

ad pepper media International N.V.

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

Preliminary
 Q3 2023 results

RATING
PRICE TARGET
 Return Potential
 Risk Rating

BUY
€ 3.00
 53.1%
 Medium

FIRST QUARTER WITH POSITIVE EBITDA IN 2023

ad pepper media (APM) has reported preliminary Q3 figures, which were below the prior year figures, but roughly met our forecasts. Revenue declined 9% y/y to €5.4m, and EBITDA fell 75% to €101k. Q3 EBITDA was the first positive quarterly EBITDA figure this year and shows the positive effects of initiated cost savings. APM is guiding towards lower Q4 revenue y/y and positive EBITDA. Given weak macroeconomic KPIs in APM's key markets Germany and UK, we no longer expect a rebound in revenue and earnings in Q4 and have lowered our forecasts. We believe that the main share price driver will be the planned purchase of a >50% stake in solute and the subsequent consolidation of the company. The deal would more than double APM's revenue and create a leading listed player in performance marketing and digital marketplaces (price comparison). An updated DCF model, which does not yet factor in the planned solute consolidation, yields a new price target of €3.00 (previously: €3.50). We confirm our Buy recommendation.

Q3 was the first quarter with positive EBITDA in 2023 Although revenue was slightly lower than in the previous quarter, APM managed to increase EBITDA from €-118k in Q2/23 to €101k. This positive q/q swing of roughly €200k was achieved despite ca. €300k in one-off costs for the solute deal. The initiated cost cutting measures clearly had a positive impact on Q3 earnings. Bringing the company back into positive EBITDA territory shows that management is successfully fighting against strong macroeconomic headwinds, which unfortunately look set to continue following the beginning of the Israel-Hamas war (higher oil prices and thus higher inflation).

On a nine month basis, revenue fell 10% y/y to €15.9m and EBITDA was down to €-345k from €256k in 9M/22 (see figure 1 overleaf). Liquid funds including securities at fair value rose 6% y/y from €18.2m to €19.3m indicating a positive net cash flow.

(p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2020	2021	2022	2023E	2024E	2025E
Revenue (€m)	25.62	27.65	24.87	22.54	23.67	25.92
Y-o-y growth	17.6%	7.9%	-10.0%	-9.3%	5.0%	9.5%
EBITDA (€m)	6.56	4.38	1.28	0.46	1.44	2.37
EBITDA margin	25.6%	15.8%	5.1%	2.0%	6.1%	9.2%
Net income (€m)	3.66	1.73	-0.89	-0.64	-0.05	0.41
EPS (diluted) (€)	0.17	0.08	-0.04	-0.03	0.00	0.02
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	2.60	1.91	1.71	-0.99	0.68	1.82
Net gearing	-115.0%	-104.2%	-108.0%	-78.2%	-78.0%	-82.2%
Liquid assets (€m)	24.33	20.70	17.01	15.33	15.25	16.32

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.

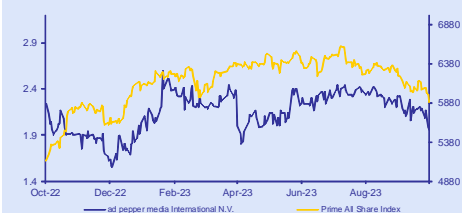
MARKET DATA

As of 20 Oct 2023

Closing Price	€ 1.96
Shares outstanding	20.26m
Market Capitalisation	€ 39.71m
52-week Range	€ 1.55 / 2.59
Avg. Volume (12 Months)	4,918

Multiples	2022	2023E	2024E
P/E	n.a.	n.a.	n.a.
EV/Sales	0.9	1.0	0.9
EV/EBITDA	17.0	47.1	15.1
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2023

Liquid Assets	€ 19.47m
Current Assets	€ 32.68m
Intangible Assets	€ 0.26m
Total Assets	€ 37.12m
Current Liabilities	€ 21.51m
Shareholders' Equity	€ 14.45m

