

ad pepper media International N.V.

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

Preliminary
 Q2/23 figures

RATING
PRICE TARGET
 Return Potential 52.2%
 Risk Rating Medium

BUY
€ 3.50

CAUTIOUSLY OPTIMISTIC FOR H2

ad pepper (APM) has reported Q2 revenue and EBITDA, which were in line with guidance and our forecasts. Revenue declined 8% y/y to €5.4m. However, EBITDA improved slightly from €-186k to €118k. This shows that cost savings more than offset the revenue contraction. Despite the still challenging macro-economic environment, APM is cautiously optimistic for H2 because of a tentative recovery of customers' e-commerce and advertising activities and the initiated cost savings. We expect H2 to be stronger than H1 and stick to our forecasts. We believe that the main share price driver will be the planned purchase of a majority stake in solute Holding GmbH & Co. KG (solute), a leading price comparison portal business in the German market (billiger.de and shopping.de). If APM succeeds in consolidating solute, it would transform into a company with almost €60m in revenue and >400 employees. An updated DCF model, which does not yet incorporate the planned transaction, yields an unchanged price target of €3.50. Our rating remains Buy.

Q2 as expected Gross sales were down 10% y/y at €21.0m. APM was guiding for €5.4m in revenue and reached this figure. EBITDA slightly improved from €-186k to €-118k due to cost savings (see figure 1 overleaf). Liquid funds including securities at fair value rose 2% y/y to €21.5m.

All three operating segments with positive EBITDA in Q2 Although the ad pepper media segment's revenue continued to fall (-18% y/y to €609k), EBITDA remained slightly positive (€31k). The Webgains segment reported a revenue decline of 4% to €2.9m. The EBITDA loss of Q2/22 (€270k) was converted into a €288k gain. Given the weaker topline this was a good result. The ad agents segment had to swallow a 12% revenue decline y/y to €1.9m. EBITDA fell from €212k to €72k. All three segments together generated EBITDA of €391k versus €74k in Q2/22. However, this good performance was partly eaten up by higher admin costs (€509k versus €260k in Q2/22).

(p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2020	2021	2022	2023E	2024E	2025E
Revenue (€ m)	25.62	27.65	24.87	24.18	26.60	29.12
Y-o-y growth	17.6%	7.9%	-10.0%	-2.8%	10.0%	9.5%
EBIT (€ m)	6.56	4.38	1.28	1.54	2.47	3.42
EBIT margin	25.6%	15.8%	5.1%	6.4%	9.3%	11.7%
Net income (€ m)	3.66	1.73	-0.89	-0.37	0.32	1.13
EPS (diluted) (€)	0.17	0.08	-0.04	-0.02	0.02	0.06
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€ m)	2.60	1.91	1.71	1.39	1.26	1.08
Net gearing	-115.0%	-104.2%	-108.0%	-116.0%	-117.1%	-111.3%
Liquid assets (€ m)	24.33	20.70	17.01	17.74	18.27	18.70

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 Jul 2023

Closing Price	€ 2.30
Shares outstanding	20.26m
Market Capitalisation	€ 46.59m
52-week Range	€ 1.44 / 2.59
Avg. Volume (12 Months)	5,293

Multiples	2022	2023E	2024E
P/E	n.a.	n.a.	145.9
EV/Sales	0.9	0.9	0.8
EV/EBIT	17.0	14.1	8.8
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Mar 2023

Liquid Assets	€ 12.49m
Current Assets	€ 32.76m
Intangible Assets	€ 0.31m
Total Assets	€ 36.84m
Current Liabilities	€ 20.97m
Shareholders' Equity	€ 15.07m

