

ad pepper media International N.V.

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

Final Q1/22 figures

RATING
BUY

PRICE TARGET
€ 6.20

Return Potential 82.9%
 Risk Rating Medium

ADJUSTING TO A MORE DIFFICULT ENVIRONMENT

ad pepper media's final Q1 figures matched preliminary numbers. Revenue declined 15% y/y to €5.9m as restrained campaign bookings from customers due to supply chain issues as well as subdued e-commerce activity weighed on revenue development at the ad pepper media and Webgains segments. Lower sales and increased OPEX (+4% y/y) resulted in only slightly positive EBITDA (€33k) versus €1.3m in Q1/21. The net result fell from €0.7m to €-0.7m due mainly to higher financial expenses. For Q2, management is guiding for revenue of €6.3m - €6.5m, which would be up to 3% below the Q2/21 figure. 2022 looks set to be a year of normalisation following strong internet sales and online marketing growth during the pandemic. But the underlying trend of market share gains for digital marketing is still intact. Although ad pepper is not immune to declining consumer confidence, customers' supply chain disruptions, and stagflation, we still see the company as well-positioned as a digital performance marketing pure play in a structural growth sector. Good profitability, a strong balance sheet, and positive free cash flows make the stock attractive. We stick to our Buy rating and €6.20 price target.

Revenue decline and higher OPEX evaporated Q1 EBITDA Gross sales fell 17% y/y to €23.2m and revenue declined 15% to €5.9m. Gross profit retreated 16% y/y to €5.6m. Higher OPEX (+4% y/y) caused EBITDA to fall from €1.3m to €33k. Roughly stable D&A led to EBIT of €-0.2m versus €1.0m in the prior year period. Financial expenses of €0.3m mainly reflect the lower fair value of securities. The net result fell by €1.4m y/y to €-0.7m. This corresponds to EPS of €-0.04 (see figure 1 overleaf).

Balance sheet remains strong Equity declined from €20.1m at the end of 2021 to €18.3m (-9% q/q) due mainly to the net loss (€-0.7m) and the purchase of treasury shares (€-1.2m). The equity ratio, however, rose from 43% to 47% as the balance sheet total retreated 15% q/q. Liquid funds including securities declined 14% q/q to €20.5m. ad pepper still has no liabilities to banks. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2019	2020	2021	2022E	2023E	2024E
Revenue (€m)	21.79	25.62	27.65	28.81	31.69	34.70
Y-o-y growth	7.5%	17.6%	7.9%	4.2%	10.0%	9.5%
EBITDA (€m)	3.51	6.56	4.38	4.23	5.80	7.49
EBITDA margin	16.1%	25.6%	15.8%	14.7%	18.3%	21.6%
Net income (€m)	1.35	3.66	1.73	1.38	2.54	3.68
EPS (diluted) (€)	0.06	0.17	0.08	0.07	0.12	0.17
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	5.96	2.60	1.91	2.72	3.67	5.00
Net gearing	-134.4%	-115.0%	-104.2%	-107.3%	-109.5%	-111.4%
Liquid assets (€m)	25.23	24.33	20.70	22.78	25.98	30.51

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 27 May 2022

Closing Price	€ 3.39
Shares outstanding	20.26m
Market Capitalisation	€ 68.67m
52-week Range	€ 3.30 / 6.08
Avg. Volume (12 Months)	11,725

Multiples	2021	2022E	2023E
P/E	38.8	48.3	26.4
EV/Sales	1.7	1.7	1.5
EV/EBITDA	11.0	11.4	8.3
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Mar 2022

Liquid Assets	€ 17.70m
Current Assets	€ 34.03m
Intangible Assets	€ 0.55m
Total Assets	€ 39.26m
Current Liabilities	€ 20.08m
Shareholders' Equity	€ 18.29m

SHAREHOLDERS

EMA B.V.	44.1%
Euro Serve Media GmbH	2.6%
Treasury shares	5.8%
Free Float	47.5%



Lease liabilities amounted to €1.1m. This results in a net cash position of €19.3m, down from €22.5m at the end of 2021. Trade receivables were down 20% q/q at €15.5m. Trade payables fell 17% to €16.9m due mainly to affiliate and website payments of €2.8m. Working capital (receivables ./ payables) thus remained negative at €-1.3m.

