

ad pepper media International N.V.

The Netherlands / Internet Services

Frankfurt

Bloomberg: APM GR

ISIN: NL0000238145

Final Q1/21 figures

RATING**PRICE TARGET**

Return Potential

Risk Rating

BUY**€ 8.40**

44.3%

Medium

PANDEMIC FADES, DIGITISATION TREND IS HERE TO STAY

ad pepper media has reported final Q1/21 figures which matched preliminary numbers. Revenue rose 18% y/y to €6.9m and EBITDA climbed 17% y/y to €1.3m. The main earnings driver was once again the affiliate network Webgains with EBITDA growth of 72% y/y. The net result of €0.7m was up only 6% due to higher taxes and non-controlling interests. Free cash flow amounted to €2.5m. Management is guiding for double-digit growth in 2021. ad pepper will hire new staff, and invest in new products, services & markets. We like APM for its very attractive business model, which offers growth, high profitability, a platform model (Webgains), a very strong balance sheet, and strong free cash flow generation. APM bought back 447,236 shares for €2.25m through the 2020/21 share buyback programme. An updated DCF model still yields a €8.40 price target. Along with many other shares which appreciated strongly during the pandemic, the APM share has recently been weaker. We note that the pandemic supported and strengthened the ongoing trend towards digital performance marketing, but we are convinced that this trend will also continue in a post-pandemic environment. We thus confirm our Buy rating and see recent weakness as a good buying opportunity.

Almost 15% EBIT margin Gross sales rose 30% to €28.1m due to very high gross sales growth at Webgains (+45% y/y). Revenue growth (+18% to €6.9m) lagged behind gross sales growth as media costs were much higher (+34% y/y). Gross profit increased 16% y/y to €6.4m. EBITDA was up 17% y/y to €1.3m. The EBITDA margin was almost stable at 19.0%. Depreciation of €0.3m led to EBIT of €1.0m (+20% y/y). The EBIT margin widened slightly to 14.7%. Higher taxes and non-controlling interests resulted in a net result of €0.7m, which corresponds to EPS of €0.03. (see figure 1 overleaf).

(p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2018	2019	2020	2021E	2022E	2023E
Revenue (€m)	20.27	21.79	25.62	28.18	30.99	34.09
Y-o-y growth	8.3%	7.5%	17.6%	10.0%	10.0%	10.0%
EBITDA (€m)	1.35	3.51	6.56	7.75	8.71	9.56
EBITDA margin	6.7%	16.1%	25.6%	27.5%	28.1%	28.0%
Net income (€m)	0.25	1.35	3.66	4.00	4.53	4.99
EPS (diluted) (€)	0.01	0.06	0.17	0.18	0.21	0.23
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-1.62	5.96	2.60	5.26	5.74	6.42
Net gearing	-116.4%	-134.4%	-115.0%	-115.5%	-115.4%	-115.8%
Liquid assets (€m)	18.23	25.23	24.33	29.05	34.26	40.14

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 24 May 2021

Closing Price	€ 5.82
Shares outstanding	20.92m
Market Capitalisation	€ 121.76m
52-week Range	€ 3.00 / 6.85
Avg. Volume (12 Months)	16,272

Multiples	2020	2021E	2022E
P/E	33.2	30.4	26.9
EV/Sales	3.9	3.5	3.2
EV/EBITDA	15.2	12.9	11.4
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Mar 2021

Liquid Assets	€ 25.39m
Current Assets	€ 42.50m
Intangible Assets	€ 0.68m
Total Assets	€ 46.39m
Current Liabilities	€ 24.69m
Shareholders' Equity	€ 20.54m