SHAREHOLDERS

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



Figure 1: Reported figures versus forecasts

All figures in €m	Q2-23A	Q2-23E	Delta	Q2-22A	Delta	H1-23A	H1-22A	Delta
ad pepper media								
Revenue	0.61	0.58	5.2%	0.74	-18.0%	1.14	1.46	-21.8%
EBITDA	0.03	0.02	55.0%	0.13	-76.5%	0.03	0.17	-80.1%
margin	5.1%	3.5%	-	17.8%	-	2.9%	11.4%	-
Webgains								
Revenue	2.92	2.87	1.7%	3.03	-3.5%	5.75	6.26	-8.2%
EBITDA	0.29	0.20	43.3%	-0.27	-	0.48	-0.14	-
margin	9.8%	7.0%	-	-8.9%	-	8.3%	-2.2%	-
ad agents								
Revenue	1.87	1.95	-4.2%	2.11	-11.5%	3.61	4.03	-10.6%
EBITDA	0.07	0.02	323.5%	0.21	-66.0%	-0.03	0.46	-
margin	3.9%	0.9%	-	10.1%	-	-0.7%	11.5%	-
Admin & Consolidation								
Revenue	0.00	0.00	-	0.00	-	0.00	0.00	-
EBITDA	-0.51	-0.38	-	-0.26	-	-0.93	-0.64	-
Group								
Revenue	5.40	5.40	0.0%	5.88	-8.2%	10.50	11.75	-10.7%
EBITDA	-0.12	-0.14	-	-0.19	-	-0.45	-0.16	-
margin	-2.3%	-2.6%	-	-3.2%	-	-4.2%	-1.3%	-

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

H2 should be stronger than H1 Various cost optimisation measures have already kicked in during Q2 and will have an even greater effect in H2. Furthermore, the e-commerce and advertising activities of APM's customers have started to recover. Falling inflation rates and improving consumer confidence bode well for H2. And Q4 (Christmas!) is the seasonally strongest quarter.

The EU inflation rate decreased to 6.4% in June from 7.1% in May 2023. This is the eighth consecutive fall since October 2022, when inflation reached a high at 11.5%. The EU Consumer Confidence increased to -17.2 points in June from -18.3 points in May 2023. This is the highest value since February 2022.

In the United Kingdom, Webgains' main market, consumer price inflation dropped to 7.9% in June 2023, marking the lowest level since March 2022. The UK GfK Consumer Confidence indicator rose to -24 in June 2023 from -27 in May, improving for the fifth straight month as British households grew more optimistic about their finances and the economy for the coming year despite stubborn inflation and rising interest rates. The June figure was also the highest in 17 months.

Why do we believe that the acquisition of a majority stake in solute is value-accretive?

Both APM and solute are online performance marketing companies. solute's product offering is largely complementary to the one of APM. If both companies join forces, market penetration will be broader and deeper. Bringing together both companies' client bases offers cross-selling potential. Furthermore, combined, the companies would achieve critical mass with joint sales of almost €60m and ca. 420 employees (see our comment as of 5 July).

Buy reiterated at unchanged price target An updated DCF model yields an unchanged €3.50 price target. We confirm our Buy rating. The H1 report will be published on 18 August 2023.



VALUATION MODEL

DCF valuation model								
All figures in EUR '000	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Net revenue	24,179	26,597	29,124	31,890	34,919	38,228	41,821	45,687
NOPLAT	407	1,093	1,799	2,209	2,611	3,069	3,589	4,175
+ depreciation & amortisation	1,009	1,001	946	915	977	1,018	1,051	1,082
Net operating cash flow	1,416	2,094	2,745	3,124	3,587	4,087	4,641	5,257
- total investments (CAPEX and WC)	48	-759	-1,691	-986	-520	-583	-653	-730
Capital expenditures	-193	-266	-349	-446	-489	-535	-585	-640
Working capital	242	-493	-1,341	-540	-31	-48	-67	-91
Free cash flows (FCF)	1,464	1,335	1,055	2,138	3,067	3,504	3,988	4,527
PV of FCF's	1,397	1,145	814	1,485	1,917	1,970	2,017	2,061

All figures in thousands		
PV of FCFs in explicit period (2023E-2037E)	27,551	
PV of FCFs in terminal period	22,321	
Enterprise value (EV)	49,872	Terminal growth 2.0%
+ Net cash / - net debt	15,645	Terminal EBIT margin 17.5%
+ Investments / minority interests	7,252	
Shareholder value	72,769	
Number of shares (diluted)	20,501	
Fair value per share in EUR	3.55	

WACC		Terminal growth rate						
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
7.1%	5.41	5.64	5.92	6.24	6.64	7.13	7.75	
8.1%	4.68	4.83	5.01	5.22	5.46	5.75	6.10	
9.1%	4.13	4.23	4.36	4.49	4.65	4.84	5.05	
10.1%	3.70	3.78	3.86	3.96	4.07	4.19	4.33	
11.1%	3.36	3.42	3.48	3.55	3.63	3.71	3.81	
12.1%	3.09	3.13	3.18	3.23	3.28	3.35	3.41	
13.1%	2.87	2.90	2.93	2.97	3.01	3.06	3.11	
14.1%	2.68	2.71	2.73	2.76	2.79	2.83	2.86	

