

ad pepper media International N.V.

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

M&A opportunity

RATING
BUY

PRICE TARGET
€ 3.50

Return Potential 53.5%
 Risk Rating Medium

EYEING >25% STAKE IN A PRICE COMPARISON PORTALS BUSINESS

In an ad-hoc news, ad pepper media (APM) announced its intention to acquire a 25.65% stake in solute Holding GmbH & Co. KG (solute), a leading price comparison portal business in the German market (billiger.de and shopping.de). The price for the stake will presumably be ca. €4.1m. APM plans to issue up to 1.75m new shares against a contribution in kind to finance the deal. solute has more than 170 employees and generated €33m in revenue and EBITDA of €2.0m in the past financial year. We believe that APM's next step will be the acquisition of a majority stake, which it will then be able to consolidate. This would more than double APM's revenue, and give the company much broader market access. We believe that the advertising technology (adtech) company solute, with its broad digital marketing know-how and strong competitive position in the German price comparison portal market, is a good fit for APM. We expect the deal to be value-accretive. We leave our forecasts unchanged pending completion of the transaction. We stick to our Buy rating at an unchanged €3.50 price target.

Who are solute? solute is an e-commerce adtech company and certified Google and Microsoft advertising partner. It has more than 18 years experience in e-commerce and is connected with 100+ partner portals. Its platform billiger.de is one of Germany's best-known and most widely used price comparison portals with ca. 110,000 daily users and 2,000+ online retailers. The portal gives retailers the possibility to place ads in Google's and Microsoft's search results. solute's platform shopping.de is a lifestyle portal (home, living & fashion products). For Amazon advertisers, solute offers Adspert, a self-learning Artificial Intelligence (AI) solution supporting automatic campaign creation, completely automatic bidding, campaign management and keyword maintenance. In 2022, Adspert generated more than 200,000 sales with new keywords, and Adspert clients generated €16.7m in revenue. solute's 2022 EBITDA amounted to €2.0m; in 2021 it was around €2.2m, and in 2020 ca. €1.6m. The 2021 net profit amounted to €1.3m (PY: €1.0m). (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2020	2021	2022	2023E	2024E	2025E
Revenue (€m)	25.62	27.65	24.87	24.18	26.60	29.12
Y-o-y growth	17.6%	7.9%	-10.0%	-2.8%	10.0%	9.5%
EBITDA (€m)	6.56	4.38	1.28	1.54	2.47	3.42
EBITDA margin	25.6%	15.8%	5.1%	6.4%	9.3%	11.7%
Net income (€m)	3.66	1.73	-0.89	-0.37	0.32	1.13
EPS (diluted) (€)	0.17	0.08	-0.04	-0.02	0.02	0.06
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	2.60	1.91	1.71	1.39	1.26	1.08
Net gearing	-115.0%	-104.2%	-108.0%	-116.0%	-117.1%	-111.3%
Liquid assets (€m)	24.33	20.70	17.01	17.74	18.27	18.70

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 04 Jul 2023

Closing Price € 2.28
 Shares outstanding 20.26m
 Market Capitalisation € 46.19m
 52-week Range € 1.44 / 2.59
 Avg. Volume (12 Months) 5,185

Multiples	2022	2023E	2024E
P/E	n.a.	n.a.	144.6
EV/Sales	0.9	0.9	0.8
EV/EBITDA	17.0	14.1	8.8
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Mar 2023

Liquid Assets € 12.49m
 Current Assets € 32.76m
 Intangible Assets € 0.31m
 Total Assets € 36.84m
 Current Liabilities € 20.97m
 Shareholders' Equity € 15.07m

SHAREHOLDERS

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



€4.1m for a 25.65% stake is a fair price The offer (€4.1m for a 25.65% stake) implies a valuation of €16m for a 100% stake in solute. solute's 2022 annual report is not publicly available. According to the 2021 annual report, solute GmbH (the operating unit) had no financial debt. Based on the €33m in solute sales in 2022, the EV/sales multiple could be around 0.5x. Based on the 2022 EBITDA of €2.0m, the EV/EBITDA multiple would be around 8x. Both multiples suggest that the proposed price is fair.

