

ad pepper media International N.V.

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

Final
 2018 figures

RATING
PRICE TARGET
 Return Potential 34.5%
 Risk Rating High

BUY
€ 3.00

STRUCTURAL GROWTH AND VALUE DRIVERS INTACT

Final 2018 figures matched the preliminary numbers. Revenue grew 8% to €20.3m. EBITDA, however, declined from €2.2m to €14m due mainly to one-off costs for restructuring the ad agents subsidiary. ad pepper is guiding towards higher gross sales, net revenues, and EBITDA than in the previous year. Despite the disappointing performance in 2018, we believe that the basic growth drivers (growing online advertising budgets, digitisation of consumer behaviour, strong consumer spending) are intact. ad peppers's high operating leverage means that growth translates into increasing EBITDA margins. Apart from slower global growth, we view a no-deal Brexit as the main risk in 2019, as the Webgains subsidiary generates ca. 56% of its revenue in the UK. An updated DCF model still yields a €3.00 price target. We reiterate our Buy rating.

Lower EBIT despite higher revenues We already commented on sales and earnings in our note of 18 February. Despite 8% net revenue growth, EBIT declined from €1.8m to €1.0m. The net result more than halved from €580k to €247k.

High equity and strong net cash position Equity remained unchanged at €16.5m. The equity ratio was down 1 PP at 41.7%. The cash position including securities declined by ca. €2.1m to €20.5m. As ad pepper has no financial debt the net cash position remains strong. Working capital remained negative at €-1.3m. However, it was higher than at the end of 2017 (€-3.7m) due mainly to higher receivables. ad pepper can build on a very strong balance sheet giving the company financial stability and sufficient leeway to grow.

Negative operating cash flow Cash outflow from higher receivables (€3.9m) was the main reason for negative operating cash flow of €-1.5m. CAPEX was negligible resulting in free cash flow of €-1.6m. Net cash flow amounted to €-1.9m due to financing cash outflow of €0.3m. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2016	2017	2018	2020E	2021E	2021E
Revenue (€m)	61.16	18.72	20.27	20.93	23.13	25.67
Y-o-y growth	9.2%	-69.4%	8.3%	3.3%	10.5%	11.0%
EBIT (€m)	1.61	1.82	1.03	1.71	2.67	3.03
EBIT margin	2.6%	9.7%	5.1%	8.2%	11.5%	11.8%
Net income (€m)	0.63	0.58	0.25	0.49	1.09	1.34
EPS (diluted) (€)	0.03	0.03	0.01	0.02	0.05	0.06
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-0.54	2.67	-1.62	3.22	2.34	2.67
Net gearing	-126.0%	-128.1%	-116.8%	-133.2%	-138.4%	-142.8%
Liquid assets (€m)	17.86	20.13	18.23	21.45	23.80	26.47

* Please note that the lower revenue figure in 2017 is due mainly to a change in the IFRS reporting standard.

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.

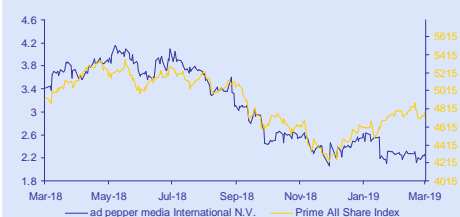
MARKET DATA

As of 28 Mar 2019

Closing Price	€ 2.23
Shares outstanding	21.00m
Market Capitalisation	€ 46.83m
52-week Range	€ 2.06 / 4.15
Avg. Volume (12 Months)	7,127

Multiples	2018	2019E	2020E
P/E	192.2	96.1	43.7
EV/Sales	1.4	1.4	1.3
EV/EBIT	28.5	17.1	11.0
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Dec 2018

Liquid Assets	€ 18.23m
Current Assets	€ 36.35m
Intangible Assets	€ 0.22m
Total Assets	€ 39.61m
Current Liabilities	€ 22.56m
Shareholders' Equity	€ 16.51m