* for layout purposes the model shows numbers only to 2030, but runs until 2037



INCOME STATEMENT

All figures in EUR '000	2020A	2021A	2022A	2023E	2024E	2025E
Gross sales	101,344	111,539	98,229	95,507	105,058	115,039
Media costs	75,729	83,893	73,361	71,328	78,461	85,915
Revenues	25,615	27,646	24,868	24,179	26,597	29,124
Cost of sales	928	1,059	1,164	1,262	1,250	1,165
Gross profit	24,687	26,587	23,704	22,917	25,347	27,959
S&M	13,411	15,739	16,638	16,067	17,000	17,765
G&A	7,108	7,707	7,164	6,719	7,010	7,863
Other operating income	1,514	530	937	954	638	699
Other operating expenses	234	477	651	555	505	553
EBITDA	6,559	4,378	1,275	1,539	2,471	3,421
Depreciation and amortisation	1,111	1,184	1,088	1,009	1,001	946
Operating income (EBIT)	5,448	3,194	187	530	1,470	2,476
Net financial result	-116	-38	-131	-76	-73	29
Non-operating expenses	0	0	0	0	0	0
Pre-tax income (EBT)	5,332	3,156	56	454	1,396	2,505
Income taxes	991	592	306	123	377	676
Minority interests	-677	-839	-643	-700	-700	-700
Net income / loss	3,664	1,725	-893	-369	319	1,128
Diluted EPS (in €)	0.17	0.08	-0.04	-0.02	0.02	0.06
Ratios						
Gross margin in % of gross sales	24.4%	23.8%	24.1%	24.0%	24.1%	24.3%
Gross margin in % of revenues	96.4%	96.2%	95.3%	94.8%	95.3%	96.0%
EBITDA margin in % of revenues	25.6%	15.8%	5.1%	6.4%	9.3%	11.7%
EBIT margin	21.3%	11.6%	0.8%	2.2%	5.5%	8.5%
Net margin	14.3%	6.2%	-3.6%	-1.5%	1.2%	3.9%
Tax rate	18.6%	18.8%	542.6%	27.0%	27.0%	27.0%
Expenses as % of sales or revenues						
Media costs (as % of gross sales)	74.7%	75.2%	74.7%	74.7%	74.7%	74.7%
S&M (as % of revenues)	52.4%	56.9%	66.9%	66.5%	63.9%	61.0%
G&A (as % of revenues)	27.7%	27.9%	28.8%	27.8%	26.4%	27.0%
Depreciation and amortisation	4.3%	4.3%	4.4%	4.2%	3.8%	3.2%
Other operating expenses	0.9%	1.7%	2.6%	2.3%	1.9%	1.9%
Y-Y Growth						
Gross sales	21.0%	10.1%	-11.9%	-2.8%	10.0%	9.5%
Net revenues	17.6%	7.9%	-10.0%	-2.8%	10.0%	9.5%
EBITDA	86.8%	-33.3%	-70.9%	20.7%	60.6%	38.5%
Operating income	116.3%	-41.4%	-94.1%	183.0%	177.4%	68.4%
Net income/ loss	171.0%	-52.9%	n.m.	n.m.	n.m.	253.3%



