%
G&A (as % of revenues)	31.5%	27.7%	27.9%	31.7%	30.9%	29.6%
Depreciation and amortisation	4.6%	4.3%	4.3%	4.7%	4.8%	4.4%
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%	-14.2%	1.0%	10.0%
Net revenues	7.5%	17.6%	7.9%	-14.2%	1.0%	10.0%
EBITDA	159.4%	86.8%	-33.3%	-93.7%	161.4%	174.8%
Operating income	145.3%	116.3%	-41.4%	n.m.	n.m.	n.m.
Net income/ loss	447.4%	171.0%	-52.9%	n.m.	n.m.	n.m.



BALANCE SHEET

All figures in EUR '000	2019A	2020A	2021A	2022E	2023E	2024E
Assets						
Current assets, total	40,731	44,718	40,753	37,130	36,001	36,799
Cash and cash equivalents	25,229	24,330	20,704	19,830	19,191	19,464
Short-term investments	47	29	26	26	26	26
Receivables	14,897	19,727	19,319	16,571	16,080	16,605
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	5,668	5,694	5,790
Property, plant & equipment	391	412	346	335	333	354
Goodwill & other intangibles	359	737	628	709	737	811
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	42,799	41,696	42,589
Shareholders' equity & debt						
Current liabilities, total	24,299	26,761	25,318	22,495	21,761	22,109
Short-term debt	0	0	0	0	0	0
Accounts payable	18,593	20,738	20,247	17,424	16,690	17,038
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	1,713	1,963
Shareholders' equity	17,105	19,681	18,675	17,845	17,276	17,570
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	-47,012	-47,581	-47,287
Total consolidated equity and debt	44,052	48,841	46,352	42,799	41,696	42,589
Ratios						
Current ratio (x)	1.68	1.67	1.61	1.65	1.65	1.66
Quick ratio (x)	1.68	1.67	1.61	1.65	1.65	1.66
Net debt	-22,983	-22,634	-19,458	-18,584	-17,945	-18,218
Net gearing	-134.4%	-115.0%	-104.2%	-104.1%	-103.9%	-103.7%
Equity ratio	41.0%	42.7%	43.3%	45.2%	45.5%	45.9%
Book value per share (in €)	0.81	0.93	0.89	0.87	0.85	0.86
Return on equity (ROE)	7.9%	18.6%	9.2%	-4.7%	-3.3%	1.7%
Return on investment (ROI)	3.1%	7.5%	3.7%	-1.9%	-1.4%	0.7%
Return on assets (ROA)	3.1%	7.5%	3.7%	-1.9%	-1.4%	0.7%



CASH FLOW STATEMENT

All figures in EUR '000	2019A	2020A	2021A	2022E	2023E	2024E
EBIT	2,519	5,448	3,194	-848	-429	819
Depreciation and amortisation	993	1,111	1,184	1,123	1,148	1,158
EBITDA	3,512	6,559	4,378	275	720	1,978
Changes in working capital	4,352	-1,527	636	-74	-244	-177
Other adjustments	-1,382	-1,650	-2,806	118	60	-275
Operating cash flow	6,482	3,382	2,208	319	536	1,526
Investments in PP&E	-221	-238	-121	-213	-216	-237
Investments in intangibles	-303	-549	-178	-332	-311	-369
Free cash flow	5,958	2,595	1,909	-227	9	920
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	-546	-527	-606
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	-874	-638	273
Cash, start of the year	18,233	25,229	24,330	20,704	19,830	19,191
Cash, end of the year	25,229	24,330	20,704	19,830	19,191	19,464
EBITDA/share (in €)	0.17	0.31	0.21	0.01	0.04	0.10
Y-Y Growth						
Operating cash flow	n.m.	-47.8%	-34.7%	-85.6%	68.3%	184.7%
Free cash flow	n.m.	-56.4%	-26.4%	n.m.	n.m.	10029.1%
EBITDA/share	161.0%	87.1%	-32.7%	-93.5%	161.4%	174.8%

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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.

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...34	↓	↓	↓	↓
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	1 July 2022	€2.55	Buy	€4.60
41	20 July 2022	€2.24	Buy	€4.40
42	31 August 2022	€2.06	Buy	€4.40
43	Today	€2.25	Buy	€3.60

INVESTMENT HORIZON

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

UPDATES

At the time of publication of this financial analysis it is not certain whether, when and on what occasion an update will be provided. In general First Berlin strives to review the financial analysis for its topicality and, if required, to update it in a very timely manner in connection with the reporting obligations of the analysed company or on the occasion of ad hoc notifications.

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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/>

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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