

ad pepper media International N.V.

The Netherlands / Internet Services

Frankfurt

Bloomberg: APM GR

ISIN: NL0000238145

Q3 figures

RATING**PRICE TARGET**

Return Potential

Risk Rating

BUY**€ 6.00**

55.4%

High

VERY STRONG Q3 AND HIGHER GUIDANCE

Following very strong Q3 figures, ad pepper increased 2020 EBITDA guidance from €4.5m to at least €5.5m. Q3 numbers were ahead of our forecasts and showed strong revenue (+20% y/y) and very strong EBITDA growth (+167% y/y). During the first nine months, the digital performance marketing company benefited from the substantial increase in e-commerce activities and the reshuffling of advertising budgets from offline to online. Given the better than expected Q3 figures and the fact that Q4 (Christmas business!) is traditionally the best quarter of the year, we increase our forecasts for 2020. Rising SARS-CoV-2 new infection figures across Europe will certainly lead to more online shopping and higher digital ad budgets even beyond 2020. We thus also raise our forecasts for the following years. An updated DCF model yields a new price target of €6.00 (previously: €4.70). We confirm our Buy recommendation.

Very strong Q3 Gross sales rose 23% y/y to €23.2m (FBe: €22.0m) and revenue was up 20% y/y at €6.0m (FBe: €5.4m, see figure 1 overleaf). Revenue growth was driven by all three segments with Webgains being the main driver (+32% y/y). EBITDA jumped from €0.6m to €1.5m (FBe: €0.8m). Again, all three segments contributed to this spectacular EBITDA growth with Webgains being the main EBITDA growth driver.

On a 9M basis, revenue increased 14% y/y to €18.0m and EBITDA doubled to €4.3m. The 9M EBITDA margin widened from 13.6% to 24.0%. This margin expansion illustrates the enormous operating leverage of the business model.

Liquid funds at €24.3m Liquid funds including securities at fair value rose y/y from €21.6m to €24.3m. At the end of H1, this figure was €22.1m indicating a positive net cash flow of €2.2m in Q3.

Higher guidance still conservative Management raised 2020 EBITDA guidance from €4.5m to at least €5.5m. We believe that a strong Christmas quarter will lead to 2020 EBITDA of ca. €6.2m. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2017	2018	2019	2020E	2021E	2022E
Revenue (€m)	18.72	20.27	21.79	25.15	27.92	30.71
Y-o-y growth	-69.4%	8.3%	7.5%	15.4%	11.0%	10.0%
EBIT (€m)	1.82	1.03	2.52	5.12	6.38	7.22
EBIT margin	9.7%	5.1%	11.6%	20.3%	22.9%	23.5%
Net income (€m)	0.58	0.25	1.35	2.92	3.79	4.27
EPS (diluted) (€)	0.03	0.01	0.06	0.14	0.18	0.20
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	2.67	-1.62	5.96	-0.92	7.09	4.74
Net gearing	-127.9%	-116.4%	-134.4%	-107.2%	-116.9%	-113.4%
Liquid assets (€m)	20.13	18.23	25.23	23.59	29.95	33.97

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 16 Oct 2020

Closing Price	€ 3.86
Shares outstanding	21.50m
Market Capitalisation	€ 82.99m
52-week Range	€ 2.22 / 3.86
Avg. Volume (12 Months)	10,070

Multiples	2019	2020E	2021E
P/E	60.0	27.8	21.4
EV/Sales	2.7	2.3	2.1
EV/EBIT	23.1	11.3	9.1
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%

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

All figures in €m	Q3-20A	Q3-20E	Delta	Q3-19A	Delta	9M-20A	9M-19A	Delta
Gross sales	23.15	22.02	5.1%	18.83	22.9%	68.16	59.66	14.2%
Revenue	6.01	5.44	10.4%	5.03	19.5%	17.97	15.82	13.6%
EBITDA	1.51	0.77	96.7%	0.57	167.1%	4.31	2.16	100.0%
margin	25.1%	14.1%	-	11.2%	-	24.0%	13.6%	-

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

Webgains was again the outperformer In Q3, the Webgains segment increased revenue by 32% y/y to €3.1m. EBITDA more than quadrupled from €200k to €894k. This means additional revenue (€744k) was almost completely converted into additional EBITDA (€694k) and demonstrates the enormous operating leverage of Webgains' affiliate network platform. The segment EBITDA margin rose from 8.7% to 29.3%. Webgains has developed into a very profitable business due to strong economies of scale.

