

ad pepper media International N.V.

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

Preliminary
 Q1/20 figures

RATING
PRICE TARGET

Return Potential
 Risk Rating

BUY
€ 3.70
 32.1%
 High

ACCELERATING TREND TOWARDS DIGITAL ADVERTISING

ad pepper media International reported preliminary Q1 revenue and EBITDA, which were ahead of our forecasts. Revenues increased 16% y/y to €5.8m and EBITDA jumped 58% y/y to €1.1m. Currently the positive effect of the shift towards higher digital ad spending is stronger than the negative impact of general ad budget cuts due to the recession. ad pepper expects this positive net effect to prevail in Q2 and forecasts accelerated growth especially for the Webgains segment. However, the company does not give guidance for the full year as a reliable forecast is impossible because the development of the pandemic and the severity of the recession are difficult to predict. Given the strong Q1 numbers and the positive Q2 forecast, we increase our estimates for 2020E as the shift towards higher digital ad spending, which is accelerated by the pandemic, is stronger than initially expected. We had lowered our forecasts at the end of March to reflect the likely impact of the pandemic-induced recession. An updated DCF model yields a new price target of €3.70 (previously: €3.40). We confirm our Buy recommendation.

Q1 better than expected Gross sales were up 5% y/y at €21.6m. Net revenue increased 16% to €5.8m (FBe: €5.3m). All three segments contributed to this growth with ad pepper media being the outperformer (+31% y/y). EBITDA rose 58% y/y to €1.1m (FBe: €0.87m). All three segments reported significantly rising EBITDA contributions. Liquid funds declined from €25.2m at the end of 2019 to €20.6m. We assume that the main reason for this is a temporary higher working capital requirement.

ad pepper reported a strong 16% y/y increase in March revenues (€2.05m versus €1.77m). This level is comparable with the strong revenue months during the 2019 Christmas shopping season. This is noteworthy as Germany has been in lockdown since mid-March and the UK since 23 March. Germany and the UK are ad pepper's most important markets having respectively contributed 53% and 28% to 2019 total revenues. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2017	2018	2019	2020E	2021E	2022E
Revenue (€m)	18.72	20.27	21.79	22.45	24.91	27.41
Y-o-y growth	-69.4%	8.3%	7.5%	3.1%	11.0%	10.0%
EBIT (€m)	1.82	1.03	2.52	2.29	3.33	3.67
EBIT margin	9.7%	5.1%	11.6%	10.2%	13.3%	13.4%
Net income (€m)	0.58	0.25	1.35	1.17	1.80	1.89
EPS (diluted) (€)	0.03	0.01	0.06	0.06	0.08	0.09
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	2.67	-1.62	5.96	0.56	3.03	3.81
Net gearing	-127.9%	-116.4%	-134.4%	-125.7%	-126.2%	-129.6%
Liquid assets (€m)	20.13	18.23	25.23	25.11	27.45	30.58

RISKS

The main risks beyond covid-19 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 23 Apr 2020

Closing Price	€ 2.80
Shares outstanding	21.50m
Market Capitalisation	€ 60.20m
52-week Range	€ 2.22 / 3.17
Avg. Volume (12 Months)	7,835

Multiples	2019	2020E	2021E
P/E	43.5	50.2	32.8
EV/Sales	1.6	1.6	1.4
EV/EBIT	14.2	15.6	10.8
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Dec 2019

Liquid Assets	€ 25.23m
Current Assets	€ 40.73m
Intangible Assets	€ 0.36m
Total Assets	€ 44.05m
Current Liabilities	€ 24.30m
Shareholders' Equity	€ 18.04m

SHAREHOLDERS

EMA B.V.	44.1%
Dieter Koppitz	3.8%
Treasury shares	2.3%
Euro Serve Media GmbH	2.6%
Free Float	47.1%



We see the strong March revenue as an indicator that the current shift towards digital ad spending more than compensates for general ad budget cuts due to the recession. In Q1, cancellations of advertising budgets, especially in the travel, hotel and transportation sectors, were more than offset by stable to positive ad budget developments, predominantly in the sports, leisure & hobbies, home & garden, toys & games and other sectors of the so-called "stay-at-home economy".