SHAREHOLDERS

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

**Figure 1: Reported preliminary group figures**

All figures in €m	Q3-22A	Q3-22E	Delta	Q3-22A	Delta	9M-23A	9M-22A	Delta
Gross sales	21.41	21.34	0%	23.64	-9%	61.97	70.20	-12%
Revenue	5.38	5.49	-2%	5.93	-9%	15.88	17.68	-10%
EBITDA	0.10	0.17	-41%	0.41	-75%	-0.35	0.26	-
margin	1.9%	3.1%	-	6.9%	-	-2.2%	1.4%	-

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

ad pepper media segment showed growth for the first time in years In Q3, the ad pepper media segment grew 6% y/y, topping our forecast by 17% (see figure 2). Q3/23 was the first quarter since Q3/20 in which segment revenue grew. EBITDA was however much lower y/y (€6k versus €58k in Q3/22) due to one-off effects.

Webgains with surprisingly strong Q3 EBITDA Despite a segment revenue decline of 11% to €2.9m, EBITDA was up 35% y/y (€724k versus €538k in Q3/22) and beat our forecast by 53%. The main reasons for this were a lower cost basis and one-off income. On a nine month basis, Webgains' EBITDA tripled from €0.4m to €1.2m. The segment is clearly this year's earnings driver.

ad agents presented weak Q3 figures Segment revenue fell 12% y/y to €1.8m. EBITDA lagged significantly behind the prior year figure (€61k versus 185k in Q3/22) and was €40k below our forecast (see figure 2).

Admin segment EBITDA below our forecast due to one-off expenses The Admin segment EBITDA amounted to €-690k versus €-371k in the prior year period due to expenses of ca. €300k in connection with the planned acquisition of a majority stake in solute. These expenses were not included in our forecast.

Figure 2: Reported preliminary segment revenue & EBITDA

All figures in €m	Q3-23A	Q3-23E	Delta	Q3-22A	Delta	9M-23A	9M-22A	Delta
ad pepper media								
Revenue	0.69	0.59	17%	0.65	6%	1.83	2.11	-13%
EBITDA	0.01	0.01	-45%	0.06	-90%	0.04	0.22	-83%
margin	0.9%	1.9%	-	8.9%	-	2.1%	10.6%	-
Webgains								
Revenue	2.92	2.95	-1%	3.28	-11%	8.67	9.54	-9%
EBITDA	0.72	0.47	53%	0.54	35%	1.20	0.40	200%
margin	24.8%	16.1%	-	16.4%	-	13.8%	4.2%	-
ad agents								
Revenue	1.77	1.94	-9%	2.00	-12%	5.38	6.04	-11%
EBITDA	0.06	0.10	-41%	0.19	-67%	0.04	0.65	-94%
margin	3.4%	5.4%	-	9.2%	-	0.7%	10.7%	-
Admin								
Revenue	0.00	0.00	-	0.00	-	0.00	0.00	-
EBITDA	-0.69	-0.42	-	-0.37	-	-1.62	-1.02	-
Group								
Revenue	5.38	5.48	-2%	5.93	-9%	15.88	17.68	-10%
EBITDA	0.10	0.17	-41%	0.41	-75%	-0.35	0.26	-
margin	1.9%	3.1%	-	6.9%	-	-2.2%	1.4%	-

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



Macroeconomic KPIs in APM's key markets remain weak The GfK Consumer Climate Indicator for Germany fell to -26.5 heading into October from a revised -25.6 in September. This was the lowest reading since April 2023. Following the outbreak of a new war in Israel this month, we do not expect a recovery of the indicator before the end of this year. This bodes ill for private consumption in the Christmas quarter and will tighten the advertising budgets of APM's clients. Rising interest rates look set to curb credit demand and thus spending. In September, the Kiel Institute for the World Economy (IfW) lowered its GDP growth forecast for Germany from -0.3% to -0.5% for 2023 and from 1.8% to 1.5% for 2024 due to weak industrial activity, the crisis in the construction sector and weak consumer spending.

