

# ad pepper media International N.V.

The Netherlands / Internet Services

Frankfurt

Bloomberg: APM GR

ISIN: NL0000238145

Final Q2 figures

**RATING****PRICE TARGET**

Return Potential

Risk Rating

**BUY****€ 4.70**

35.1%

High

## SARS-COV-2: BAD FOR MANKIND, GOOD FOR DIGITISATION

ad pepper media published final Q2 figures, which matched preliminary numbers. Based on excellent preliminary H1 EBITDA of €2.8m, management gave the first concrete 2020 guidance (€4.5m EBITDA, which implies 28% y/y EBITDA growth) in July. The pandemic has given the general digitisation trend a strong push. ad pepper is a digital advertising pure play and has benefited tremendously from this push. Given rising new COVID-19 infection figures in ad pepper's main markets of Germany, the UK and Spain in August, we believe demand for digital advertising will continue to be strong in H2. An updated DCF model still yields a €4.70 price target. We confirm our Buy rating as the upside potential to our price target is still above 25%.

**H1 EBIT more than doubled y/y** Final figures reveal strong EBIT and net result performance. H1 EBIT jumped 104% to €2.3m, due to the particularly strong Q2 EBIT of €1.4m (see figure 1 overleaf). The H1 net result tripled to €1.9m with Q2 contributing €1.2m to the bottom line. Given that H1 revenue "only" rose 11% to €12.0m, the much higher earnings growth shows why we like ad pepper's business model: high operating leverage. As we anticipate further growth in coming years, operating leverage should translate higher revenue not only into higher earnings, but also into an improving earnings margin.

**High net cash position and equity ratio** At the end of H1, the cash position amounted to €21.1m. Adding listed debt securities of €1.0m, liquid funds were at €22.1m. ad pepper did not have any bank liabilities, and lease liabilities amounted to €2.0m resulting in a net cash position of €20.1m. In H1, equity increased to €19.6m. As the balance sheet total declined from €44.0m to €40.9m (-7% YTD), the equity ratio rose from 41% to a high 48%. Working capital remained negative (€-0.4m) despite the €3.8m reduction in payables. Negative working capital has been the normal state in recent years. This is another reason why we like the business model. Growth is not limited by higher working capital financing needs.

(p.t.o.)

### FINANCIAL HISTORY & PROJECTIONS

	2017	2018	2019	2020E	2021E	2022E
Revenue (€m)	18.72	20.27	21.79	23.98	26.93	29.63
Y-o-y growth	-69.4%	8.3%	7.5%	10.1%	12.3%	10.0%
EBIT (€m)	1.82	1.03	2.52	3.64	4.67	5.18
EBIT margin	9.7%	5.1%	11.6%	15.2%	17.3%	17.5%
Net income (€m)	0.58	0.25	1.35	1.88	2.59	2.85
EPS (diluted) (€)	0.03	0.01	0.06	0.09	0.12	0.13
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	2.67	-1.62	5.96	-0.42	4.46	5.04
Net gearing	-127.9%	-116.4%	-134.4%	-115.7%	-119.1%	-122.9%
Liquid assets (€m)	20.13	18.23	25.23	24.09	27.82	32.14

### 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.

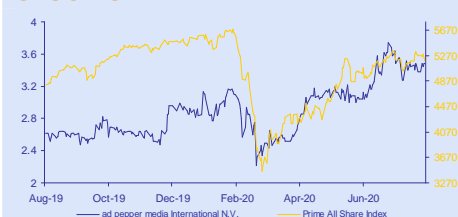
### MARKET DATA

As of 21 Aug 2020

Closing Price	€ 3.48
Shares outstanding	21.50m
Market Capitalisation	€ 74.82m
52-week Range	€ 2.22 / 3.74
Avg. Volume (12 Months)	8,538

Multiples	2019	2020E	2021E
P/E	54.1	38.8	28.3
EV/Sales	2.3	2.1	1.9
EV/EBIT	19.9	13.8	10.7
Div. Yield	0.0%	0.0%	0.0%

### STOCK OVERVIEW



### COMPANY DATA

As of 30 Jun 2020

Liquid Assets	€ 21.13m
Current Assets	€ 35.47m
Intangible Assets	€ 0.64m
Total Assets	€ 40.88m
Current Liabilities	€ 19.89m
Shareholders' Equity	€ 19.57m

### SHAREHOLDERS

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



All in all, ad pepper has a rock-solid balance sheet with ample financial flexibility.