Figure 1: Reported Q1 group figures

All figures in €m	Q1-22A	Q1-21A	Delta
Gross sales	23.22	28.11	-17.4%
Revenue	5.87	6.88	-14.7%
Gross profit	5.61	6.64	-15.5%
<i>margin</i>	95.5%	96.4%	-
EBITDA	0.03	1.31	-97.5%
<i>margin</i>	0.6%	19.0%	-
EBIT	-0.23	1.01	-
<i>margin</i>	-3.9%	14.7%	-
EBT	-0.51	0.98	-
<i>margin</i>	-8.7%	14.2%	-
Net income	-0.74	0.69	-
<i>margin</i>	-12.6%	10.0%	-
EPS (diluted)	-0.04	0.03	-

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

Negative operating cash flow Operating cash flow was €-1.6m (versus €+2.2m in Q1/21) owing chiefly to the net loss (€-0.6m) and lower payables (€-3.1m). CapEx of €54k led to free cash flow of €-1.6m. Cash flow from financing was €-1.4m due mainly to the purchase of treasury shares (€-1.2m). Net cash flow amounted to €-3.0m.

Figure 2: Reported segment figures

All figures in €m	Q1-22A	Q1-21A	Delta
ad pepper media			
Revenue	0.71	1.23	-42.1%
EBITDA	0.03	0.53	-93.6%
<i>margin</i>	4.8%	43.3%	-
Webgains			
Revenue	3.23	3.89	-16.9%
EBITDA	0.13	1.04	-87.2%
<i>margin</i>	4.1%	26.7%	-
ad agents			
Revenue	1.93	1.76	9.3%
EBITDA	0.25	0.25	0.0%
<i>margin</i>	13.0%	14.1%	-
Admin & Consolidation			
Revenue	0.00	0.00	-
EBITDA	-0.38	-0.51	-
Group			
Revenue	5.87	6.88	-14.7%
EBITDA	0.03	1.31	-97.5%
<i>margin</i>	0.6%	19.0%	-

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



Only ad agents segment showed solid growth The ad agents segment reported 9% growth to €1.9m despite some order cancellations by customers affected by the Russia-Ukraine war. EBITDA remained stable at €0.25m (see figure 2 on the previous page).

ad pepper media was hit particularly hard, with segment sales slumping 42% y/y to €0.7m. We nevertheless expect a better Q2, as Q1 was the last quarter in 2022 to see the loss of a large customer. Segment EBITDA declined y/y from €534k to €34k.

Webgains' revenue (€3.2m) was 17% below the prior year figure. Segment EBITDA slumped from €1.0m to €0.1m due to subdued e-commerce activities particularly in Webgains' home UK market. We expect a return to growth in H2 due to the segment's international expansion. At the beginning of the year, Webgains established a formal Benelux presence based in Amsterdam. The subsidiary will thus be in a better position to service its already strong customer base of merchant advertisers and marketing agencies in the region. Webgains has increased staff from 104 to 126 (+21% y/y).

The admin segment's EBITDA improved from €-0.51m to €0.38m.

Treasury shares accounted for 5.8% of the share capital at the end of Q1 At the end of March, ad pepper held 1.2m treasury shares. From 1 September 2021 to 21 February 2022, the company repurchased 500,000 shares for €2.7m. The number of shares outstanding declined to 20,257,872 at the end of Q1.