ad pepper media with strong EBITDA margin increase in Q3 Segment revenue was up 9% y/y at €1.25m and segment EBITDA growth of 29% outpaced revenue growth. The segment EBITDA amounted to €497k versus €348k in the prior year period. The segment EBITDA margin was up 6.3 PP at 39.8%.

ad agents with particularly strong EBITDA margin of 26% ad agents' revenues were up 8.5% y/y at €1.7m. Segment EBITDA increased by an astonishing 70% to €446k. The segment EBITDA margin rose from 16.7% to 26.1%

Figure 2: Reported segment figures versus forecasts

All figures in €m	Q3-20A	Q3-20E	Delta	Q3-19A	Delta	9M-20A	9M-19A	Delta
ad pepper media								
Revenue	1.25	1.17	6.8%	1.15	8.9%	4.13	4.15	-0.5%
EBITDA	0.50	0.40	23.0%	0.38	29.4%	1.70	1.79	-4.8%
margin	39.8%	34.6%	-	33.5%	-	41.2%	43.1%	-
Webgains								
Revenue	3.06	2.68	14.2%	2.31	32.2%	8.98	7.40	21.3%
EBITDA	0.89	0.54	65.2%	0.20	347.0%	3.06	1.01	204.7%
margin	29.3%	20.2%	-	8.7%	-	34.1%	13.6%	-
ad agents								
Revenue	1.71	1.60	6.8%	1.57	8.5%	4.86	4.27	13.7%
EBITDA	0.45	0.14	214.1%	0.26	70.2%	0.76	0.49	53.0%
margin	26.1%	8.9%	-	16.7%	-	15.6%	11.6%	-
Admin								
Revenue	0.00	0.00	-	0.00	-	0.00	0.00	-
EBITDA	-0.33	-0.32	-	-0.28	-	-1.21	-1.12	-
Group								
Revenue	6.01	5.44	10.4%	5.03	19.5%	17.97	15.82	13.6%
EBITDA	1.51	0.77	96.7%	0.57	167.1%	4.31	2.16	99.9%
margin	25.1%	14.1%	-	11.2%	-	24.0%	13.6%	-

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

Share buyback program started ad pepper plans to acquire up to 500,000 of its own shares in the period from 19 October 2020 to 19 November 2021 for a total amount (excluding incidental acquisition costs) of up to €2.25m. The repurchased shares will be used exclusively in order to (i) meet obligations under stock option plans by way of transfer



of the shares to option holders for the exercise of their option rights and/or (ii) reduce the capital of the company.

Forecasts increased Given the stronger than expected Q3 and our conviction that the Q4 EBITDA will be stronger than the prior year figure of €1.36m (more online shopping due to the pandemic), we forecast 2020 EBITDA of €6.2m. As 9M EBITDA was €4.3m, this means that Q4 EBITDA will be at €1.9m (FBe), which is not so much ahead of the Q2 EBITDA (€1.7m) and the Q3 EBITDA (€1.5m).

We have also increased our forecasts for 2021 and the following years (see figure 3). We expect double-digit revenue growth in coming years and high operating leverage resulting in increasing margins.

Figure 3: Revisions to forecasts

All figures in €m	2020E			2021E			2022E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Revenue	23.98	25.15	4.9%	26.93	27.92	3.7%	29.63	30.71	3.7%
EBIT	3.64	5.12	40.6%	4.67	6.38	36.7%	5.18	7.22	39.3%
<i>margin</i>	15.2%	20.3%		17.3%	22.9%		17.5%	23.5%	
Net income	1.88	2.92	55.0%	2.59	3.79	46.4%	2.85	4.27	50.0%
<i>margin</i>	7.8%	11.6%		9.6%	13.6%		9.6%	13.9%	
EPS (diluted)	0.09	0.14	55.0%	0.12	0.18	46.4%	0.13	0.20	50.0%

Source: First Berlin Equity Research

Buy rating confirmed at higher price target An updated DCF model, which takes the higher forecasts into account, yields a new price target of €6.00 (previously: €4.70). We view ad pepper as a very good hedge against the economic headwinds of the pandemic and confirm our Buy recommendation.