**Figure 1: Reported group figures**

All figures in €m	Q2-20A	Q2-19A	Delta	H1-20A	H1-19A	Delta
Gross sales	23.36	20.17	15.8%	45.01	40.82	10.2%
Revenue	6.12	5.74	6.5%	11.96	10.79	10.8%
EBITDA	1.68	0.88	90.7%	2.80	1.59	76.1%
margin on revenues	27.5%	15.4%		23.5%	14.8%	
EBIT	1.42	0.64	123.6%	2.26	1.11	103.9%
margin	23.2%	11.1%		18.9%	10.3%	
EBT	1.39	0.60	132.4%	2.20	0.93	135.9%
margin	22.7%	10.4%		18.4%	8.6%	
Net income	1.20	0.31	283.4%	1.85	0.60	209.0%
margin	19.7%	5.5%		15.5%	5.6%	
EPS (diluted)	0.06	0.01	283.3%	0.09	0.03	208.2%

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

**Negative operating cash flow due to repayment of payables** Despite the €1.9m net result, operating cash flow amounted to €-1.7m after the company reduced trade payables by €3.4m. CAPEX of €0.5m resulted in free cash flow of €-2.2m. Cash flow from investing was €-1.5m mainly because of the €1.0m purchase of listed debt securities. Cash flow from financing amounted to €-0.8m (€0.4m payment of lease liabilities and €0.4m dividends to non-controlling interests). Net cash outflow in H1 was €4.0m.

**2020 guidance: €4.5m EBITDA** With the publication of the preliminary Q2 results, ad pepper gave guidance for the current fiscal year. Management expects ca. €24.0m in revenue and EBITDA of ca. €4.5m. Compared to the 2019 figures this implies 11% revenue and 28% EBITDA growth y/y. This means accelerated revenue growth and high operating leverage. Given H1 EBITDA of €2.8m, EBITDA guidance is rather conservative, as it suggests H2 EBITDA of just €1.7m.

**H1 segment EBIT figures show strong ad pepper media and outstanding Webgains performance** Although the H1 ad pepper media segment EBIT was 18% below the prior year figure at €1,123k, it remained a high margin business (EBIT margin: 39%) and an important group EBIT contributor.

Figure 2 shows the outstanding performance of the Webgains segment. The affiliate network has partnerships with more than 250.000 publishers and over 1,850 customers in 14 countries. Webgains can design both local and international digital marketing campaigns to deliver sales in more than 170 markets. In H1, the performance of its affiliate platform was spectacular. A combination of increased sales (+16% y/y) and lower expenses resulted in a 273% y/y EBIT increase to €1,936k. The EBIT margin rocketed from 10% to 33%.

**Figure 2: Group and segment EBIT figures**

EBIT in €k	H1-20A	H1-19A	Delta
ad pepper media	1,123	1,371	-18.1%
margin on revenue	39.0%	45.7%	-
Webgains	1,936	519	273.0%
margin on revenue	32.7%	10.2%	-
ad agents	195	144	35.4%
margin on revenue	6.2%	5.3%	
Admin / consolidation	-996	-927	-
<b>Group</b>	<b>2,259</b>	<b>1,108</b>	<b>103.9%</b>
<b>margin on revenue</b>	<b>18.9%</b>	<b>10.3%</b>	<b>-</b>

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



The ad agents segment increased its EBIT contribution by 35% y/y to €195k. The EBIT margin rose almost 1 PP to more than 6%. Admin costs at the holding (including consolidation) increased 7% to €996k. Group EBIT thus more than doubled to €2,259k.

**Buy confirmed at unchanged price target** An updated DCF model still yields a €4.70 price target. We reiterate our Buy recommendation as the upside to our price target is still above 25%.