SHAREHOLDERS

EMA B.V.	41.2%
Treasury Stock	8.7%
Axxion S.A.	5.1%
Dieter Koppitz	3.0%
Free Float	42.0%



ad pepper media segment main sales and earnings driver The ad pepper media segment reported its strongest performance in the company's history. The key growth driver was once again iLead (lead generation). In addition, new products in the field of audience targeting were developed and marketed. Gross sales were up 56% at €10.6m, and net revenue (gross sales ./ media costs) 44% at €5.1m. Gross profit rose by 38% to €4.4m (2017: €3.2m), resulting in a gross margin of 41.4% of gross sales (2017: 46.7%). The segment was the most profitable in the group, reporting EBITDA of €1.6m versus €1.0m in 2017. The EBITDA margin increased almost 1 PP to 15.2% of gross sales.

Webgains showed solid growth, but was less profitable The Webgains segment increased gross sales by 7% to €54.9m, and net revenue by 4% to €10.1m. Adjusted for foreign exchange effects, revenue growth amounted to almost 6%. Webgains benefitted from a sector-wide consolidation process as well as new product initiatives. Gross profit was 3% higher at €9.9m. The gross margin edged down y/y to 18.1% from 18.7% of gross sales due largely to a shift in the revenue mix towards high-volume programmes. EBITDA, however, more than halved to €0.6m due to higher OPEX. The EBITDA margin declined from 2.5% of gross sales to 1.1%.

Figure 1: Reported segment figures

All figures in €m	2018A	2017A	Delta
ad pepper media			
Gross sales	10.62	6.81	55.9%
Net revenue	5.11	3.55	43.8%
EBITDA	1.62	0.97	66.1%
margin on net revenue	31.6%	27.4%	-
Webgains			
Gross sales	54.94	51.40	6.9%
Net revenue	10.15	9.75	4.1%
EBITDA	0.63	1.31	-51.8%
margin on net revenue	6.2%	13.4%	-
ad agents			
Gross sales	17.10	17.35	-1.5%
Net revenue	5.01	5.42	-7.6%
EBITDA	0.04	1.26	-96.8%
margin on net revenue	0.8%	23.2%	-
Admin			
Net revenue	0.00	0.00	-
EBITDA	-0.93	-1.23	-
Intersegment elimination			
Sales	0.00	0.00	-
EBITDA	0.00	-0.10	-
Group			
Gross sales	82.65	75.56	9.4%
Net revenue	20.27	18.72	8.3%
EBITDA	1.35	2.21	-38.7%
margin on net revenue	6.7%	11.8%	-

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



ad agents suffered from loss of clients ad agents has positioned itself as an early mover in the segment for Amazon SEO and SEA (search engine optimisation and search engine advertising) services. We believe that this strategy will result in a return to profitable growth which was interrupted by the loss of three important clients in the second half of 2018. Gross sales thus fell 1.5% to € 17.1m, and net revenue almost 8% to €5.0m (2017: €5.4m). Gross profit was down 9% at €4.8m. The gross margin declined from 30.3% to 28.0% due to the substantial rise in media services performed in connection with Google searches. EBITDA remained positive (€40k) despite restructuring costs, but was significantly lower than the previous year (2017: €1.3m).

Cancellation of treasury shares and capital decrease proposed The Supervisory Board and the Management Board will propose the cancellation of 1,500,000 treasury shares (6.5% of share capital) and a corresponding decrease in the share capital to the Annual General Meeting. After the share capital decrease, the company's share capital will amount to EUR 1,075,000 and will be divided into 21,500,000 shares.

Structural growth drivers versus short-term obstacles Weaker global growth perspectives and a looming no-deal Brexit are the main short-term risks, but the structural growth drivers remain intact. The digital transformation at major European companies has only just begun, and digital performance marketing, where the advertiser pays only for measurable results, is gaining market share. The ongoing migration from offline to online advertising budgets, the increasing digitalisation of consumer behaviour, and the widespread growth in consumer spending should support ad pepper's business.