Why do we believe that APM wants a >50% stake? In the ad-hoc, APM said that they are in principle "interested in negotiating the acquisition of further shares in solute". Mr Michael Oschmann, who owns 46.7% of APM via his vehicles EMA B.V. and Euro Serve Media mbH, also directly or indirectly holds more than 20% of the shares in the selling companies. Furthermore, he is chairman of the supervisory board of DTM Deutsche Tele Medien GmbH, which owns 25.1% of solute Holding GmbH & Co. KG. If DTM Deutsche Tele Medien sells its stake, APM will own 50.75% of solute—enough to consolidate the company. In our view, it is in Mr Oschmann's interest to consolidate the solute holdings and form a more powerful APM.

Why do we believe that the deal is value-accretive? Both APM and solute are online performance marketing companies. APM is strong in performance affiliate marketing (Webgains), has a strongly-performing online marketing agency (ad agents), and ad pepper media, which focuses on lead generation and targeting of specific audiences. solute's product offering is largely complementary. If both companies join forces, market penetration will be broader and deeper. Bringing together both companies' client bases offers cross-selling potential. Furthermore, the combined companies would achieve critical mass with joint sales of almost €60m and ca. 420 employees.

Capital increase against contribution in kind would add up to 1.75m shares APM plans to acquire the 25.65% stake in solute through a capital increase against contribution in kind. Up to 1.75m shares may be issued increasing the share count (shares outstanding) by up to almost 9% to up to 22.01m shares. At the end of Q1/23, 20.26m shares were outstanding (21.50m shares /. 1.24m treasury shares).

Buy reiterated at unchanged price target We leave our forecasts unchanged until the deal is completed. If the deal goes through, we believe that the APM stock has further upside potential, as a much stronger digital performance marketing company will be created. For the time being, we remain Buy-rated and stick to our DCF-based €3.50 price target.



VALUATION MODEL

DCF valuation model								
All figures in EUR '000								
	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Net revenue	24,179	26,597	29,124	31,890	34,919	38,228	41,821	45,687
NOPLAT	407	1,093	1,799	2,209	2,611	3,069	3,589	4,175
+ depreciation & amortisation	1,009	1,001	946	915	977	1,018	1,051	1,082
Net operating cash flow	1,416	2,094	2,745	3,124	3,587	4,087	4,641	5,257
- total investments (CAPEX and WC)	48	-759	-1,691	-986	-520	-583	-653	-730
Capital expenditures	-193	-266	-349	-446	-489	-535	-585	-640
Working capital	242	-493	-1,341	-540	-31	-48	-67	-91
Free cash flows (FCF)	1,464	1,335	1,055	2,138	3,067	3,504	3,988	4,527
PV of FCF's	1,391	1,140	811	1,479	1,909	1,962	2,009	2,052

All figures in thousands		
PV of FCFs in explicit period (2023E-2037E)	27,432	
PV of FCFs in terminal period	22,225	
Enterprise value (EV)	49,656	Terminal growth 2.0%
+ Net cash / - net debt	15,645	Terminal EBIT margin 17.5%
+ Investments / minority interests	7,252	
Shareholder value	72,553	
Number of shares (diluted)	20,501	
Fair value per share in EUR	3.54	

		Terminal growth rate							
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	
WACC	11.1%	7.1%	5.40	5.63	5.90	6.23	6.62	7.11	7.74
Cost of equity	11.1%	8.1%	4.67	4.82	5.00	5.20	5.45	5.74	6.09
Pre-tax cost of debt	5.0%	9.1%	4.12	4.22	4.34	4.48	4.64	4.82	5.04
Tax rate	25.0%	10.1%	3.69	3.77	3.85	3.95	4.05	4.18	4.32
After-tax cost of debt	3.8%	11.1%	3.35	3.41	3.47	3.54	3.62	3.70	3.80
Share of equity capital	100.0%	12.1%	3.08	3.12	3.17	3.22	3.27	3.33	3.40
Share of debt capital	0.0%	13.1%	2.86	2.89	2.93	2.96	3.00	3.05	3.10
Price target in EUR	3.50	14.1%	2.67	2.70	2.72	2.75	2.78	2.82	2.85