VALUATION MODEL

DCF valuation model								
All figures in EUR '000								
	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Net revenue	25,150	27,922	30,714	33,786	37,163	40,869	44,913	49,281
NOPLAT	3,610	4,459	5,043	5,548	6,107	6,721	7,392	8,117
+ depreciation & amortisation	1,110	1,208	1,273	1,336	1,376	1,414	1,451	1,487
Net operating cash flow	4,720	5,667	6,316	6,884	7,483	8,135	8,843	9,604
- total investments (CAPEX and WC)	-5,545	1,396	-1,609	-726	-657	-678	-697	-711
Capital expenditures	-604	-614	-676	-709	-750	-791	-833	-874
Working capital	-4,941	2,010	-933	-17	93	113	136	163
Free cash flows (FCF)	-825	7,063	4,707	6,158	6,826	7,456	8,146	8,893
PV of FCF's	-809	6,289	3,807	4,523	4,553	4,517	4,482	4,445

All figures in thousands	
PV of FCFs in explicit period (2020E-2034E)	60,159
PV of FCFs in terminal period	43,970
Enterprise value (EV)	104,130
+ Net cash / - net debt	22,983
+ Investments / minority interests	935
Shareholder value	128,048
Number of shares (diluted)	21,470
Fair value per share in EUR	5.96

WACC		Terminal growth rate						
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
6.1%	Cost of equity	9.52	10.10	10.81	11.69	12.81	14.30	16.37
7.1%	Pre-tax cost of debt	8.05	8.42	8.86	9.39	10.04	10.84	11.86
8.1%	Tax rate	6.97	7.23	7.52	7.86	8.26	8.74	9.33
9.1%	After-tax cost of debt	6.16	6.34	6.54	6.77	7.04	7.35	7.71
10.1%	Share of equity capital	5.53	5.66	5.80	5.96	6.15	6.36	6.60
11.1%	Share of debt capital	5.02	5.12	5.22	5.34	5.47	5.62	5.78
12.1%		4.60	4.68	4.76	4.84	4.94	5.05	5.17
13.1%		4.26	4.32	4.38	4.44	4.51	4.59	4.68
	Price target in EUR							

* 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	99,045	110,805	121,885
Media costs	56,839	62,381	61,987	73,895	82,883	91,171
Revenues	18,724	20,272	21,787	25,150	27,922	30,714
Cost of sales	376	726	820	820	1,117	1,229
Gross profit	18,348	19,546	20,967	24,330	26,805	29,486
S&M	10,771	12,621	12,225	12,812	13,567	14,436
G&A	6,087	5,925	6,853	7,558	7,651	7,986
Other operating income	723	494	943	1,608	1,245	737
Other operating expenses	396	467	313	450	450	584
EBITDA	2,209	1,354	3,512	6,228	7,590	8,491
Depreciation and amortisation	391	327	993	1,110	1,208	1,273
Operating income (EBIT)	1,818	1,027	2,519	5,118	6,382	7,218
Net financial result	-17	-190	-209	-93	28	31
Non-operating expenses	0	0	0	0	0	0
Pre-tax income (EBT)	1,801	837	2,310	5,025	6,410	7,249
Income taxes	664	302	390	1,508	1,923	2,175
Minority interests	-556	-288	-568	-600	-700	-800
Net income / loss	581	247	1,352	2,918	3,787	4,274
Diluted EPS (in €)	0.03	0.01	0.06	0.14	0.18	0.20

Ratios

Gross margin in % of gross sales	24.3%	23.6%	25.0%	24.6%	24.2%	24.2%
Gross margin in % of revenues	98.0%	96.4%	96.2%	96.7%	96.0%	96.0%
EBITDA margin in % of revenues	11.8%	6.7%	16.1%	24.8%	27.2%	27.6%
EBIT margin	9.7%	5.1%	11.6%	20.3%	22.9%	23.5%
Net margin	3.1%	1.2%	6.2%	11.6%	13.6%	13.9%
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%	74.6%	74.8%	74.8%
S&M (as % of revenues)	57.5%	62.3%	56.1%	50.9%	48.6%	47.0%
G&A (as % of revenues)	32.5%	29.2%	31.5%	30.1%	27.4%	26.0%
Depreciation and amortisation	2.1%	1.6%	4.6%	4.4%	4.3%	4.1%
Other operating expenses	2.1%	2.3%	1.4%	1.8%	1.6%	1.9%

Y-Y Growth

Gross sales	23.5%	9.4%	1.4%	18.2%	11.9%	10.0%
Net revenues	n.a.	8.3%	7.5%	15.4%	11.0%	10.0%
Operating income	13.0%	-43.5%	145.3%	103.2%	24.7%	13.1%
Net income/ loss	-7.7%	-57.5%	447.4%	115.8%	29.8%	12.9%