All three segments show growth and rising EBITDA margins The ad pepper media segment grew 31% y/y to €1.5m. Segment EBITDA rose 33% y/y to €0.7m. The EBITDA margin, which was at a high level in Q1/19, increased slightly to 45.6% (see figure 1). Webgains' revenue was up 6% y/y. This sounds relatively low, but Q1/18 was a very strong quarter compared to Q2 and Q3/18. Segment EBITDA was 45% higher at €0.6m. The segment EBITDA margin increased from 16.0% to 21.9%. ad agents reported 21% revenue growth to €1.5m. Segment EBITDA increased 60% to €0.12m. The segment EBITDA margin rose from 5.8% to 7.7%.

Figure 1: Reported Q1 figures versus forecasts

All figures in €m	Q1-20A	Q1-20E	Delta	Q1-19A	Delta
ad pepper media					
Revenue	1.54	1.21	27.3%	1.18	31.1%
EBITDA	0.70	0.55	28.9%	0.53	32.8%
margin	45.6%	45.0%	-	45.0%	-
Webgains					
Revenue	2.76	2.70	2.0%	2.60	6.1%
EBITDA	0.60	0.51	17.3%	0.42	44.6%
margin	21.9%	19.0%	-	16.0%	-
ad agents					
Revenue	1.54	1.42	8.1%	1.27	21.1%
EBITDA	0.12	0.16	-28.0%	0.07	59.5%
margin	7.7%	11.5%	-	5.8%	-
Admin & Consolidation					
Revenue	0.00	0.00	-	0.00	-
EBITDA	-0.31	-0.35	-	-0.31	-
Group					
Revenue	5.84	5.34	9.4%	5.05	15.7%
EBITDA	1.12	0.87	28.1%	0.71	58.0%
margin	19.2%	16.4%	-	14.0%	-

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

Forecasts increased Given the strong Q1 figures and ad pepper's positive Q2 guidance (accelerated growth particularly in the Webgains segment), we increase our 2020 forecasts as the net effect of the two opposing trends (shift towards digital ad spending versus general recession-induced ad spending cuts) is more positive than initially thought (see our report of 31 March 2020). Although it is currently difficult to precisely estimate the development of this net effect for 2020, and the level of uncertainty remains high, we believe that ad pepper will weather the recession very well and will significantly benefit from the accelerating trend towards digital ad spending in the medium and long term.

**Figure 2: Revisions to forecasts**

All figures in €m	2020E			2021E			2022E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Revenue	20.75	22.46	8.2%	23.02	24.91	8.2%	25.32	27.41	8.2%
EBIT	1.21	2.29	89.5%	2.62	3.33	26.9%	3.14	3.67	17.0%
<i>margin</i>	5.8%	10.2%		11.4%	13.3%		12.4%	13.4%	
Net income	0.51	1.27	149.5%	1.30	1.80	38.1%	1.52	1.89	24.3%
<i>margin</i>	2.5%	5.7%		5.6%	7.2%		6.0%	6.9%	
EPS (diluted)	0.02	0.06	149.5%	0.06	0.08	38.1%	0.07	0.09	24.3%

Source: First Berlin Equity Research

We now forecast 7% revenue and 19% EBITDA growth in the Webgains segment as affiliate marketing is particularly benefiting from the accelerating shift towards digital advertisement spending (see figure 3). We expect slightly lower revenue in the ad pepper media segment, due mainly to the exposure to Spain, which is particularly badly affected by the pandemic (2019 segment revenue in Spain: €2.3m, or 41% of total segment revenues). We model stable revenues in the ad agents segment. We cannot rule out that some of ad pepper's clients will pay their bills later or not at all, which would burden operating margins.

