

ad pepper media International N.V.

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

Preliminary
 Q2 figures

RATING PRICE TARGET

Return Potential
 Risk Rating

ADD
€ 3.30
 15.0%
 High

EXCELLENT Q2 – EBITDA GUIDANCE INCREASED

Following excellent Q2 figures, which were significantly above the previous year's figures and our forecasts, ad pepper media raised EBITDA guidance from €2.0m to €2.5m. Given that H1 EBITDA already amounted to €1.6m and H2 is usually stronger than H1 due to Christmas business, the new guidance looks rather conservative. Q2 revenue increased 17% to €5.7m. High operating leverage resulted in EBITDA more than tripling to €0.9m. We raise our forecast for 2019E and the following years. An updated DCF model yields a new price target of €3.30 (previously: €3.20). Following the share price increase in recent months, we downgrade the stock from Buy to Add.

Excellent Q2 figures Q2 gross sales increased 8% y/y to €20.1m (FBe: €19.0m). Revenue was up 17% at €5.7m (FBe: €4.7m). All segments contributed to the revenue growth, especially the ad pepper media segment (+30% y/y). EBITDA more than tripled from €290k to €883k (see figure 1 overleaf). All segments delivered positive EBITDA contributions. The strongest EBITDA contribution came from the ad pepper media segment (€859k). Higher holding costs resulted in lower Admin EBITDA (€-521k versus €-352k in Q2/18). The strong increase in group EBITDA shows the strong operating leverage of the business model. Liquid funds including securities remained largely stable at €20.4m versus €20.8m at the end of H1/18.

EBITDA guidance increased ad pepper raised 2019 EBITDA guidance from €2.0m to €2.5m. Given that H1 EBITDA already amounted to €1.6m and H2 is usually stronger than H1 due to Christmas business, the new guidance looks rather conservative. However, we understand that advisory-related projects significantly contributed to the excellent Q2 result. It cannot be taken for granted that such projects will deliver similar contributions in H2.

(p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2016	2017	2018	2019E	2020E	2021E
Revenue (€m)	61.16	18.72	20.27	21.80	23.73	26.10
Y-o-y growth	9.2%	-69.4%	8.3%	7.5%	8.9%	10.0%
EBIT (€m)	1.61	1.82	1.03	2.23	2.85	3.26
EBIT margin	2.6%	9.7%	5.1%	10.3%	12.0%	12.5%
Net income (€m)	0.63	0.58	0.25	0.76	1.21	1.50
EPS (diluted) (€)	0.03	0.03	0.01	0.04	0.06	0.07
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-0.54	2.67	-1.62	1.60	4.55	2.75
Net gearing	-126.0%	-128.1%	-116.8%	-121.1%	-138.6%	-142.1%
Liquid assets (€m)	17.86	20.13	18.23	19.83	24.39	27.14

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.

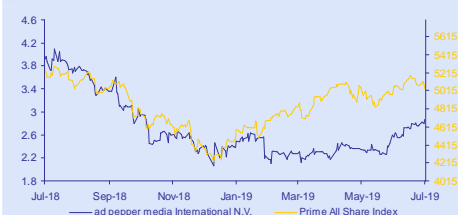
MARKET DATA

As of 18 Jul 2019

Closing Price	€ 2.87
Shares outstanding	21.00m
Market Capitalisation	€ 60.27m
52-week Range	€ 2.06 / 4.09
Avg. Volume (12 Months)	7,351

Multiples	2018	2019E	2020E
P/E	244.0	79.2	49.8
EV/Sales	1.9	1.8	1.7
EV/EBIT	38.2	17.5	13.8
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Mar 2019

Liquid Assets	€ 21.06m
Current Assets	€ 35.07m
Intangible Assets	€ 0.21m
Total Assets	€ 40.44m
Current Liabilities	€ 20.82m
Shareholders' Equity	€ 16.98m

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	Q2-19A	Q2-19E	Delta	Q2-18A	Delta	H1-19A	H1-18A
Gross sales	20.17	19.01	6.1%	18.72	7.8%	40.82	37.72
Revenue	5.74	4.70	22.2%	4.90	17.1%	10.79	9.77
EBITDA	0.88	0.27	227.0%	0.29	204.5%	1.59	0.60
margin on revenues	15.4%	5.7%		5.9%		14.8%	6.2%

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

Another outstanding quarter from ad pepper media segment The subsidiary increased revenue by 30% y/y to €1.8m. Segment EBITDA was up 63% y/y at €859k. Advisory-related projects drove revenue and EBITDA to a new high. EBITDA margin climbed from 38% to 47%. ad pepper media's lead generation and audience targeting products remain in high demand. The subsidiary continues to exploit its unique and proprietary platform iLead which helps to generate customised campaigns which are rapidly adapted to customers' markets. Based on iLead, ad pepper media has successfully launched and managed more than 30,000 campaigns worldwide and generated millions of qualified leads.