* for layout purposes the model shows numbers only to 2030, but runs until 2037



INCOME STATEMENT

All figures in EUR '000	2020A	2021A	2022A	2023E	2024E	2025E
Gross sales	101,344	111,539	98,229	95,507	105,058	115,039
Media costs	75,729	83,893	73,361	71,328	78,461	85,915
Revenues	25,615	27,646	24,868	24,179	26,597	29,124
Cost of sales	928	1,059	1,164	1,262	1,250	1,165
Gross profit	24,687	26,587	23,704	22,917	25,347	27,959
S&M	13,411	15,739	16,638	16,067	17,000	17,765
G&A	7,108	7,707	7,164	6,719	7,010	7,863
Other operating income	1,514	530	937	954	638	699
Other operating expenses	234	477	651	555	505	553
EBITDA	6,559	4,378	1,275	1,539	2,471	3,421
Depreciation and amortisation	1,111	1,184	1,088	1,009	1,001	946
Operating income (EBIT)	5,448	3,194	187	530	1,470	2,476
Net financial result	-116	-38	-131	-76	-73	29
Non-operating expenses	0	0	0	0	0	0
Pre-tax income (EBT)	5,332	3,156	56	454	1,396	2,505
Income taxes	991	592	306	123	377	676
Minority interests	-677	-839	-643	-700	-700	-700
Net income / loss	3,664	1,725	-893	-369	319	1,128
Diluted EPS (in €)	0.17	0.08	-0.04	-0.02	0.02	0.06
Ratios						
Gross margin in % of gross sales	24.4%	23.8%	24.1%	24.0%	24.1%	24.3%
Gross margin in % of revenues	96.4%	96.2%	95.3%	94.8%	95.3%	96.0%
EBITDA margin in % of revenues	25.6%	15.8%	5.1%	6.4%	9.3%	11.7%
EBIT margin	21.3%	11.6%	0.8%	2.2%	5.5%	8.5%
Net margin	14.3%	6.2%	-3.6%	-1.5%	1.2%	3.9%
Tax rate	18.6%	18.8%	542.6%	27.0%	27.0%	27.0%
Expenses as % of sales or revenues						
Media costs (as % of gross sales)	74.7%	75.2%	74.7%	74.7%	74.7%	74.7%
S&M (as % of revenues)	52.4%	56.9%	66.9%	66.5%	63.9%	61.0%
G&A (as % of revenues)	27.7%	27.9%	28.8%	27.8%	26.4%	27.0%
Depreciation and amortisation	4.3%	4.3%	4.4%	4.2%	3.8%	3.2%
Other operating expenses	0.9%	1.7%	2.6%	2.3%	1.9%	1.9%
Y-Y Growth						
Gross sales	21.0%	10.1%	-11.9%	-2.8%	10.0%	9.5%
Net revenues	17.6%	7.9%	-10.0%	-2.8%	10.0%	9.5%
EBITDA	86.8%	-33.3%	-70.9%	20.7%	60.6%	38.5%
Operating income	116.3%	-41.4%	-94.1%	183.0%	177.4%	68.4%
Net income/ loss	171.0%	-52.9%	n.m.	n.m.	n.m.	253.3%