Figure 3: Segment revenue and EBITDA forecasts

ad agents	2019A	2020E	Delta
ad pepper media			
Revenue	5.51	5.45	-1.0%
EBITDA	2.06	1.74	-15.2%
<i>margin</i>	37.4%	32.0%	-
Webgains			
Revenue	10.33	11.06	7.0%
EBITDA	1.86	2.21	18.9%
<i>margin</i>	18.0%	20.0%	-
ad agents			
Revenue	5.95	5.95	0.0%
EBITDA	0.81	0.60	-26.6%
<i>margin</i>	13.6%	10.0%	-
Admin & Consolidation			
Revenue	0.00	0.00	-
EBITDA	-1.22	-1.21	-
Intersegment elimination			
Revenue	0.00	0.00	-
EBITDA	-0.02	0.00	-
Group			
Revenue	21.79	22.46	3.1%
EBITDA	3.51	3.34	-4.9%
<i>margin</i>	16.1%	14.9%	-

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

Buy reiterated at higher price target An updated DCF model, which accounts for the increased forecasts, yields a new price target of €3.70 (previously: €3.40). We confirm our Buy rating (upside > 25%).



VALUATION MODEL

DCF valuation model								
All figures in EUR '000	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Net revenue	22,455	24,914	27,405	30,146	33,160	36,467	40,075	43,972
NOPLAT	1,598	2,320	2,562	2,819	3,107	3,424	3,770	4,145
+ depreciation & amortisation	1,048	1,047	1,085	1,126	1,143	1,169	1,201	1,237
Net operating cash flow	2,646	3,367	3,647	3,945	4,250	4,593	4,971	5,382
- total investments (CAPEX and WC)	-2,111	-366	138	-212	-246	-261	-277	-297
Capital expenditures	-404	-448	-493	-482	-518	-557	-597	-640
Working capital	-1,706	82	631	270	272	296	321	343
Free cash flows (FCF)	536	3,001	3,785	3,733	4,004	4,332	4,694	5,085
PV of FCF's	501	2,545	2,912	2,604	2,533	2,486	2,443	2,401

All figures in thousands	
PV of FCFs in explicit period (2020E-2034E)	33,133
PV of FCFs in terminal period	21,516
Enterprise value (EV)	54,649
+ Net cash / - net debt	22,983
+ Investments / minority interests	935
Shareholder value	78,567
Number of shares (diluted)	21,470
Fair value per share in EUR	3.66

WACC		Terminal growth rate							
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	
Cost of equity	10.3%	6.3%	5.44	5.73	6.09	6.53	7.09	7.82	8.82
Pre-tax cost of debt	6.0%	7.3%	4.70	4.90	5.12	5.39	5.72	6.12	6.63
Tax rate	30.0%	8.3%	4.16	4.30	4.45	4.62	4.83	5.08	5.37
After-tax cost of debt	4.2%	9.3%	3.75	3.85	3.95	4.07	4.21	4.37	4.56
Share of equity capital	100.0%	10.3%	3.43	3.50	3.57	3.66	3.76	3.87	3.99
Share of debt capital	0.0%	11.3%	3.17	3.22	3.28	3.34	3.41	3.49	3.57
		12.3%	2.96	2.99	3.04	3.08	3.13	3.19	3.25
		13.3%	2.78	2.81	2.84	2.87	2.91	2.96	3.00
Price target in EUR	3.70								

