

ad pepper media International N.V.

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

Preliminary
 Q1 figures

RATING
PRICE TARGET
 Return Potential 46.8%
 Risk Rating High

BUY
€ 3.20

Q1 MUCH STRONGER THAN EXPECTED

ad pepper media International reported preliminary Q1 figures which were above the previous year's numbers and significantly exceeded our forecasts. Group EBITDA amounted to €0.7m (Q1/18: €0.3m, FBe: €0.2m). The main reason for the strong result was very good performance at the subsidiary Webgains. In the Q1 press release ad pepper is now providing more precise EBITDA guidance for the current fiscal year of €2m, which is in line with our forecast. Previous guidance was for higher EBITDA than in the previous year. An updated DCF model yields a new price target of €3.20 (previously: €3.00). We reiterate our Buy rating.

Q1 EBIT doubled Gross sales rose 9% y/y to €20.7m (FBe: €19.3m) due mainly to strong growth at Webgains (+12% y/y). Revenue was up 4% at €5.0m. Gross profit amounted to €4.9m (Q1/18: €4.7m, FBe: €4.6m). EBITDA more than doubled from €0.3m to €0.7m (FBe: €0.2m) as operating expenses declined slightly despite higher revenue. EBIT doubled from €231k to €473k (FBe: €89k). Q1 figures show the high operating leverage of ad pepper's business model.

Guidance: €2m EBITDA Following the strong Q1 figures, management has provided more precise EBITDA guidance of ca. €2.0m for the current fiscal year, which is in line with our forecast. As previous year's EBITDA was €1.35m, this is equivalent to a rise of almost 50% y/y.

Improved net cash position Liquid funds rose 19% y/y to €23.2m. Compared to the cash position at the beginning of the year of €20.5m, this is also a significant q/q improvement. We assume that the working capital requirement declined significantly during Q1. As ad pepper does not have any liabilities to banks, the net cash position is equivalent to liquid funds.

(p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2016	2017	2018	2019E	2020E	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

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 18 Apr 2019

Closing Price	€ 2.18
Shares outstanding	21.00m
Market Capitalisation	€ 45.78m
52-week Range	€ 2.06 / 4.15
Avg. Volume (12 Months)	6,885

Multiples	2018	2019E	2020E
P/E	185.4	92.7	42.2
EV/Sales	1.2	1.2	1.1
EV/EBIT	24.2	14.6	9.3
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%

**Figure 1: Reported group figures versus forecasts**

All figures in €m	Q1-19A	Q1-19E	Delta	Q1-18A	Delta
Gross sales	20.65	19.26	7.2%	19.00	8.7%
Revenue	5.05	4.70	7.3%	4.87	3.8%
Gross profit	4.92	4.58	7.4%	4.72	4.2%
margin	97.4%	97.4%	-	97.0%	
EBITDA	0.71	0.16	343.1%	0.31	127.2%
margin	14.0%	3.4%	-	6.4%	
EBIT	0.47	0.09	431.5%	0.23	104.8%
margin	9.4%	1.9%	-	4.7%	

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

ad pepper media subsidiary shows solid growth Segment gross sales grew 4% y/y to €2.4m. Segment EBITDA was up 10% at €0.53m. The EBITDA margin (in terms of gross sales) increased by more than 1 PP to 22.2%. As expected, the segment topped the excellent Q1/18 results and remained on its profitable growth path. ad pepper's lead generation and audience targeting products remain in high demand.

Figure 2: Segment gross sales and EBITDA versus forecasts

All figures in €m	Q1-19A	Q1-19E	Delta	Q1-18A	Delta
ad pepper media					
Gross sales	2.38	2.39	-0.1%	2.29	4.0%
EBITDA	0.53	0.51	3.9%	0.48	9.7%
margin	22.2%	21.4%	-	21.1%	-
Webgains					
Gross sales	13.79	12.88	7.1%	12.34	11.8%
EBITDA	0.42	0.07	495.7%	0.05	717.6%
margin	3.0%	0.5%	-	0.4%	-
ad agents					
Gross sales	4.48	4.00	12.1%	4.37	2.5%
EBITDA	0.07	-0.04	-	0.16	-53.2%
margin	1.7%	-1.0%	-	3.6%	-
Admin & Consolidation					
Gross sales	-0.01	0.00	-	0.00	-
EBITDA	-0.31	-0.38	-	-0.38	-
Group					
Gross sales	20.65	19.26	7.2%	19.00	8.6%
EBITDA	0.71	0.16	344.4%	0.31	128.6%
margin	3.4%	0.8%	-	1.6%	-

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

Webgains with very strong figures Despite Brexit uncertainty, the UK subsidiary Webgains showed strong gross sales growth (+12% y/y). EBITDA was eight times higher y/y at €0.4m (FBe: €0.1m). The jump in EBITDA demonstrates the enormous operating leverage of the affiliate marketing business model. Given that the likely Brexit date has been postponed to October, we are much more confident that a disorderly will be avoided.

ad agents' turnaround faster than expected Following the loss of three important clients last year, ad agents is already back on a profitable growth path. Gross sales increased 3% y/y to €4.5m (FBe: €4.0m). EBITDA was still weak, but slightly positive at €74k (Q1/18: €158k, FBe: €-40k).



Q1 report on 23 May A more detailed analysis of the Q1 figures will follow after the publication of the Q1 report on 23 May.

Buy reiterated at higher price target Based on the higher net cash position and unchanged forecasts, our DCF model yields a new price target of €3.20 (previously: €3.00). We reiterate our Buy rating.



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	2,975	1,944	2,000	1,893	1,886	1,896	1,905	1,908

All figures in thousands	
PV of FCFs in explicit period (2019E-2033E)	28,459
PV of FCFs in terminal period	15,988
Enterprise value (EV)	44,446
+ Net cash / - net debt	20,934
+ Investments / minority interests	3,127
Shareholder value	68,507
Number of shares (diluted)	21,555
Fair value per share in EUR	3.18

WACC		Terminal growth rate						
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
7.0%	4.56	4.73	4.92	5.14	5.42	5.77	6.22	
8.0%	4.03	4.13	4.25	4.40	4.57	4.77	5.02	
9.0%	3.62	3.69	3.78	3.87	3.98	4.11	4.26	
10.0%	3.30	3.36	3.41	3.48	3.55	3.64	3.73	
11.0%	3.05	3.09	3.13	3.18	3.23	3.29	3.35	
12.0%	2.85	2.88	2.91	2.94	2.98	3.02	3.06	
13.0%	2.68	2.70	2.72	2.75	2.78	2.81	2.84	
14.0%	2.54	2.55	2.57	2.59	2.61	2.63	2.66	

* 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...8	↓	↓	↓	↓
9	16 November 2018	€2.62	Buy	€4.00
10	18 February 2019	€2.24	Buy	€3.00
11	1 April 2019	€2.23	Buy	€3.00
12	Today	€2.18	Buy	€3.20

Authored by: Dr. Karsten von Blumenthal, Analyst

Company responsible for preparation:

First Berlin Equity Research GmbH

Mohrenstraße 34
10117 Berlin

Tel. +49 30 80 93 96 85 Fax +49 (0)30 - 80 93 96 87

info@firstberlin.com

www.firstberlin.com

Person responsible for forwarding or distributing this financial analysis: Martin Bailey

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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.

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