Value drivers intact Despite the disappointing 2018 earnings performance, we believe that the main value drivers are intact. Digital advertising remains a growth market. Net revenue growth should translate into rising EBITDA margins due to high operating leverage. Negative working capital means that growth can be financed externally without additional costs. The potential to generate strong free cash flows thus remains high. Furthermore, the net cash position of €20.5m offers high financial flexibility.

Buy reiterated at unchanged price target We stick to our forecasts. An updated DCF model still yields a €3.00 price target. Our recommendation remains Buy.



VALUATION MODEL

DCF valuation model								
All figures in EUR '000								
	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Net revenue	20,931	23,129	25,673	28,497	31,631	35,101	38,920	43,081
NOPLAT	1,171	1,861	2,113	2,345	2,627	2,942	3,292	3,677
+ depreciation & amortisation	290	250	227	230	245	264	286	311
Net operating cash flow	1,460	2,110	2,340	2,575	2,873	3,207	3,579	3,988
- total investments (CAPEX and WC)	1,737	209	309	208	205	229	252	272
Capital expenditures	-188	-208	-231	-256	-279	-303	-329	-356
Working capital	1,926	417	540	464	484	532	581	629
Free cash flows (FCF)	3,197	2,319	2,649	2,783	3,077	3,436	3,831	4,260
PV of FCF's	2,957	1,932	1,987	1,881	1,874	1,884	1,893	1,896

All figures in thousands	
PV of FCFs in explicit period (2019E-2033E)	28,280
PV of FCFs in terminal period	15,887
Enterprise value (EV)	44,167
+ Net cash / - net debt	18,233
+ Investments / minority interests	3,127
Shareholder value	65,527
Number of shares (diluted)	21,555
Fair value per share in EUR	3.04

		Terminal growth rate							
WACC		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	
Cost of equity	11.0%	7.0%	4.42	4.58	4.77	5.00	5.28	5.63	6.08
Pre-tax cost of debt	6.0%	8.0%	3.89	3.99	4.11	4.26	4.43	4.63	4.88
Tax rate	29.2%	9.0%	3.48	3.55	3.64	3.73	3.84	3.97	4.12
After-tax cost of debt	4.2%	10.0%	3.17	3.22	3.28	3.34	3.41	3.50	3.59
Share of equity capital	100.0%	11.0%	2.92	2.95	2.99	3.04	3.09	3.15	3.21
Share of debt capital	0.0%	12.0%	2.71	2.74	2.77	2.80	2.84	2.88	2.93
		13.0%	2.54	2.56	2.59	2.61	2.64	2.67	2.70
		14.0%	2.40	2.42	2.44	2.45	2.47	2.50	2.52
Price target in EUR	3.00								