Webgains much better than expected The British subsidiary Webgains could compensate for the reduced advertising activity of a large client much better than we expected. Segment revenue grew 11% y/y to €2.5m and EBITDA more than tripled to €388k (see figure 2 overleaf). The jump in EBITDA demonstrates the enormous operating leverage of the affiliate marketing business model.

Brexit may burden Webgains in the second-half of the year. The next possible Brexit date is 31 October. Given that Boris Johnson is likely to be the UK's next prime minister, the probability of a disorderly Brexit has increased, which may have a negative effect on the UK economy resulting in lower advertising budgets. However, Webgains' internationalisation strategy may compensate for possible lower UK revenues.

In July, Webgains Deutschland won the PerformixX Award in the category "Best Network & Tracking". Webgains Deutschland prevailed against Awin, the largest German affiliate network, and financeAds. The expert jury of 30 top publishers honoured Webgains' proactivity, experience, know-how, fairness, and the number of campaigns. The PerformixX Awards are part of the largest German Affiliate Marketing Conference. We believe that the award reflects the competitiveness of Webgains, which is one of the leading affiliate marketing networks with more than 250,000 publishers and more than 2,000 customers in 14 countries.

ad agents' turnaround successful The subsidiary ad agents increased Q2 revenue by 13% y/y to €1.4m. Segment EBITDA was back in positive territory at €158k versus €-3k in Q2/18 (see figure 2 overleaf). On a q/q basis, segment EBITDA doubled (Q1/19: 74k). The subsidiary has digested the loss of three important clients last year and is back on a profitable growth path. ad agents is a full-service performance marketing agency with thorough knowledge of the entire digital advertising market. It offers a comprehensive service portfolio and has positioned itself as an early mover in the segment for Amazon SEO and SEA (search engine optimisation and search engine advertising) services.

**Figure 2: Reported segment figures versus forecasts**

All figures in €m	Q2-19A	Q2-19E	Delta	Q2-18A	Delta	H1-19A	H1-18A
ad pepper media							
Revenue	1.83	1.33	37.3%	1.40	30.1%	3.00	2.55
EBITDA	0.86	0.57	52.0%	0.53	62.7%	1.39	1.01
margin	47.1%	42.5%	-	37.6%	-	46.3%	39.5%
Webgains							
Revenue	2.49	2.14	16.3%	2.24	11.2%	5.09	4.57
EBITDA	0.39	-0.09	-	0.12	231.6%	0.81	0.17
margin	15.6%	-4.0%	-	5.2%	-	15.8%	3.7%
ad agents							
Revenue	1.43	1.23	16.1%	1.26	13.3%	2.70	2.64
EBITDA	0.16	0.10	62.9%	0.00	-	0.23	0.16
margin	11.1%	7.9%	-	-0.2%	-	8.6%	5.9%
Admin & Consolidation							
Revenue	0.00	0.00	-	0.00	-	0.00	0.00
EBITDA	-0.52	-0.31	-	-0.35	-	-0.83	-0.73
Group							
Revenue	5.74	4.70	22.2%	4.90	17.1%	10.79	9.77
EBITDA	0.88	0.27	229.9%	0.29	202.7%	1.59	0.60
margin	15.4%	5.7%	-	6.0%	-	14.8%	6.2%

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

Forecasts increased Given the excellent Q2 results and the increased 2019 EBITDA guidance, we have raised our forecasts for 2019E and the following years (see figure 3). We expect EBITDA of €2.8m in 2019E (previously: €2.0m).

Figure 3: Revisions to forecasts

All figures in €m	2019E			2020E			2021E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Sales	20.93	21.80	4.1%	23.13	23.73	2.6%	25.67	26.10	1.7%
EBIT	1.71	2.23	30.9%	2.67	2.85	6.6%	3.03	3.21	6.0%
margin	8.2%	10.3%		11.5%	12.0%		11.8%	12.3%	
Net income	0.49	0.76	54.1%	1.09	1.21	11.4%	1.34	1.47	9.5%
margin	2.4%	3.5%		4.7%	5.1%		5.2%	5.6%	
EPS (diluted)	0.02	0.04	54.3%	0.05	0.06	11.6%	0.06	0.07	9.6%

Source: First Berlin Equity Research

Downgrade to Add at increased price target An updated DCF model yields a new price target of €3.30 (previously: €3.20). Following the share price increase in recent months, we downgrade the stock from Buy to Add, as the upside potential is now below 25%.