SHAREHOLDERS

EMA B.V.	44.1%
Euro Serve Media GmbH	2.6%
Treasury shares	3.6%
Free Float	49.7%

**Figure 1: Reported figures versus forecasts**

All figures in €m	Q1-21A	Q1-21E	Delta	Q1-20A	Delta
Gross sales	28.11	28.11	0.0%	21.65	29.8%
Revenue	6.88	6.88	0.1%	5.84	17.9%
Gross profit	6.64	6.62	0.3%	5.70	16.4%
<i>margin</i>	96.4%	96.2%	-	97.6%	-
EBITDA	1.31	1.31	0.0%	1.12	16.6%
<i>margin</i>	19.0%	19.0%	-	19.2%	-
EBIT	1.01	1.03	-1.8%	0.84	20.4%
<i>margin</i>	14.7%	15.0%	-	14.4%	-
EBT	0.98	0.99	-1.0%	0.81	21.1%
<i>margin</i>	14.2%	14.4%	-	13.9%	-
Net income	0.69	0.70	-2.0%	0.65	6.0%
<i>margin</i>	10.0%	10.2%	-	11.1%	-
EPS (diluted)	0.03	0.03	-2.1%	0.03	6.6%

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

Balance sheet remains very strong Liquid funds including listed debt securities (€1m) amounted to €26.4m versus €25.3m at the end of 2020. Liquid funds' share of the balance sheet total amounted to 57%. ad pepper has no bank liabilities. Lease liabilities were ca. €1.5m. This resulted in a net cash position of ca. €25m. Equity was stable at €20.5m (Q4/20: €20.8m). The equity ratio was slightly up at 44.3% versus 42.7% at the end of 2020, as the balance sheet total decreased 5% to €46.4m. Working capital (receivables – payables) was negative and amounted to €-4.3m.

High free cash flow in Q1 Operating cash flow was €2.5m. Negligible capital expenditure resulted in free cash flow of €2.5m. Cash flow from financing activities amounted to €-1.6m due mainly to the purchase of treasury shares (€1.1m). Net cash flow was €0.9m.

Webgains remains the shining star Webgains' revenue rose 41% y/y to €3.9m, and high operating leverage resulted in segment EBITDA soaring 72% to €1.0m. The EBITDA margin widened from 21.9% to 26.7%. The importance of Webgains' contribution to the group is shown in figure 2. In Q1, the segment contributed by far the highest EBITDA to the total. The affiliate marketing platform is particularly benefitting from the digitisation trend and the extra boost caused by the pandemic. Webgains has partnerships with 250,000 publishers and is one of the leading affiliate marketing networks. Over 1,850,800 customers in 14 countries rely on the services of Webgains' registered and approved affiliate publishers to deliver sales in over 170 global markets. At the end of Q1/21, Webgains had 104 employees.

Figure 2: Segment EBITDA in Q1/21

EBITDA in €k	Q1-21A	Q1-20A	Delta
ad pepper media	534	704	-24%
Webgains	1,037	603	72%
ad agents	250	118	112%
Admin / consolidation	-515	-305	-
Group	1,306	1,120	17%

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



ad agents with very strong EBITDA growth Segment revenues were up almost 15% at €1.8m. Segment EBITDA more than doubled y/y to €250k. The segment EBITDA margin widened from 7.7% to 14.1%.

ad pepper media suffered from low demand from a large customer Segment revenue fell 20% y/y to €1.2m, and EBITDA retreated 24% to €34k. Although the segment EBITDA margin shrank from 45.6% to 43.3%, we note that the margin remains high and demonstrates the competitive strength of the segment. During the pandemic, ad pepper media's Spanish business suffered, as Spain was hit hard by the corona virus. Q1/21 figures revealed that the segment is on track again in Spain. Spanish revenue was slightly higher than in Q1/20 (€512k versus €504k), although Q1/20 was largely unaffected by the pandemic.

Buy confirmed at unchanged price target APM has a very attractive business model, which offers growth, high profitability, a platform model (Webgains), a very strong balance sheet, and strong free cash flow generation. An updated DCF model still yields a €8.40 price target. We reiterate our Buy rating.