Difficult macroeconomic environment reflected in forecasts In our previous update we lowered our 2022 growth forecast for ad pepper to 4% to reflect worsening consumer sentiment, high inflation and lower growth. In May, the DG ECFIN flash estimate of consumer confidence in the EU continued to trend lower (-0.4 points down from April). At -22.2 points, the indicator remains well below its long-term average. In April, inflation in the EU rose 8.1% y/y. As a result of the Ukraine war, the EU Commission expects significantly lower economic growth in the countries of the euro area. In its spring forecast, it still expects an increase in the gross domestic product of 2.7% for the current year – in February it had still assumed 4.0%.

Buy reiterated at unchanged price target An updated DCF model still yields a €6.20 price target. Slightly higher yields for riskless assets were balanced by the lower number of outstanding shares. We confirm our Buy rating.



VALUATION MODEL

DCF valuation model								
All figures in EUR '000	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
Net revenue	28,809	31,690	34,701	37,997	41,606	45,548	49,830	54,435
NOPLAT	2,276	3,504	4,698	5,953	6,549	7,203	7,916	8,687
+ depreciation & amortisation	1,123	1,022	1,078	1,140	1,179	1,221	1,265	1,312
Net operating cash flow	3,400	4,526	5,776	7,093	7,728	8,423	9,181	9,999
- total investments (CAPEX and WC)	-637	-783	-716	-746	-786	-828	-870	-913
Capital expenditures	-663	-697	-798	-836	-885	-936	-988	-1,039
Working capital	26	-86	82	90	99	108	117	126
Free cash flows (FCF)	2,763	3,743	5,060	6,348	6,941	7,596	8,311	9,086
PV of FCF's	2,609	3,214	3,948	4,503	4,476	4,453	4,428	4,401

All figures in thousands		
PV of FCFs in explicit period (2022E-2036E)	60,332	
PV of FCFs in terminal period	44,834	
Enterprise value (EV)	105,165	
+ Net cash / - net debt	19,458	Terminal growth 2.0%
+ Investments / minority interests	4,470	Terminal EBIT margin 22.0%
Shareholder value	129,093	
Number of shares (diluted)	20,876	
Fair value per share in EUR	6.18	

WACC		Terminal growth rate							
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	
Cost of equity	10.0%	6.0%	10.21	10.80	11.52	12.42	13.58	15.12	17.28
Pre-tax cost of debt	4.0%	7.0%	8.56	8.93	9.37	9.89	10.54	11.34	12.37
Tax rate	25.0%	8.0%	7.37	7.62	7.90	8.23	8.62	9.09	9.66
After-tax cost of debt	3.0%	9.0%	6.47	6.64	6.84	7.05	7.31	7.60	7.95
Share of equity capital	100.0%	10.0%	5.78	5.90	6.03	6.18	6.36	6.55	6.78
Share of debt capital	0.0%	11.0%	5.22	5.31	5.41	5.52	5.64	5.77	5.92
		12.0%	4.77	4.84	4.91	4.99	5.07	5.17	5.28
		13.0%	4.40	4.45	4.50	4.56	4.63	4.70	4.77
Price target in EUR	6.20								

* for layout purposes the model shows numbers only to 2029, but runs until 2036



INCOME STATEMENT

All figures in EUR '000	2019A	2020A	2021A	2022E	2023E	2024E
Gross sales	83,774	101,344	111,539	116,231	127,855	140,001
Media costs	61,987	75,729	83,893	87,422	96,165	105,300
Revenues	21,787	25,615	27,646	28,809	31,690	34,701
Cost of sales	820	928	1,059	1,144	1,268	1,388
Gross profit	20,967	24,687	26,587	27,665	30,422	33,313
S&M	12,225	13,411	15,739	16,601	17,482	18,400
G&A	6,853	7,108	7,707	8,016	8,318	8,675
Other operating income	943	1,514	530	602	754	833
Other operating expenses	313	234	477	547	602	659
EBITDA	3,512	6,559	4,378	4,226	5,797	7,489
Depreciation and amortisation	993	1,111	1,184	1,123	1,022	1,078
Operating income (EBIT)	2,519	5,448	3,194	3,103	4,774	6,411
Net financial result	-209	-116	-38	-42	-68	-65
Non-operating expenses	0	0	0	0	0	0
Pre-tax income (EBT)	2,310	5,332	3,156	3,060	4,706	6,346
Income taxes	390	991	592	826	1,271	1,713
Minority interests	-568	-677	-839	-850	-900	-950
Net income / loss	1,352	3,664	1,725	1,384	2,535	3,682
Diluted EPS (in €)	0.06	0.17	0.08	0.07	0.12	0.17