* for layout purposes the model shows numbers only to 2027, but runs until 2034



INCOME STATEMENT

All figures in EUR '000	2017A	2018A	2019A	2020E	2021E	2022E
Gross sales	75,563	82,653	83,774	86,343	95,798	105,378
Media costs	56,839	62,381	61,987	63,888	70,884	77,972
Revenues	18,724	20,272	21,787	22,455	24,914	27,405
Cost of sales	376	726	820	1,397	1,447	1,096
Gross profit	18,348	19,546	20,967	21,058	23,467	26,309
S&M	10,771	12,621	12,225	12,250	13,437	14,963
G&A	6,087	5,925	6,853	6,810	7,100	7,811
Other operating income	723	494	943	745	845	658
Other operating expenses	396	467	313	450	450	521
EBITDA	2,209	1,354	3,512	3,342	4,372	4,757
Depreciation and amortisation	391	327	993	1,048	1,047	1,085
Operating income (EBIT)	1,818	1,027	2,519	2,293	3,325	3,672
Net financial result	-17	-190	-209	25	25	27
Non-operating expenses	0	0	0	0	0	0
Pre-tax income (EBT)	1,801	837	2,310	2,318	3,350	3,700
Income taxes	664	302	390	695	1,005	1,110
Minority interests	-556	-288	-568	-450	-550	-700
Net income / loss	581	247	1,352	1,172	1,795	1,890
Diluted EPS (in €)	0.03	0.01	0.06	0.06	0.08	0.09

Ratios

Gross margin in % of gross sales	24.3%	23.6%	25.0%	24.4%	24.5%	25.0%
Gross margin in % of revenues	98.0%	96.4%	96.2%	93.8%	94.2%	96.0%
EBITDA margin in % of revenues	11.8%	6.7%	16.1%	14.9%	17.5%	17.4%
EBIT margin	9.7%	5.1%	11.6%	10.2%	13.3%	13.4%
Net margin	3.1%	1.2%	6.2%	5.2%	7.2%	6.9%
Tax rate	36.9%	36.1%	16.9%	30.0%	30.0%	30.0%

Expenses as % of sales or revenues

Media costs (as % of gross sales)	75.2%	75.5%	74.0%	74.0%	74.0%	74.0%
S&M (as % of revenues)	57.5%	62.3%	56.1%	54.6%	53.9%	54.6%
G&A (as % of revenues)	32.5%	29.2%	31.5%	30.3%	28.5%	28.5%
Depreciation and amortisation	2.1%	1.6%	4.6%	4.7%	4.2%	4.0%
Other operating expenses	2.1%	2.3%	1.4%	2.0%	1.8%	1.9%

Y-Y Growth

Gross sales	23.5%	9.4%	1.4%	3.1%	11.0%	10.0%
Net revenues	n.a.	8.3%	7.5%	3.1%	11.0%	10.0%
Operating income	13.0%	-43.5%	145.3%	-9.0%	45.0%	10.4%
Net income/ loss	-7.7%	-57.5%	447.4%	-13.3%	53.1%	5.3%