## VALUATION MODEL

DCF valuation model								
All figures in EUR '000	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Net revenue	23,980	26,932	29,625	32,588	35,846	39,420	43,321	47,534
NOPLAT	2,577	3,260	3,620	4,028	4,433	4,877	5,363	5,887
+ depreciation & amortisation	1,110	1,194	1,255	1,315	1,353	1,389	1,425	1,460
Net operating cash flow	3,686	4,453	4,875	5,343	5,786	6,267	6,787	7,347
- total investments (CAPEX and WC)	-4,009	-20	137	906	-429	-443	-457	-472
Capital expenditures	-576	-593	-652	-684	-723	-763	-803	-843
Working capital	-3,433	572	788	1,591	295	320	347	371
Free cash flows (FCF)	-322	4,433	5,012	6,250	5,357	5,824	6,330	6,875
PV of FCF's	-312	3,885	3,984	4,506	3,503	3,454	3,405	3,354

All figures in thousands	
PV of FCFs in explicit period (2020E-2034E)	46,488
PV of FCFs in terminal period	30,485
Enterprise value (EV)	76,973
+ Net cash / - net debt	22,983
+ Investments / minority interests	935
Shareholder value	100,891
Number of shares (diluted)	21,470
Fair value per share in EUR	4.70

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%	7.20	7.59	8.08	8.67	9.42	10.41	11.75
Pre-tax cost of debt	6.0%	7.3%	6.17	6.43	6.74	7.10	7.53	8.08	8.76
Tax rate	30.0%	8.3%	5.42	5.60	5.80	6.03	6.31	6.64	7.04
After-tax cost of debt	4.2%	9.3%	4.85	4.97	5.11	5.27	5.46	5.67	5.92
Share of equity capital	100.0%	10.3%	4.39	4.48	4.59	4.70	4.83	4.97	5.14
Share of debt capital	0.0%	11.3%	4.03	4.10	4.17	4.25	4.35	4.45	4.57
		12.3%	3.73	3.78	3.84	3.90	3.97	4.04	4.13
		13.3%	3.48	3.52	3.56	3.61	3.66	3.72	3.78
Price target in EUR	4.70								

\* 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
<b>Gross sales</b>	<b>75,563</b>	<b>82,653</b>	<b>83,774</b>	<b>93,968</b>	<b>103,932</b>	<b>114,325</b>
Media costs	56,839	62,381	61,987	69,988	77,000	84,700
<b>Revenues</b>	<b>18,724</b>	<b>20,272</b>	<b>21,787</b>	<b>23,980</b>	<b>26,932</b>	<b>29,625</b>
Cost of sales	376	726	820	959	1,564	1,185
<b>Gross profit</b>	<b>18,348</b>	<b>19,546</b>	<b>20,967</b>	<b>23,021</b>	<b>25,368</b>	<b>28,440</b>
S&M	10,771	12,621	12,225	12,712	13,937	15,405
G&A	6,087	5,925	6,853	7,658	7,158	7,999
Other operating income	723	494	943	1,440	845	711
Other operating expenses	396	467	313	450	450	563
<b>EBITDA</b>	<b>2,209</b>	<b>1,354</b>	<b>3,512</b>	<b>4,750</b>	<b>5,790</b>	<b>6,350</b>
Depreciation and amortisation	391	327	993	1,110	1,122	1,165
<b>Operating income (EBIT)</b>	<b>1,818</b>	<b>1,027</b>	<b>2,519</b>	<b>3,641</b>	<b>4,668</b>	<b>5,184</b>
Net financial result	-17	-190	-209	-94	27	30
Non-operating expenses	0	0	0	0	0	0
<b>Pre-tax income (EBT)</b>	<b>1,801</b>	<b>837</b>	<b>2,310</b>	<b>3,547</b>	<b>4,695</b>	<b>5,214</b>
Income taxes	664	302	390	1,064	1,408	1,564
Minority interests	-556	-288	-568	-600	-700	-800
<b>Net income / loss</b>	<b>581</b>	<b>247</b>	<b>1,352</b>	<b>1,883</b>	<b>2,586</b>	<b>2,850</b>
<b>Diluted EPS (in €)</b>	<b>0.03</b>	<b>0.01</b>	<b>0.06</b>	<b>0.09</b>	<b>0.12</b>	<b>0.13</b>