The situation in the UK is similar. The GfK Consumer Confidence indicator in the United Kingdom fell sharply to -30 in October 2023 from -21 in September, as the high cost of living and economic uncertainties weighed on sentiment. GDP growth rates are likely to remain sluggish (2023: +0.3%, 2024: +1.0%).

Forecasts adjusted Given the weaker than expected macroeconomic KPIs in APM's key markets Germany and UK, we now anticipate the Christmas quarter, which is traditionally the strongest of the year for APM, to be relatively weak. We have lowered our 2023 revenue forecast by 7% resulting in our new EBITDA forecast being down 70% (see figure 3). We have also reduced our forecasts for the following years.

Figure 3: Revisions to forecasts

All figures in €m	2023E			2024E			2025E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Revenue	24.18	22.54	-7%	26.60	23.67	-11%	29.12	25.92	-11%
EBITDA	1.54	0.46	-70%	2.47	1.44	-42%	3.42	2.37	-31%
margin	6.4%	2.0%		9.3%	6.1%		11.7%	9.2%	
Net income	-0.37	-0.64	-	0.32	-0.05	-	1.13	0.41	-64%
margin	-1.5%	-2.8%		1.2%	-0.2%		3.9%	1.6%	
EPS (diluted)	0.00	-0.03	-	0.02	0.00	-	0.06	0.02	-69%

Source: First Berlin Equity Research

APM a step closer to consolidating solute Following the purchase of a 25.65% stake in solute in October, APM now plans to acquire further solute shares to gain a majority stake and consolidate the company (see our research as of 9 October). solute, a leading price comparison portal business in the German market (billiger.de and shopping.de), has more than 170 employees, generated €33m in revenue and EBITDA of €2.0m in the past financial year. The deal would more than double APM's revenue and create a leading listed player in performance marketing and digital marketplaces (price comparison). We believe that the advertising technology (adtech) company solute, with its broad digital marketing knowhow and strong competitive position in the German price comparison portal market, is a good fit for APM, and expect the deal to be value-accretive. If the deal goes through, we believe that the APM stock has further upside potential, as a much stronger digital performance marketing company will be created.

Buy reiterated at lower price target Based on our revised standalone APM forecasts, an updated DCF model yields a new price target of €3.00 (previously: €3.50). We reiterate our Buy rating.



VALUATION MODEL

DCF valuation model								
All figures in EUR '000	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Net revenue	22,543	23,670	25,919	28,381	31,077	34,021	37,219	40,659
NOPLAT	- 656	263	950	1,586	1,938	2,343	2,807	3,333
+ depreciation & amortisation	1,042	1,030	1,013	1,019	1,043	1,053	1,060	1,067
Net operating cash flow	386	1,294	1,963	2,605	2,981	3,396	3,867	4,401
- total investments (CAPEX and WC)	-1,453	-753	-298	-849	-471	-531	-598	-673
Capital expenditures	-180	-237	-311	-369	-404	-442	-484	-529
Working capital	-1,273	-517	13	-480	-67	-88	-114	-144
Free cash flows (FCF)	-1,068	540	1,665	1,756	2,510	2,865	3,269	3,728
PV of FCF's	-1,046	475	1,313	1,243	1,594	1,633	1,672	1,711

All figures in thousands		
PV of FCFs in explicit period (2023E-2037E)	21,056	
PV of FCFs in terminal period	18,901	
Enterprise value (EV)	39,957	Terminal growth 2.0%
+ Net cash / - net debt	15,645	Terminal EBIT margin 17.5%
+ Investments / minority interests	11,248	
Shareholder value	66,850	
Number of shares (diluted)	22,194	
Fair value per share in EUR	3.01	