* for layout purposes the model shows numbers only to 2026, but runs until 2033



INCOME STATEMENT

All figures in EUR '000	2015A	2016A	2017A	2018A	2019E	2020E	2021E
Gross sales	56,009	61,164	75,563	82,653	85,031	93,893	104,222
Media costs	n.a.	n.a.	56,839	62,381	64,100	70,764	78,549
Net revenues	n.a.	n.a.	18,724	20,272	20,931	23,129	25,673
Other cost of goods sold	40,165	45,076	376	726	805	911	1,027
Gross profit	15,844	16,088	18,348	19,546	20,126	22,218	24,646
S&M	10,575	9,055	10,771	12,621	12,580	13,466	14,736
G&A	6,382	6,155	6,087	5,925	6,009	6,306	7,009
Other operating income	1,406	1,059	723	494	623	704	385
Other operating expenses	49	329	396	467	453	481	257
EBITDA	540	1,748	2,209	1,354	1,996	2,919	3,256
Depreciation and amortisation	296	140	391	327	290	250	227
Operating income (EBIT)	244	1,608	1,818	1,027	1,707	2,669	3,029
Net financial result	199	82	-17	-190	23	25	26
Non-operating expenses	0	0	0	0	0	0	0
Pre-tax income (EBT)	443	1,690	1,801	837	1,730	2,694	3,055
Income taxes	308	594	664	302	536	808	917
Minority interests	-168	-467	-556	-288	-700	-800	-800
Net income / loss	-33	629	581	247	494	1,086	1,339
Diluted EPS (in €)	0.00	0.03	0.03	0.01	0.02	0.05	0.06
Ratios							
Gross margin in % of gross sales	28.3%	26.3%	24.3%	23.6%	23.7%	23.7%	23.6%
Gross margin in % of net revenues	n.a.	n.a.	98.0%	96.4%	96.2%	96.1%	96.0%
EBITDA margin in % of net revenues	1.0%	2.9%	11.8%	6.7%	9.5%	12.6%	12.7%
EBIT margin	0.4%	2.6%	9.7%	5.1%	8.2%	11.5%	11.8%
Net margin	-0.1%	1.0%	3.1%	1.2%	2.4%	4.7%	5.2%
Tax rate	69.5%	35.1%	36.9%	36.1%	31.0%	30.0%	30.0%
Expenses as % of sales or revenues							
Media costs (as % of gross sales)	n.a.	n.a.	75.2%	75.5%	75.4%	75.4%	75.4%
S&M (as % of net revenues)	18.9%	14.8%	57.5%	62.3%	60.1%	58.2%	57.4%
G&A (as % of net revenues)	11.4%	10.1%	32.5%	29.2%	28.7%	27.3%	27.3%
Depreciation and amortisation	0.5%	0.2%	2.1%	1.6%	1.4%	1.1%	0.9%
Other operating expenses	0.1%	0.5%	2.1%	2.3%	2.2%	2.1%	1.0%
Y-Y Growth							
Gross sales	n.a.	9.2%	23.5%	9.4%	2.9%	10.4%	11.0%
Net revenues	n.a.	n.a.	n.a.	8.3%	3.3%	10.5%	11.0%
Operating income	n.a.	559.0%	13.0%	-43.5%	66.2%	56.3%	13.5%
Net income/ loss	n.a.	n.m.	-7.7%	-57.5%	100.0%	119.8%	23.3%



BALANCE SHEET

All figures in EUR '000	2015A	2016A	2017A	2018A	2019E	2020E	2021E
Assets							
Current assets, total	27,726	28,672	34,896	36,346	37,421	41,074	45,244
Cash and cash equivalents	16,932	17,859	20,127	18,233	21,454	23,798	26,472
Short-term investments	297	138	27	55	55	55	55
Receivables	9,983	10,116	14,129	17,629	15,483	16,792	18,288
Inventories	0	0	0	0	0	0	0
Other current assets	514	559	613	429	429	429	429
Non-current assets, total	6,314	2,706	3,719	3,264	3,162	3,121	3,125
Property, plant & equipment	150	212	424	330	264	244	252
Goodwill & other intangibles	349	572	362	218	183	161	157
Other assets	5,815	1,922	2,933	2,716	2,716	2,716	2,716
Total assets	34,040	31,378	38,615	39,610	40,583	44,195	48,369
Shareholders' equity & debt							
Current liabilities, total	17,436	16,282	21,696	22,560	22,340	24,066	26,101
Short-term debt	0	0	0	0	0	0	0
Accounts payable	13,618	12,357	17,838	18,967	18,747	20,473	22,508
Current provisions	0	0	0	0	0	0	0
Other current liabilities	3,818	3,925	3,858	3,593	3,593	3,593	3,593
Long-term liabilities, total	96	117	402	538	538	538	538
Long-term debt	0	0	0	0	0	0	0
Deferred revenue	0	0	0	0	0	0	0
Other liabilities	96	117	402	538	538	538	538
Minority interests	503	690	779	853	1,553	2,353	3,153
Shareholders' equity	16,005	14,289	15,738	15,659	16,153	17,238	18,577
Share capital	1,150	1,150	1,150	1,150	1,150	1,150	1,150
Capital reserve	63,305	61,116	61,312	60,999	60,999	60,999	60,999
Other reserves	-2,199	-2,356	-1,683	-1,208	-1,208	-1,208	-1,208
Loss carryforward / retained earnings	-46,250	-45,621	-45,041	-45,281	-44,787	-43,702	-42,363
Total consolidated equity and debt	34,040	31,378	38,615	39,610	40,583	44,195	48,369
Ratios							
Current ratio (x)	1.59	1.76	1.61	1.61	1.68	1.71	1.73
Quick ratio (x)	1.59	1.76	1.61	1.61	1.68	1.71	1.73
Net debt	-17,229	-17,997	-20,154	-18,288	-21,509	-23,853	-26,527
Net gearing	-107.6%	-126.0%	-128.1%	-116.8%	-133.2%	-138.4%	-142.8%
Equity ratio	48.5%	47.7%	42.8%	41.7%	43.6%	44.3%	44.9%
Book value per share (in €)	0.75	0.67	0.74	0.74	0.76	0.81	0.87
Return on equity (ROE)	-0.2%	4.4%	3.7%	1.6%	3.1%	6.3%	7.2%
Return on investment (ROI)	-0.1%	2.0%	1.5%	0.6%	1.2%	2.5%	2.8%
Return on assets (ROA)	0.1%	2.2%	1.5%	0.6%	1.2%	2.5%	2.8%