VALUATION MODEL

DCF valuation model								
All figures in EUR '000								
	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Net revenue	21,795	23,729	26,102	28,973	32,159	35,687	39,570	43,801
NOPLAT	1,578	1,984	2,276	2,547	2,837	3,160	3,516	3,906
+ depreciation & amortisation	540	115	171	207	237	263	289	315
Net operating cash flow	2,119	2,099	2,447	2,753	3,074	3,423	3,805	4,221
- total investments (CAPEX and WC)	-400	2,428	280	211	208	233	257	277
Capital expenditures	-196	-214	-235	-261	-284	-308	-335	-362
Working capital	-203	2,641	515	472	492	541	591	639
Free cash flows (FCF)	1,719	4,527	2,727	2,965	3,282	3,655	4,061	4,497
PV of FCF's	1,640	3,890	2,111	2,067	2,062	2,068	2,070	2,065

All figures in thousands	
PV of FCFs in explicit period (2019E-2033E)	30,788
PV of FCFs in terminal period	16,596
Enterprise value (EV)	47,384
+ Net cash / - net debt	21,064
+ Investments / minority interests	3,095
Shareholder value	71,543
Number of shares (diluted)	21,555
Fair value per share in EUR	3.32

		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%	4.74	4.91	5.10	5.34	5.63	5.99	6.45
Pre-tax cost of debt	6.0%	8.0%	4.19	4.30	4.43	4.57	4.75	4.96	5.21
Tax rate	30.0%	9.0%	3.77	3.85	3.93	4.03	4.15	4.28	4.43
After-tax cost of debt	4.2%	10.0%	3.45	3.50	3.56	3.63	3.71	3.79	3.89
Share of equity capital	100.0%	11.0%	3.19	3.23	3.27	3.32	3.37	3.43	3.50
Share of debt capital	0.0%	12.0%	2.98	3.01	3.04	3.07	3.11	3.15	3.20
		13.0%	2.80	2.82	2.85	2.87	2.90	2.93	2.97
		14.0%	2.66	2.67	2.69	2.71	2.73	2.75	2.78
Price target in EUR	3.30								

* 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	88,607	96,470	106,117
Media costs	n.a.	n.a.	56,839	62,381	66,812	72,741	80,015
Net revenues	n.a.	n.a.	18,724	20,272	21,795	23,729	26,102
Other cost of goods sold	40,165	45,076	376	726	741	935	1,044
Gross profit	15,844	16,088	18,348	19,546	21,054	22,794	25,058
S&M	10,575	9,055	10,771	12,621	12,980	13,866	14,930
G&A	6,382	6,155	6,087	5,925	6,009	6,306	6,995
Other operating income	1,406	1,059	723	494	623	704	392
Other operating expenses	49	329	396	467	453	481	261
EBITDA	540	1,748	2,209	1,354	2,775	2,960	3,433
Depreciation and amortisation	296	140	391	327	540	115	171
Operating income (EBIT)	244	1,608	1,818	1,027	2,235	2,845	3,263
Net financial result	199	82	-17	-190	-117	26	26
Non-operating expenses	0	0	0	0	0	0	0
Pre-tax income (EBT)	443	1,690	1,801	837	2,118	2,871	3,289
Income taxes	308	594	664	302	656	861	987
Minority interests	-168	-467	-556	-288	-700	-800	-800
Net income / loss	-33	629	581	247	761	1,210	1,502
Diluted EPS (in €)	0.00	0.03	0.03	0.01	0.04	0.06	0.07
Ratios							
Gross margin in % of gross sales	28.3%	26.3%	24.3%	23.6%	23.8%	23.6%	23.6%
Gross margin in % of net revenues	n.a.	n.a.	98.0%	96.4%	96.6%	96.1%	96.0%
EBITDA margin in % of net revenues	1.0%	2.9%	11.8%	6.7%	12.7%	12.5%	13.2%
EBIT margin	0.4%	2.6%	9.7%	5.1%	10.3%	12.0%	12.5%
Net margin	-0.1%	1.0%	3.1%	1.2%	3.5%	5.1%	5.8%
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%	59.6%	58.4%	57.2%
G&A (as % of net revenues)	11.4%	10.1%	32.5%	29.2%	27.6%	26.6%	26.8%
Depreciation and amortisation	0.5%	0.2%	2.1%	1.6%	2.5%	0.5%	0.7%
Other operating expenses	0.1%	0.5%	2.1%	2.3%	2.1%	2.0%	1.0%
Y-Y Growth							
Gross sales	n.a.	9.2%	23.5%	9.4%	7.2%	8.9%	10.0%
Net revenues	n.a.	n.a.	n.a.	8.3%	7.5%	8.9%	10.0%
Operating income	n.a.	559.0%	13.0%	-43.5%	117.6%	27.3%	14.7%
Net income/ loss	n.a.	n.m.	-7.7%	-57.5%	208.2%	58.9%	24.2%