WACC		Terminal growth rate						
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
7.4%	4.42	4.59	4.78	5.02	5.29	5.63	6.06	
8.4%	3.87	3.99	4.11	4.26	4.44	4.64	4.89	
9.4%	3.46	3.54	3.62	3.73	3.84	3.97	4.13	
10.4%	3.13	3.19	3.25	3.32	3.40	3.49	3.60	
11.4%	2.88	2.92	2.96	3.01	3.07	3.13	3.20	
12.4%	2.67	2.70	2.73	2.77	2.81	2.86	2.91	
13.4%	2.49	2.52	2.54	2.57	2.60	2.64	2.67	
14.4%	2.35	2.37	2.39	2.41	2.43	2.46	2.49	

* 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	89,045	93,497	102,380
Media costs	75,729	83,893	73,361	66,502	69,827	76,461
Revenues	25,615	27,646	24,868	22,543	23,670	25,919
Cost of sales	928	1,059	1,164	1,010	1,041	1,037
Gross profit	24,687	26,587	23,704	21,533	22,629	24,882
S&M	13,411	15,739	16,638	14,994	15,183	15,710
G&A	7,108	7,707	7,164	7,969	7,910	8,200
Other operating income	1,514	530	937	1,154	1,184	778
Other operating expenses	234	477	651	305	308	389
EBITDA	6,559	4,378	1,275	461	1,442	2,373
Depreciation and amortisation	1,111	1,184	1,088	1,042	1,030	1,013
Operating income (EBIT)	5,448	3,194	187	-581	411	1,361
Net financial result	-116	-38	-131	80	137	159
Non-operating expenses	0	0	0	0	0	0
Pre-tax income (EBT)	5,332	3,156	56	-501	548	1,520
Income taxes	991	592	306	75	148	410
Minority interests	-677	-839	-643	-60	-450	-700
Net income / loss	3,664	1,725	-893	-636	-50	410
Diluted EPS (in €)	0.17	0.08	-0.04	-0.03	0.00	0.02
Ratios						
Gross margin in % of gross sales	24.4%	23.8%	24.1%	24.2%	24.2%	24.3%
Gross margin in % of revenues	96.4%	96.2%	95.3%	95.5%	95.6%	96.0%
EBITDA margin in % of revenues	25.6%	15.8%	5.1%	2.0%	6.1%	9.2%
EBIT margin	21.3%	11.6%	0.8%	-2.6%	1.7%	5.3%
Net margin	14.3%	6.2%	-3.6%	-2.8%	-0.2%	1.6%
Tax rate	18.6%	18.8%	542.6%	-15.0%	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%	64.1%	60.6%
G&A (as % of revenues)	27.7%	27.9%	28.8%	35.4%	33.4%	31.6%
Depreciation and amortisation	4.3%	4.3%	4.4%	4.6%	4.4%	3.9%
Other operating expenses	0.9%	1.7%	2.6%	1.4%	1.3%	1.5%
Y-Y Growth						
Gross sales	21.0%	10.1%	-11.9%	-9.3%	5.0%	9.5%
Net revenues	17.6%	7.9%	-10.0%	-9.3%	5.0%	9.5%
EBITDA	86.8%	-33.3%	-70.9%	-63.9%	212.9%	64.7%
Operating income	116.3%	-41.4%	-94.1%	n.m.	n.m.	230.7%
Net income/ loss	171.0%	-52.9%	n.m.	n.m.	n.m.	n.m.