VALUATION MODEL

DCF valuation model								
All figures in EUR '000								
	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
Net revenue	28,177	30,994	34,093	37,503	41,252	45,366	49,855	54,703
NOPLAT	4,672	5,300	5,861	6,493	7,210	8,005	8,880	9,836
+ depreciation & amortisation	1,108	1,130	1,173	1,211	1,258	1,303	1,349	1,396
Net operating cash flow	5,780	6,430	7,033	7,704	8,468	9,308	10,229	11,231
- total investments (CAPEX and WC)	-550	-725	-652	-677	-715	-754	-793	-833
Capital expenditures	-620	-682	-716	-788	-836	-887	-938	-990
Working capital	70	-43	64	110	121	133	145	157
Free cash flows (FCF)	5,230	5,706	6,382	7,027	7,753	8,554	9,436	10,398
PV of FCF's	4,977	5,000	5,149	5,219	5,303	5,388	5,472	5,552

All figures in thousands

PV of FCFs in explicit period (2021E-2035E)	80,631	
PV of FCFs in terminal period	78,365	
Enterprise value (EV)	158,996	
+ Net cash / - net debt	22,680	Terminal growth 2.0%
+ Investments / minority interests	2,169	Terminal EBIT margin 25.6%
Shareholder value	183,845	
Number of shares (diluted)	21,843	
Fair value per share in EUR	8.42	

WACC		Terminal growth rate						
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
4.6%	Cost of equity	15.73	17.21	19.17	21.89	25.90	32.41	44.85
5.6%	Pre-tax cost of debt	12.47	13.30	14.33	15.65	17.40	19.83	23.40
6.6%	Tax rate	10.30	10.81	11.42	12.16	13.09	14.27	15.83
7.6%	After-tax cost of debt	8.77	9.10	9.49	9.95	10.49	11.15	11.98
8.6%	Share of equity capital	7.64	7.86	8.12	8.42	8.76	9.17	9.66
9.6%	Share of debt capital	6.77	6.92	7.10	7.31	7.54	7.80	8.11
10.6%		6.08	6.19	6.32	6.46	6.62	6.80	7.01
11.6%		5.53	5.61	5.70	5.81	5.92	6.05	6.19

* for layout purposes the model shows numbers only to 2028, but runs until 2035



INCOME STATEMENT

All figures in EUR '000	2017A	2018A	2019A	2020A	2021E	2022E	2023E
Gross sales	75,563	82,653	83,774	101,344	121,012	133,110	146,421
Media costs	56,839	62,381	61,987	75,729	92,835	102,116	112,328
Revenues	18,724	20,272	21,787	25,615	28,177	30,994	34,093
Cost of sales	376	726	820	928	1,127	1,221	1,330
Gross profit	18,348	19,546	20,967	24,687	27,050	29,773	32,764
S&M	10,771	12,621	12,225	13,411	13,760	14,580	16,024
G&A	6,087	5,925	6,853	7,108	7,446	7,763	8,523
Other operating income	723	494	943	1,514	1,245	744	818
Other operating expenses	396	467	313	234	450	589	648
EBITDA	2,209	1,354	3,512	6,559	7,747	8,715	9,560
Depreciation and amortisation	391	327	993	1,111	1,108	1,130	1,173
Operating income (EBIT)	1,818	1,027	2,519	5,448	6,639	7,584	8,387
Net financial result	-17	-190	-209	-116	28	31	34
Non-operating expenses	0	0	0	0	0	0	0
Pre-tax income (EBT)	1,801	837	2,310	5,332	6,667	7,615	8,421
Income taxes	664	302	390	991	1,967	2,285	2,526
Minority interests	-556	-288	-568	-677	-700	-800	-900
Net income / loss	581	247	1,352	3,664	4,000	4,531	4,995
Diluted EPS (in €)	0.03	0.01	0.06	0.17	0.18	0.21	0.23
Ratios							
Gross margin in % of gross sales	24.3%	23.6%	25.0%	24.4%	22.4%	22.4%	22.4%
Gross margin in % of revenues	98.0%	96.4%	96.2%	96.4%	96.0%	96.1%	96.1%
EBITDA margin in % of revenues	11.8%	6.7%	16.1%	25.6%	27.5%	28.1%	28.0%
EBIT margin	9.7%	5.1%	11.6%	21.3%	23.6%	24.5%	24.6%
Net margin	3.1%	1.2%	6.2%	14.3%	14.2%	14.6%	14.7%
Tax rate	36.9%	36.1%	16.9%	18.6%	29.5%	30.0%	30.0%
Expenses as % of sales or revenues							
Media costs (as % of gross sales)	75.2%	75.5%	74.0%	74.7%	76.7%	76.7%	76.7%
S&M (as % of revenues)	57.5%	62.3%	56.1%	52.4%	48.8%	47.0%	47.0%
G&A (as % of revenues)	32.5%	29.2%	31.5%	27.7%	26.4%	25.0%	25.0%
Depreciation and amortisation	2.1%	1.6%	4.6%	4.3%	3.9%	3.6%	3.4%
Other operating expenses	2.1%	2.3%	1.4%	0.9%	1.6%	1.9%	1.9%
Y-Y Growth							
Gross sales	23.5%	9.4%	1.4%	21.0%	19.4%	10.0%	10.0%
Net revenues	n.a.	8.3%	7.5%	17.6%	10.0%	10.0%	10.0%
Operating income	13.0%	-43.5%	145.3%	116.3%	21.9%	14.2%	10.6%
Net income/ loss	-7.7%	-57.5%	447.4%	171.0%	9.2%	13.3%	10.2%