BALANCE SHEET

All figures in EUR '000	2017A	2018A	2019A	2020E	2021E	2022E
Assets						
Current assets, total	34,896	36,346	40,731	40,041	48,154	53,928
Cash and cash equivalents	20,127	18,233	25,229	23,588	29,955	33,969
Short-term investments	27	55	47	47	47	47
Receivables	14,129	17,629	14,897	15,848	17,595	19,354
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	3,422	3,552	3,679
Property, plant & equipment	424	330	391	447	447	469
Goodwill & other intangibles	362	218	359	521	651	756
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	43,463	51,707	57,607
Shareholders' equity & debt						
Current liabilities, total	21,696	22,560	24,299	20,309	24,066	24,892
Short-term debt	0	0	0	0	0	0
Accounts payable	17,838	18,967	18,593	14,603	18,360	19,186
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	1,535	2,235	3,035
Shareholders' equity	15,738	15,659	17,105	20,023	23,810	28,084
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	-44,834	-41,047	-36,773
Total consolidated equity and debt	38,615	39,610	44,052	43,463	51,707	57,607
Ratios						
Current ratio (x)	1.61	1.61	1.68	1.97	2.00	2.17
Quick ratio (x)	1.61	1.61	1.68	1.97	2.00	2.17
Net debt	-20,127	-18,233	-22,983	-21,459	-27,826	-31,840
Net gearing	-127.9%	-116.4%	-134.4%	-107.2%	-116.9%	-113.4%
Equity ratio	42.8%	41.7%	41.0%	49.6%	50.4%	54.0%
Book value per share (in €)	0.74	0.74	0.81	0.95	1.12	1.33
Return on equity (ROE)	3.7%	1.6%	7.9%	14.6%	15.9%	15.2%
Return on investment (ROI)	1.5%	0.6%	3.1%	6.7%	7.3%	7.4%
Return on assets (ROA)	1.5%	0.6%	3.1%	6.7%	7.3%	7.4%



CASH FLOW STATEMENT

All figures in EUR '000	2017A	2018A	2019A	2020E	2021E	2022E
EBIT	1,818	1,027	2,519	5,118	6,382	7,218
Depreciation and amortisation	391	327	993	1,110	1,208	1,273
EBITDA	2,209	1,354	3,512	6,228	7,590	8,491
Changes in working capital	3,095	-2,192	4,352	-4,941	2,010	-933
Other adjustments	-2,203	-684	-1,382	-1,600	-1,895	-2,144
Operating cash flow	3,101	-1,522	6,482	-314	7,705	5,414
Investments in PP&E	-378	-51	-221	-252	-223	-246
Investments in intangibles	-55	-44	-303	-352	-391	-430
Free cash flow	2,667	-1,617	5,958	-917	7,091	4,738
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	-604	-614	-676
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
Financing cash flow	-362	-296	-1,173	-724	-724	-724
FOREX & other effects	-39	-12	51	0	0	0
Net cash flows	2,269	-1,894	6,996	-1,641	6,367	4,014
Cash, start of the year	17,859	20,127	18,233	25,229	23,588	29,955
Cash, end of the year	20,128	18,233	25,229	23,588	29,955	33,969
EBITDA/share (in €)	0.10	0.06	0.17	0.29	0.36	0.40
Y-Y Growth						
Operating cash flow	13381.7%	n.m.	n.m.	n.m.	n.m.	-29.7%
Free cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	-33.2%
EBITDA/share	26.3%	-39.0%	161.0%	77.3%	21.9%	11.9%

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Ggf. Inhaltlich Verantwortlicher gem. § 6 MDStV

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The production of this recommendation was completed on 19 October 2020 at 10:58

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

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INFORMATION PURSUANT TO SECTION 64 OF THE GERMAN SECURITIES TRADING ACT [WPHG], DIRECTIVE 2014/65/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 15 MAY 2014 ON MARKETS IN FINANCIAL INSTRUMENTS AND AMENDING DIRECTIVE 2002/92/EC AND DIRECTIVE 2011/61/EU, ACCOMPANIED BY THE MARKETS IN FINANCIAL INSTRUMENTS REGULATION (MIFIR, REG. EU NO. 600/2014).

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PRICE TARGET DATES

Unless otherwise indicated, current prices refer to the closing prices of the previous trading day.

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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.

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...15	↓	↓	↓	↓
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	24 August 2020	€3.48	Buy	€4.70
24	Today	€3.86	Buy	€6.00

INVESTMENT HORIZON

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

UPDATES

At the time of publication of this financial analysis it is not certain whether, when and on what occasion an update will be provided. In general First Berlin strives to review the financial analysis for its topicality and, if required, to update it in a very timely manner in connection with the reporting obligations of the analysed company or on the occasion of ad hoc notifications.

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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/>

SUPERVISORY AUTHORITY: Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Marie-Curie-Straße 24-28, 60439 Frankfurt am Main

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