### Ratios

Gross margin in % of gross sales	24.3%	23.6%	25.0%	24.5%	24.4%	24.9%
Gross margin in % of revenues	98.0%	96.4%	96.2%	96.0%	94.2%	96.0%
EBITDA margin in % of revenues	11.8%	6.7%	16.1%	19.8%	21.5%	21.4%
EBIT margin	9.7%	5.1%	11.6%	15.2%	17.3%	17.5%
Net margin	3.1%	1.2%	6.2%	7.9%	9.6%	9.6%
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%	74.5%	74.1%	74.1%
S&M (as % of revenues)	57.5%	62.3%	56.1%	53.0%	51.7%	52.0%
G&A (as % of revenues)	32.5%	29.2%	31.5%	31.9%	26.6%	27.0%
Depreciation and amortisation	2.1%	1.6%	4.6%	4.6%	4.2%	3.9%
Other operating expenses	2.1%	2.3%	1.4%	1.9%	1.7%	1.9%

### Y-Y Growth

Gross sales	23.5%	9.4%	1.4%	12.2%	10.6%	10.0%
Net revenues	n.a.	8.3%	7.5%	10.1%	12.3%	10.0%
Operating income	13.0%	-43.5%	145.3%	44.5%	28.2%	11.1%
Net income/ loss	-7.7%	-57.5%	447.4%	39.3%	37.4%	10.2%



## BALANCE SHEET

All figures in EUR '000	2017A	2018A	2019A	2020E	2021E	2022E
<b>Assets</b>						
<b>Current assets, total</b>	<b>34,896</b>	<b>36,346</b>	<b>40,731</b>	<b>40,462</b>	<b>46,876</b>	<b>53,850</b>
Cash and cash equivalents	20,127	18,233	25,229	24,089	27,825	32,143
Short-term investments	27	55	47	47	47	47
Receivables	14,129	17,629	14,897	15,768	18,447	21,103
Inventories	0	0	0	0	0	0
Other current assets	613	429	558	558	558	558
<b>Non-current assets, total</b>	<b>3,719</b>	<b>3,264</b>	<b>3,321</b>	<b>3,394</b>	<b>3,516</b>	<b>3,637</b>
Property, plant & equipment	424	330	391	435	433	454
Goodwill & other intangibles	362	218	359	504	629	729
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
<b>Total assets</b>	<b>38,615</b>	<b>39,610</b>	<b>44,052</b>	<b>43,855</b>	<b>50,393</b>	<b>57,487</b>
<b>Shareholders' equity &amp; debt</b>						
<b>Current liabilities, total</b>	<b>21,696</b>	<b>22,560</b>	<b>24,299</b>	<b>21,736</b>	<b>24,987</b>	<b>28,432</b>
Short-term debt	0	0	0	0	0	0
Accounts payable	17,838	18,967	18,593	16,030	19,281	22,726
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
<b>Long-term liabilities, total</b>	<b>402</b>	<b>538</b>	<b>1,713</b>	<b>1,596</b>	<b>1,596</b>	<b>1,596</b>
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
<b>Minority interests</b>	<b>779</b>	<b>853</b>	<b>935</b>	<b>1,535</b>	<b>2,235</b>	<b>3,035</b>
<b>Shareholders' equity</b>	<b>15,738</b>	<b>15,659</b>	<b>17,105</b>	<b>18,988</b>	<b>21,574</b>	<b>24,424</b>
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	-45,869	-43,283	-40,433
<b>Total consolidated equity and debt</b>	<b>38,615</b>	<b>39,610</b>	<b>44,052</b>	<b>43,855</b>	<b>50,393</b>	<b>57,487</b>
<b>Ratios</b>						
Current ratio (x)	1.61	1.61	1.68	1.86	1.88	1.89
Quick ratio (x)	1.61	1.61	1.68	1.86	1.88	1.89
Net debt	-20,127	-18,233	-22,983	-21,960	-25,696	-30,014
Net gearing	-127.9%	-116.4%	-134.4%	-115.7%	-119.1%	-122.9%
Equity ratio	42.8%	41.7%	41.0%	46.8%	47.2%	47.8%
Book value per share (in €)	0.74	0.74	0.81	0.90	1.02	1.15
Return on equity (ROE)	3.7%	1.6%	7.9%	9.9%	12.0%	11.7%
Return on investment (ROI)	1.5%	0.6%	3.1%	4.3%	5.1%	5.0%
Return on assets (ROA)	1.5%	0.6%	3.1%	4.3%	5.1%	5.0%