BALANCE SHEET

All figures in EUR '000	2017A	2018A	2019A	2020A	2021E	2022E	2023E
Assets							
Current assets, total	34,896	36,346	40,731	44,718	49,787	55,299	62,285
Cash and cash equivalents	20,127	18,233	25,229	24,330	29,055	34,258	40,141
Short-term investments	27	55	47	29	29	29	29
Receivables	14,129	17,629	14,897	19,727	20,071	20,380	21,484
Inventories	0	0	0	0	0	0	0
Other current assets	613	429	558	632	632	632	632
Non-current assets, total	3,719	3,264	3,321	4,123	4,168	4,253	4,329
Property, plant & equipment	424	330	391	412	431	464	470
Goodwill & other intangibles	362	218	359	737	763	815	885
Right-of-use assets	0	0	2,129	1,568	1,568	1,568	1,568
Financial assets	2,933	2,716	442	1,406	1,406	1,406	1,406
Other assets	0	0	0	0	0	0	0
Total assets	38,615	39,610	44,052	48,841	53,955	59,552	66,615
Shareholders' equity & debt							
Current liabilities, total	21,696	22,560	24,299	26,761	27,175	27,441	28,609
Short-term debt	0	0	0	0	0	0	0
Accounts payable	17,838	18,967	18,593	20,738	21,152	21,418	22,586
Current provisions	0	0	0	0	0	0	0
Other current liabilities	3,858	3,593	4,907	5,280	5,280	5,280	5,280
Lease liabilities	0	0	799	743	743	743	743
Long-term liabilities, total	402	538	1,713	1,242	1,242	1,242	1,242
Long-term debt	0	0	0	0	0	0	0
Lease liabilities	0	0	1,447	953	953	953	953
Other liabilities	402	538	266	289	289	289	289
Minority interests	779	853	935	1,157	1,857	2,657	3,557
Shareholders' equity	15,738	15,659	17,105	19,681	23,681	28,212	33,207
Share capital	1,150	1,150	1,075	1,075	1,075	1,075	1,075
Capital reserve	61,312	60,999	63,782	63,782	63,782	63,782	63,782
Other reserves	-1,683	-1,208	0	0	0	0	0
Loss carryforward / retained earnings	-45,041	-45,281	-47,752	-45,176	-41,176	-36,645	-31,650
Total consolidated equity and debt	38,615	39,610	44,052	48,841	53,955	59,552	66,615
Ratios							
Current ratio (x)	1.61	1.61	1.68	1.67	1.83	2.02	2.18
Quick ratio (x)	1.61	1.61	1.68	1.67	1.83	2.02	2.18
Net debt	-20,127	-18,233	-22,983	-22,634	-27,359	-32,562	-38,445
Net gearing	-127.9%	-116.4%	-134.4%	-115.0%	-115.5%	-115.4%	-115.8%
Equity ratio	42.8%	41.7%	41.0%	42.7%	47.3%	51.8%	55.2%
Book value per share (in €)	0.74	0.74	0.81	0.93	1.08	1.29	1.52
Return on equity (ROE)	3.7%	1.6%	7.9%	18.6%	16.9%	16.1%	15.0%
Return on investment (ROI)	1.5%	0.6%	3.1%	7.5%	7.4%	7.6%	7.5%
Return on assets (ROA)	1.5%	0.6%	3.1%	7.5%	7.4%	7.6%	7.5%