BALANCE SHEET

All figures in EUR '000	2017A	2018A	2019A	2020E	2021E	2022E
Assets						
Current assets, total	34,896	36,346	40,731	41,708	45,804	50,710
Cash and cash equivalents	20,127	18,233	25,229	25,108	27,452	30,584
Short-term investments	27	55	47	47	47	47
Receivables	14,129	17,629	14,897	15,995	17,747	19,522
Inventories	0	0	0	0	0	0
Other current assets	613	429	558	558	558	558
Non-current assets, total	3,719	3,264	3,321	3,241	3,324	3,414
Property, plant & equipment	424	330	391	383	398	426
Goodwill & other intangibles	362	218	359	404	471	533
Right-of-use assets	0	0	2,129	2,129	2,129	2,129
Financial assets	2,933	2,716	442	325	325	325
Other assets	0	0	0	0	0	0
Total assets	38,615	39,610	44,052	44,949	49,128	54,124
Shareholders' equity & debt						
Current liabilities, total	21,696	22,560	24,299	23,691	25,525	27,931
Short-term debt	0	0	0	0	0	0
Accounts payable	17,838	18,967	18,593	17,985	19,819	22,225
Current provisions	0	0	0	0	0	0
Other current liabilities	3,858	3,593	4,907	4,907	4,907	4,907
Lease liabilities	0	0	799	799	799	799
Long-term liabilities, total	402	538	1,713	1,596	1,596	1,596
Long-term debt	0	0	0	0	0	0
Lease liabilities	0	0	1,447	1,330	1,330	1,330
Other liabilities	402	538	266	266	266	266
Minority interests	779	853	935	1,385	1,935	2,635
Shareholders' equity	15,738	15,659	17,105	18,277	20,073	21,962
Share capital	1,150	1,150	1,075	1,075	1,075	1,075
Capital reserve	61,312	60,999	63,782	63,782	63,782	63,782
Other reserves	-1,683	-1,208	0	0	0	0
Loss carryforward / retained earnings	-45,041	-45,281	-47,752	-46,580	-44,784	-42,895
Total consolidated equity and debt	38,615	39,610	44,052	44,949	49,128	54,124
Ratios						
Current ratio (x)	1.61	1.61	1.68	1.76	1.79	1.82
Quick ratio (x)	1.61	1.61	1.68	1.76	1.79	1.82
Net debt	-20,127	-18,233	-22,983	-22,979	-25,323	-28,455
Net gearing	-127.9%	-116.4%	-134.4%	-125.7%	-126.2%	-129.6%
Equity ratio	42.8%	41.7%	41.0%	43.7%	44.8%	45.4%
Book value per share (in €)	0.74	0.74	0.81	0.86	0.95	1.04
Return on equity (ROE)	3.7%	1.6%	7.9%	6.4%	8.9%	8.6%
Return on investment (ROI)	1.5%	0.6%	3.1%	2.6%	3.7%	3.5%
Return on assets (ROA)	1.5%	0.6%	3.1%	2.6%	3.7%	3.5%



CASH FLOW STATEMENT

All figures in EUR '000	2017A	2018A	2019A	2020E	2021E	2022E
EBIT	1,818	1,027	2,519	2,293	3,325	3,672
Depreciation and amortisation	391	327	993	1,048	1,047	1,085
EBITDA	2,209	1,354	3,512	3,342	4,372	4,757
Changes in working capital	3,095	-2,192	4,352	-1,706	82	631
Other adjustments	-2,203	-684	-1,382	-671	-980	-1,083
Operating cash flow	3,101	-1,522	6,482	965	3,474	4,306
Investments in PP&E	-378	-51	-221	-180	-199	-219
Investments in intangibles	-55	-44	-303	-225	-249	-274
Free cash flow	2,667	-1,617	5,958	560	3,026	3,813
Acquisitions & disposals, net	3	66	8	0	0	0
Other investments	0	-35	2,152	0	0	0
Investment cash flow	-431	-64	1,636	-404	-448	-493
Debt financing, net	0	0	0	0	0	0
Equity financing, net	105	0	0	0	0	0
Dividends paid	0	0	0	0	0	0
Other financing	-467	-296	-1,173	-681	-681	-681
Financing cash flow	-362	-296	-1,173	-681	-681	-681
FOREX & other effects	-39	-12	51	0	0	0
Net cash flows	2,269	-1,894	6,996	-121	2,344	3,131
Cash, start of the year	17,859	20,127	18,233	25,229	25,108	27,452
Cash, end of the year	20,128	18,233	25,229	25,108	27,452	30,584
EBITDA/share (in €)	0.10	0.06	0.17	0.16	0.21	0.22
Y-Y Growth						
Operating cash flow	13381.7%	n.m.	n.m.	-85.1%	260.2%	23.9%
Free cash flow	n.m.	n.m.	n.m.	-90.6%	440.0%	26.0%
EBITDA/share	26.3%	-39.0%	161.0%	-4.8%	30.8%	8.8%

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...16	↓	↓	↓	↓
17	20 November 2019	€2.59	Buy	€3.30
18	6 February 2020	€2.86	Buy	€3.90
19	31 March 2020	€2.52	Buy	€3.40
20	Today	€2.80	Buy	€3.70

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