BALANCE SHEET

All figures in EUR '000	2020A	2021A	2022A	2023E	2024E	2025E
Assets						
Current assets, total	44,718	40,753	35,692	31,885	32,579	34,127
Cash and cash equivalents	24,330	20,704	17,008	15,329	15,251	16,323
Short-term investments	29	26	258	258	258	258
Receivables	19,727	19,319	17,568	15,440	16,212	16,687
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	12,088	12,050	12,100
Property, plant & equipment	412	346	230	150	156	194
Goodwill & other intangibles	737	628	374	285	241	252
Right-of-use assets	1,568	1,177	1,318	1,318	1,318	1,318
Financial assets	1,406	3,448	6,260	10,256	10,256	10,256
Other assets	0	0	79	79	79	79
Total assets	48,841	46,352	43,954	43,973	44,629	46,226
Shareholders' equity & debt						
Current liabilities, total	26,761	25,318	27,448	24,047	24,303	24,791
Short-term debt	0	0	0	0	0	0
Accounts payable	20,738	20,247	20,836	17,435	17,691	18,179
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	1,236	1,686	2,386
Shareholders' equity	19,681	18,675	14,490	17,850	17,800	18,210
Share capital	1,075	1,075	1,075	2,768	2,768	2,768
Capital reserve	63,782	63,782	63,782	66,085	66,085	66,085
Other reserves	0	0	0	0	0	0
Loss carryforward / retained earnings	-45,176	-46,182	-50,367	-51,003	-51,053	-50,643
Total consolidated equity and debt	48,841	46,352	43,954	43,973	44,629	46,226
Ratios						
Current ratio (x)	1.67	1.61	1.30	1.33	1.34	1.38
Quick ratio (x)	1.67	1.61	1.30	1.33	1.34	1.38
Net debt	-22,634	-19,458	-15,645	-13,966	-13,888	-14,960
Net gearing	-115.0%	-104.2%	-108.0%	-78.2%	-78.0%	-82.2%
Equity ratio	42.7%	43.3%	35.6%	43.4%	43.7%	44.6%
Book value per share (in €)	0.93	0.89	0.71	0.86	0.81	0.83
Return on equity (ROE)	18.6%	9.2%	-6.2%	-3.6%	-0.3%	2.2%
Return on investment (ROI)	7.5%	3.7%	-2.0%	-1.4%	-0.1%	0.9%
Return on assets (ROA)	7.5%	3.7%	-2.0%	-1.4%	-0.1%	0.9%



CASH FLOW STATEMENT

All figures in EUR '000	2020A	2021A	2022A	2023E	2024E	2025E
EBIT	5,448	3,194	187	-581	411	1,361
Depreciation and amortisation	1,111	1,184	1,088	1,042	1,030	1,013
EBITDA	6,559	4,378	1,275	461	1,442	2,373
Changes in working capital	-1,527	636	3,256	-1,273	-517	13
Other adjustments	-1,650	-2,806	-2,600	5	-11	-251
Operating cash flow	3,382	2,208	1,931	-807	914	2,135
Investments in PP&E	-238	-121	-108	-90	-118	-156
Investments in intangibles	-549	-178	-111	-90	-118	-156
Free cash flow	2,595	1,909	1,712	-987	677	1,824
Acquisitions & disposals, net	10	57	1,938	-3,996	0	0
Other investments	-994	-1,999	-5,000	0	0	0
Investment cash flow	-1,771	-2,241	-3,281	-4,176	-237	-311
Debt financing, net	0	0	0	0	0	0
Equity financing, net	-978	-2,489	-1,232	3,996	0	0
Dividends paid	0	0	0	0	0	0
Other financing	-1,300	-1,340	-1,124	-692	-755	-751
Financing cash flow	-2,278	-3,829	-2,356	3,304	-755	-751
FOREX & other effects	-232	236	10	0	0	0
Net cash flows	-899	-3,626	-3,696	-1,679	-78	1,073
Cash, start of the year	25,229	24,330	20,704	17,008	15,329	15,251
Cash, end of the year	24,330	20,704	17,008	15,329	15,251	16,323
EBITDA/share (in €)	0.31	0.21	0.06	0.02	0.07	0.11
Y-Y Growth						
Operating cash flow	-47.8%	-34.7%	-12.5%	n.m.	n.m.	133.7%
Free cash flow	-56.4%	-26.4%	-10.3%	n.m.	n.m.	169.4%
EBITDA/share	87.1%	-32.7%	-69.9%	-64.7%	195.2%	64.7%

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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...42	↓	↓	↓	↓
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	21 July 2023	€2.30	Buy	€3.50
49	21 August 2023	€2.38	Buy	€3.50
50	9 October 2023	€2.14	Buy	€3.50
51	Today	€1.96	Buy	€3.00

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

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

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