CASH FLOW STATEMENT

All figures in EUR '000	2017A	2018A	2019A	2020A	2021E	2022E	2023E
EBIT	1,818	1,027	2,519	5,448	6,639	7,584	8,387
Depreciation and amortisation	391	327	993	1,111	1,108	1,130	1,173
EBITDA	2,209	1,354	3,512	6,559	7,747	8,715	9,560
Changes in working capital	3,095	-2,192	4,352	-1,527	70	-43	64
Other adjustments	-2,203	-684	-1,382	-1,650	-1,939	-2,254	-2,492
Operating cash flow	3,101	-1,522	6,482	3,382	5,878	6,418	7,132
Investments in PP&E	-378	-51	-221	-238	-225	-248	-239
Investments in intangibles	-55	-44	-303	-549	-394	-434	-477
Free cash flow	2,667	-1,617	5,958	2,595	5,258	5,737	6,416
Acquisitions & disposals, net	3	66	8	10	0	0	0
Other investments	0	-35	2,152	-994	0	0	0
Investment cash flow	-431	-64	1,636	-1,771	-620	-682	-716
Debt financing, net	0	0	0	0	0	0	0
Equity financing, net	105	0	0	-978	0	0	0
Dividends paid	0	0	0	0	0	0	0
Other financing	-467	-296	-1,173	-1,300	-533	-533	-533
Financing cash flow	-362	-296	-1,173	-2,278	-533	-533	-533
FOREX & other effects	-39	-12	51	-232	0	0	0
Net cash flows	2,269	-1,894	6,996	-899	4,725	5,203	5,883
Cash, start of the year	17,859	20,127	18,233	25,229	24,330	29,055	34,258
Cash, end of the year	20,128	18,233	25,229	24,330	29,055	34,258	40,141
EBITDA/share (in €)	0.10	0.06	0.17	0.31	0.35	0.40	0.44
Y-Y Growth							
Operating cash flow	13381.7%	n.m.	n.m.	-47.8%	73.8%	9.2%	11.1%
Free cash flow	n.m.	n.m.	n.m.	-56.4%	102.6%	9.1%	11.8%
EBITDA/share	26.3%	-39.0%	161.0%	87.1%	14.3%	12.5%	9.7%

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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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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...21	↓	↓	↓	↓
22	20 July 2020	€3.74	Buy	€4.70
23	24 August 2020	€3.48	Buy	€4.70
24	19 October 2020	€3.86	Buy	€6.00
25	20 November 2020	€4.38	Buy	€6.00
26	10 December 2020	€4.80	Buy	€6.70
27	9 February 2021	€6.05	Buy	€7.60
28	7 April 2021	€6.28	Buy	€8.30
29	21 April 2021	€6.56	Buy	€8.40
30	Today	€5.82	Buy	€8.40

INVESTMENT HORIZON

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

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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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