Ratios

Gross margin in % of gross sales	25.0%	24.4%	23.8%	23.8%	23.8%	23.8%
Gross margin in % of revenues	96.2%	96.4%	96.2%	96.0%	96.0%	96.0%
EBITDA margin in % of revenues	16.1%	25.6%	15.8%	14.7%	18.3%	21.6%
EBIT margin	11.6%	21.3%	11.6%	10.8%	15.1%	18.5%
Net margin	6.2%	14.3%	6.2%	4.8%	8.0%	10.6%
Tax rate	16.9%	18.6%	18.8%	27.0%	27.0%	27.0%

Expenses as % of sales or revenues

Media costs (as % of gross sales)	74.0%	74.7%	75.2%	75.2%	75.2%	75.2%
S&M (as % of revenues)	56.1%	52.4%	56.9%	57.6%	55.2%	53.0%
G&A (as % of revenues)	31.5%	27.7%	27.9%	27.8%	26.2%	25.0%
Depreciation and amortisation	4.6%	4.3%	4.3%	3.9%	3.2%	3.1%
Other operating expenses	1.4%	0.9%	1.7%	1.9%	1.9%	1.9%

Y-Y Growth

Gross sales	1.4%	21.0%	10.1%	4.2%	10.0%	9.5%
Net revenues	7.5%	17.6%	7.9%	4.2%	10.0%	9.5%
EBITDA	159.4%	86.8%	-33.3%	-3.5%	37.2%	29.2%
Operating income	145.3%	116.3%	-41.4%	-2.9%	53.9%	34.3%
Net income/ loss	447.4%	171.0%	-52.9%	-19.8%	83.2%	45.2%



BALANCE SHEET

All figures in EUR '000	2019A	2020A	2021A	2022E	2023E	2024E
Assets						
Current assets, total	40,731	44,718	40,753	43,240	47,549	53,102
Cash and cash equivalents	25,229	24,330	20,704	22,777	25,982	30,506
Short-term investments	47	29	26	26	26	26
Receivables	14,897	19,727	19,319	19,732	20,837	21,866
Inventories	0	0	0	0	0	0
Other current assets	558	632	704	704	704	704
Non-current assets, total	3,321	4,123	5,599	5,786	5,931	6,122
Property, plant & equipment	391	412	346	380	426	483
Goodwill & other intangibles	359	737	628	780	880	1,014
Right-of-use assets	2,129	1,568	1,177	1,177	1,177	1,177
Financial assets	442	1,406	3,448	3,448	3,448	3,448
Other assets	0	0	0	0	0	0
Total assets	44,052	48,841	46,352	49,025	53,480	59,223
Shareholders' equity & debt						
Current liabilities, total	24,299	26,761	25,318	25,757	26,776	27,888
Short-term debt	0	0	0	0	0	0
Accounts payable	18,593	20,738	20,247	20,686	21,705	22,817
Current provisions	0	0	0	0	0	0
Other current liabilities	4,907	5,280	4,566	4,566	4,566	4,566
Lease liabilities	799	743	505	505	505	505
Long-term liabilities, total	1,713	1,242	946	946	946	946
Long-term debt	0	0	0	0	0	0
Lease liabilities	1,447	953	741	741	741	741
Other liabilities	266	289	205	205	205	205
Minority interests	935	1,157	1,413	2,263	3,163	4,113
Shareholders' equity	17,105	19,681	18,675	20,059	22,594	26,277
Share capital	1,075	1,075	1,075	1,075	1,075	1,075
Capital reserve	63,782	63,782	63,782	63,782	63,782	63,782
Other reserves	0	0	0	0	0	0
Loss carryforward / retained earnings	-47,752	-45,176	-46,182	-44,798	-42,263	-38,580
Total consolidated equity and debt	44,052	48,841	46,352	49,025	53,480	59,223
Ratios						
Current ratio (x)	1.68	1.67	1.61	1.68	1.78	1.90
Quick ratio (x)	1.68	1.67	1.61	1.68	1.78	1.90
Net debt	-22,983	-22,634	-19,458	-21,531	-24,736	-29,260
Net gearing	-134.4%	-115.0%	-104.2%	-107.3%	-109.5%	-111.4%
Equity ratio	41.0%	42.7%	43.3%	45.5%	48.2%	51.3%
Book value per share (in €)	0.81	0.93	0.89	0.95	1.07	1.24
Return on equity (ROE)	7.9%	18.6%	9.2%	6.9%	11.2%	14.0%
Return on investment (ROI)	3.1%	7.5%	3.7%	2.8%	4.7%	6.2%
Return on assets (ROA)	3.1%	7.5%	3.7%	2.8%	4.7%	6.2%