BALANCE SHEET

All figures in EUR '000	2020A	2021A	2022A	2023E	2024E	2025E
Assets						
Current assets, total	44,718	40,753	35,692	35,746	37,607	38,566
Cash and cash equivalents	24,330	20,704	17,008	17,738	18,274	18,699
Short-term investments	29	26	258	258	258	258
Receivables	19,727	19,319	17,568	16,892	18,217	18,751
Inventories	0	0	0	0	0	0
Other current assets	632	704	858	858	858	858
Non-current assets, total	4,123	5,599	8,262	8,105	8,095	8,158
Property, plant & equipment	412	346	230	157	174	220
Goodwill & other intangibles	737	628	374	291	264	280
Right-of-use assets	1,568	1,177	1,318	1,318	1,318	1,318
Financial assets	1,406	3,448	6,260	6,260	6,260	6,260
Other assets	0	0	79	79	79	79
Total assets	48,841	46,352	43,954	43,851	45,702	46,723
Shareholders' equity & debt						
Current liabilities, total	26,761	25,318	27,448	27,014	27,846	27,038
Short-term debt	0	0	0	0	0	0
Accounts payable	20,738	20,247	20,836	20,402	21,234	20,426
Current provisions	0	0	0	0	0	0
Other current liabilities	5,280	4,566	6,089	6,089	6,089	6,089
Lease liabilities	743	505	523	523	523	523
Long-term liabilities, total	1,242	946	840	840	840	840
Long-term debt	0	0	0	0	0	0
Lease liabilities	953	741	840	840	840	840
Other liabilities	289	205	0	0	0	0
Minority interests	1,157	1,413	1,176	1,876	2,576	3,276
Shareholders' equity	19,681	18,675	14,490	14,121	14,441	15,569
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	-45,176	-46,182	-50,367	-50,736	-50,416	-49,288
Total consolidated equity and debt	48,841	46,352	43,954	43,851	45,702	46,723
Ratios						
Current ratio (x)	1.67	1.61	1.30	1.32	1.35	1.43
Quick ratio (x)	1.67	1.61	1.30	1.32	1.35	1.43
Net debt	-22,634	-19,458	-15,645	-16,375	-16,911	-17,336
Net gearing	-115.0%	-104.2%	-108.0%	-116.0%	-117.1%	-111.3%
Equity ratio	42.7%	43.3%	35.6%	36.5%	37.2%	40.3%
Book value per share (in €)	0.93	0.89	0.71	0.69	0.71	0.76
Return on equity (ROE)	18.6%	9.2%	-6.2%	-2.6%	2.2%	7.2%
Return on investment (ROI)	7.5%	3.7%	-2.0%	-0.8%	0.7%	2.4%
Return on assets (ROA)	7.5%	3.7%	-2.0%	-0.8%	0.7%	2.4%



CASH FLOW STATEMENT

All figures in EUR '000	2020A	2021A	2022A	2023E	2024E	2025E
EBIT	5,448	3,194	187	530	1,470	2,476
Depreciation and amortisation	1,111	1,184	1,088	1,009	1,001	946
EBITDA	6,559	4,378	1,275	1,539	2,471	3,421
Changes in working capital	-1,527	636	3,256	242	-493	-1,341
Other adjustments	-1,650	-2,806	-2,600	-198	-450	-647
Operating cash flow	3,382	2,208	1,931	1,582	1,528	1,433
Investments in PP&E	-238	-121	-108	-97	-133	-175
Investments in intangibles	-549	-178	-111	-97	-133	-175
Free cash flow	2,595	1,909	1,712	1,389	1,262	1,084
Acquisitions & disposals, net	10	57	1,938	0	0	0
Other investments	-994	-1,999	-5,000	0	0	0
Investment cash flow	-1,771	-2,241	-3,281	-193	-266	-349
Debt financing, net	0	0	0	0	0	0
Equity financing, net	-978	-2,489	-1,232	0	0	0
Dividends paid	0	0	0	0	0	0
Other financing	-1,300	-1,340	-1,124	-659	-725	-659
Financing cash flow	-2,278	-3,829	-2,356	-659	-725	-659
FOREX & other effects	-232	236	10	0	0	0
Net cash flows	-899	-3,626	-3,696	730	537	425
Cash, start of the year	25,229	24,330	20,704	17,008	17,738	18,274
Cash, end of the year	24,330	20,704	17,008	17,738	18,274	18,699
EBITDA/share (in €)	0.31	0.21	0.06	0.08	0.12	0.17
Y-Y Growth						
Operating cash flow	-47.8%	-34.7%	-12.5%	-18.1%	-3.4%	-6.2%
Free cash flow	-56.4%	-26.4%	-10.3%	-18.9%	-9.1%	-14.1%
EBITDA/share	87.1%	-32.7%	-69.9%	19.7%	60.6%	38.5%

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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...39	↓	↓	↓	↓
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	20 October 2022	€2.25	Buy	€3.60
44	25 November 2022	€1.75	Buy	€3.60
45	7 February 2023	€2.15	Buy	€4.00
46	25 April 2023	€1.91	Buy	€3.50
47	5 July 2023	€2.28	Buy	€3.50
48	Today	€2.30	Buy	€3.50

INVESTMENT HORIZON

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

UPDATES

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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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