## CASH FLOW STATEMENT

All figures in EUR '000	2017A	2018A	2019A	2020E	2021E	2022E
<b>EBIT</b>	<b>1,818</b>	<b>1,027</b>	<b>2,519</b>	<b>3,641</b>	<b>4,668</b>	<b>5,184</b>
Depreciation and amortisation	391	327	993	1,110	1,194	1,255
<b>EBITDA</b>	<b>2,209</b>	<b>1,354</b>	<b>3,512</b>	<b>4,750</b>	<b>5,862</b>	<b>6,439</b>
Changes in working capital	3,095	-2,192	4,352	-3,433	572	788
Other adjustments	-2,203	-684	-1,382	-1,158	-1,382	-1,535
<b>Operating cash flow</b>	<b>3,101</b>	<b>-1,522</b>	<b>6,482</b>	<b>159</b>	<b>5,052</b>	<b>5,693</b>
Investments in PP&E	-378	-51	-221	-240	-215	-237
Investments in intangibles	-55	-44	-303	-336	-377	-415
<b>Free cash flow</b>	<b>2,667</b>	<b>-1,617</b>	<b>5,958</b>	<b>-416</b>	<b>4,460</b>	<b>5,042</b>
Acquisitions & disposals, net	3	66	8	0	0	0
Other investments	0	-35	2,152	0	0	0
<b>Investment cash flow</b>	<b>-431</b>	<b>-64</b>	<b>1,636</b>	<b>-576</b>	<b>-593</b>	<b>-652</b>
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	-724	-724	-724
<b>Financing cash flow</b>	<b>-362</b>	<b>-296</b>	<b>-1,173</b>	<b>-724</b>	<b>-724</b>	<b>-724</b>
FOREX & other effects	-39	-12	51	0	0	0
<b>Net cash flows</b>	<b>2,269</b>	<b>-1,894</b>	<b>6,996</b>	<b>-1,140</b>	<b>3,736</b>	<b>4,318</b>
Cash, start of the year	17,859	20,127	18,233	25,229	24,089	27,825
<b>Cash, end of the year</b>	<b>20,128</b>	<b>18,233</b>	<b>25,229</b>	<b>24,089</b>	<b>27,825</b>	<b>32,143</b>
<b>EBITDA/share (in €)</b>	<b>0.10</b>	<b>0.06</b>	<b>0.17</b>	<b>0.22</b>	<b>0.28</b>	<b>0.30</b>
<b>Y-Y Growth</b>						
Operating cash flow	13381.7%	n.m.	n.m.	-97.5%	3071.0%	12.7%
Free cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	13.0%
EBITDA/share	26.3%	-39.0%	161.0%	35.3%	23.4%	9.9%

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**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 <sup>1</sup>	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%

<sup>1</sup> 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.

**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...14	↓	↓	↓	↓
15	23 August 2019	€2.60	Buy	€3.30
16	18 October 2019	€2.82	Add	€3.30
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	24 April 2020	€2.80	Buy	€3.70
21	28 May 2020	€3.20	Add	€3.70
22	20 July 2020	€3.74	Buy	€4.70
23	Today	€3.48	Buy	€4.70

**INVESTMENT HORIZON**

Unless otherwise stated in the financial analysis, the ratings refer to an investment period of twelve months.

**UPDATES**

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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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