CASH FLOW STATEMENT

All figures in EUR '000	2015A	2016A	2017A	2018A	2019E	2020E	2021E
EBIT	244	1,608	1,818	1,027	1,707	2,669	3,029
Depreciation and amortisation	296	140	391	327	290	250	227
EBITDA	540	1,748	2,209	1,354	1,996	2,919	3,256
Changes in working capital	2,257	-1,164	3,095	-2,192	1,926	417	540
Other adjustments	-1,014	-561	-2,203	-684	-513	-783	-891
Operating cash flow	1,783	23	3,101	-1,522	3,409	2,553	2,906
Investments in PP&E	-67	-144	-378	-51	-126	-139	-154
Investments in intangibles	-118	-417	-55	-44	-63	-69	-77
Free cash flow	1,598	-538	2,667	-1,617	3,221	2,344	2,674
Acquisitions & disposals, net	3,363	3,920	3	66	0	0	0
Other investments	16	209	0	-35	0	0	0
Investment cash flow	3,194	3,568	-431	-64	-188	-208	-231
Debt financing, net	0	0	0	0	0	0	0
Equity financing, net	176	-2,217	105	0	0	0	0
Dividends paid	0	0	0	0	0	0	0
Other financing	0	-280	-467	-296	0	0	0
Financing cash flow	176	-2,497	-362	-296	0	0	0
FOREX & other effects	8	-167	-39	-12	0	0	0
Net cash flows	5,162	927	2,269	-1,894	3,221	2,344	2,674
Cash, start of the year	11,926	16,932	17,859	20,127	18,233	21,454	23,798
Cash, end of the year	17,088	17,859	20,128	18,233	21,454	23,798	26,472
EBITDA/share (in €)	0.03	0.08	0.10	0.06	0.09	0.14	0.15
Y-Y Growth							
Operating cash flow	n.a.	-98.7%	13381.7%	n.m.	n.m.	-25.1%	13.8%
Free cash flow	n.a.	n.m.	n.m.	n.m.	n.m.	-27.2%	14.1%
EBITDA/share	n.a.	227.8%	26.3%	-39.0%	47.5%	46.2%	11.6%

FIRST BERLIN 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...7	↓	↓	↓	↓
8	16 October 2018	€2.91	Buy	€4.00
9	16 November 2018	€2.62	Buy	€4.00
10	18 February 2019	€2.24	Buy	€3.00
11	Today	€2.23	Buy	€3.00

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PRICE TARGET DATES

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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.

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.

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 Lurgiallee 12, 60439 Frankfurt

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