BALANCE SHEET

All figures in EUR '000	2020A	2021A	2022A	2023E	2024E	2025E
Assets						
Current assets, total	44,718	40,753	35,692	35,746	37,607	38,566
Cash and cash equivalents	24,330	20,704	17,008	17,738	18,274	18,699
Short-term investments	29	26	258	258	258	258
Receivables	19,727	19,319	17,568	16,892	18,217	18,751
Inventories	0	0	0	0	0	0
Other current assets	632	704	858	858	858	858
Non-current assets, total	4,123	5,599	8,262	8,105	8,095	8,158
Property, plant & equipment	412	346	230	157	174	220
Goodwill & other intangibles	737	628	374	291	264	280
Right-of-use assets	1,568	1,177	1,318	1,318	1,318	1,318
Financial assets	1,406	3,448	6,260	6,260	6,260	6,260
Other assets	0	0	79	79	79	79
Total assets	48,841	46,352	43,954	43,851	45,702	46,723
Shareholders' equity & debt						
Current liabilities, total	26,761	25,318	27,448	27,014	27,846	27,038
Short-term debt	0	0	0	0	0	0
Accounts payable	20,738	20,247	20,836	20,402	21,234	20,426
Current provisions	0	0	0	0	0	0
Other current liabilities	5,280	4,566	6,089	6,089	6,089	6,089
Lease liabilities	743	505	523	523	523	523
Long-term liabilities, total	1,242	946	840	840	840	840
Long-term debt	0	0	0	0	0	0
Lease liabilities	953	741	840	840	840	840
Other liabilities	289	205	0	0	0	0
Minority interests	1,157	1,413	1,176	1,876	2,576	3,276
Shareholders' equity	19,681	18,675	14,490	14,121	14,441	15,569
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	-45,176	-46,182	-50,367	-50,736	-50,416	-49,288
Total consolidated equity and debt	48,841	46,352	43,954	43,851	45,702	46,723
Ratios						
Current ratio (x)	1.67	1.61	1.30	1.32	1.35	1.43
Quick ratio (x)	1.67	1.61	1.30	1.32	1.35	1.43
Net debt	-22,634	-19,458	-15,645	-16,375	-16,911	-17,336
Net gearing	-115.0%	-104.2%	-108.0%	-116.0%	-117.1%	-111.3%
Equity ratio	42.7%	43.3%	35.6%	36.5%	37.2%	40.3%
Book value per share (in €)	0.93	0.89	0.71	0.69	0.71	0.76
Return on equity (ROE)	18.6%	9.2%	-6.2%	-2.6%	2.2%	7.2%
Return on investment (ROI)	7.5%	3.7%	-2.0%	-0.8%	0.7%	2.4%
Return on assets (ROA)	7.5%	3.7%	-2.0%	-0.8%	0.7%	2.4%



CASH FLOW STATEMENT

All figures in EUR '000	2020A	2021A	2022A	2023E	2024E	2025E
EBIT	5,448	3,194	187	530	1,470	2,476
Depreciation and amortisation	1,111	1,184	1,088	1,009	1,001	946
EBITDA	6,559	4,378	1,275	1,539	2,471	3,421
Changes in working capital	-1,527	636	3,256	242	-493	-1,341
Other adjustments	-1,650	-2,806	-2,600	-198	-450	-647
Operating cash flow	3,382	2,208	1,931	1,582	1,528	1,433
Investments in PP&E	-238	-121	-108	-97	-133	-175
Investments in intangibles	-549	-178	-111	-97	-133	-175
Free cash flow	2,595	1,909	1,712	1,389	1,262	1,084
Acquisitions & disposals, net	10	57	1,938	0	0	0
Other investments	-994	-1,999	-5,000	0	0	0
Investment cash flow	-1,771	-2,241	-3,281	-193	-266	-349
Debt financing, net	0	0	0	0	0	0
Equity financing, net	-978	-2,489	-1,232	0	0	0
Dividends paid	0	0	0	0	0	0
Other financing	-1,300	-1,340	-1,124	-659	-725	-659
Financing cash flow	-2,278	-3,829	-2,356	-659	-725	-659
FOREX & other effects	-232	236	10	0	0	0
Net cash flows	-899	-3,626	-3,696	730	537	425
Cash, start of the year	25,229	24,330	20,704	17,008	17,738	18,274
Cash, end of the year	24,330	20,704	17,008	17,738	18,274	18,699
EBITDA/share (in €)	0.31	0.21	0.06	0.08	0.12	0.17
Y-Y Growth						
Operating cash flow	-47.8%	-34.7%	-12.5%	-18.1%	-3.4%	-6.2%
Free cash flow	-56.4%	-26.4%	-10.3%	-18.9%	-9.1%	-14.1%
EBITDA/share	87.1%	-32.7%	-69.9%	19.7%	60.6%	38.5%

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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...38	↓	↓	↓	↓
39	30 May 2022	€3.39	Buy	€6.20
40	1 July 2022	€2.55	Buy	€4.60
41	20 July 2022	€2.24	Buy	€4.40
42	31 August 2022	€2.06	Buy	€4.40
43	20 October 2022	€2.25	Buy	€3.60
44	25 November 2022	€1.75	Buy	€3.60
45	7 February 2023	€2.15	Buy	€4.00
46	25 April 2023	€1.91	Buy	€3.50
47	Today	€2.28	Buy	€3.50

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/>

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