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	36,441	42,100	46,218
Cash and cash equivalents	16,932	17,859	20,127	18,233	19,835	24,388	27,140
Short-term investments	297	138	27	55	55	55	55
Receivables	9,983	10,116	14,129	17,629	16,122	17,228	18,593
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	2,919	3,018	3,082
Property, plant & equipment	150	212	424	330	134	196	235
Goodwill & other intangibles	349	572	362	218	70	106	131
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	39,361	45,117	49,300
Shareholders' equity & debt							
Current liabilities, total	17,436	16,282	21,696	22,560	20,850	24,597	26,477
Short-term debt	0	0	0	0	0	0	0
Accounts payable	13,618	12,357	17,838	18,967	17,257	21,004	22,884
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	16,420	17,629	19,132
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	-44,520	-43,311	-41,808
Total consolidated equity and debt	34,040	31,378	38,615	39,610	39,361	45,117	49,300
Ratios							
Current ratio (x)	1.59	1.76	1.61	1.61	1.75	1.71	1.75
Quick ratio (x)	1.59	1.76	1.61	1.61	1.75	1.71	1.75
Net debt	-17,229	-17,997	-20,154	-18,288	-19,890	-24,443	-27,195
Net gearing	-107.6%	-126.0%	-128.1%	-116.8%	-121.1%	-138.6%	-142.1%
Equity ratio	48.5%	47.7%	42.8%	41.7%	45.7%	44.3%	45.2%
Book value per share (in €)	0.75	0.67	0.74	0.74	0.77	0.83	0.90
Return on equity (ROE)	-0.2%	4.4%	3.7%	1.6%	4.6%	6.9%	7.9%
Return on investment (ROI)	-0.1%	2.0%	1.5%	0.6%	1.9%	2.7%	3.0%
Return on assets (ROA)	0.1%	2.2%	1.5%	0.6%	1.9%	2.7%	3.0%



CASH FLOW STATEMENT

All figures in EUR '000	2015A	2016A	2017A	2018A	2019E	2020E	2021E
EBIT	244	1,608	1,818	1,027	2,235	2,845	3,263
Depreciation and amortisation	296	140	391	327	540	115	171
EBITDA	540	1,748	2,209	1,354	2,775	2,960	3,433
Changes in working capital	2,257	-1,164	3,095	-2,192	-203	2,641	515
Other adjustments	-1,014	-561	-2,203	-684	-774	-835	-961
Operating cash flow	1,783	23	3,101	-1,522	1,798	4,766	2,988
Investments in PP&E	-67	-144	-378	-51	-131	-142	-157
Investments in intangibles	-118	-417	-55	-44	-65	-71	-78
Free cash flow	1,598	-538	2,667	-1,617	1,602	4,553	2,753
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	-196	-214	-235
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	1,602	4,553	2,753
Cash, start of the year	11,926	16,932	17,859	20,127	18,233	19,835	24,388
Cash, end of the year	17,088	17,859	20,128	18,233	19,835	24,388	27,140
EBITDA/share (in €)	0.03	0.08	0.10	0.06	0.13	0.14	0.16
Y-Y Growth							
Operating cash flow	n.a.	-98.7%	13381.7%	n.m.	n.m.	165.1%	-37.3%
Free cash flow	n.a.	n.m.	n.m.	n.m.	n.m.	184.2%	-39.5%
EBITDA/share	n.a.	227.8%	26.3%	-39.0%	105.0%	6.7%	16.0%

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...10	↓	↓	↓	↓
11	1 April 2019	€2.23	Buy	€3.00
12	23 April 2019	€2.18	Buy	€3.20
13	27 May 2019	€2.33	Buy	€3.20
14	Today	€2.87	Add	€3.30

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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.

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- key sources of information in the preparation of this research report
- valuation methods and principles
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