CASH FLOW STATEMENT

All figures in EUR '000	2019A	2020A	2021A	2022E	2023E	2024E
EBIT	2,519	5,448	3,194	3,103	4,774	6,411
Depreciation and amortisation	993	1,111	1,184	1,123	1,022	1,078
EBITDA	3,512	6,559	4,378	4,226	5,797	7,489
Changes in working capital	4,352	-1,527	636	26	-86	82
Other adjustments	-1,382	-1,650	-2,806	-869	-1,339	-1,779
Operating cash flow	6,482	3,382	2,208	3,383	4,372	5,793
Investments in PP&E	-221	-238	-121	-259	-285	-312
Investments in intangibles	-303	-549	-178	-403	-412	-486
Free cash flow	5,958	2,595	1,909	2,721	3,675	4,995
Acquisitions & disposals, net	8	10	57	0	0	0
Other investments	2,152	-994	-1,999	0	0	0
Investment cash flow	1,636	-1,771	-2,241	-663	-697	-798
Debt financing, net	0	0	0	0	0	0
Equity financing, net	0	-978	-2,489	0	0	0
Dividends paid	0	0	0	0	0	0
Other financing	-1,173	-1,300	-1,340	-647	-471	-471
Financing cash flow	-1,173	-2,278	-3,829	-647	-471	-471
FOREX & other effects	51	-232	236	0	0	0
Net cash flows	6,996	-899	-3,626	2,073	3,204	4,524
Cash, start of the year	18,233	25,229	24,330	20,704	22,777	25,982
Cash, end of the year	25,229	24,330	20,704	22,777	25,982	30,506
EBITDA/share (in €)	0.17	0.31	0.21	0.20	0.27	0.35
Y-Y Growth						
Operating cash flow	n.m.	-47.8%	-34.7%	53.2%	29.2%	32.5%
Free cash flow	n.m.	-56.4%	-26.4%	42.5%	35.1%	35.9%
EBITDA/share	161.0%	87.1%	-32.7%	-4.1%	37.2%	29.2%

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PRICE TARGET DATES

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

AGREEMENT WITH THE ANALYSED COMPANY AND MAINTENANCE OF OBJECTIVITY

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...30	↓	↓	↓	↓
31	19 July 2021	€5.52	Buy	€8.40
32	25 August 2021	€5.72	Buy	€8.40
33	21 October 2021	€5.84	Buy	€8.10
34	22 November 2021	€4.88	Buy	€8.10
35	14 January 2022	€4.92	Buy	€7.10
36	18 February 2022	€4.69	Buy	€7.10
37	6 April 2022	€3.80	Buy	€6.80
38	26 April 2022	€3.66	Buy	€6.20
39	Today	€3.39	Buy	€6.20

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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