

ad pepper media International N.V.

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

Q2/23 final figures

RATING
BUY

PRICE TARGET
€ 3.50

Return Potential 47.1%
 Risk Rating Medium

MACROECONOMIC HEADWINDS ARE NOT EASING

ad pepper's final Q2 figures matched preliminary numbers. Revenue declined 8% y/y to €5.4m, while EBIT improved slightly from €472k to €385k. The net result benefitted from lower income to non-controlling interests and rose by €279k to €-450k. Despite the still challenging macroeconomic environment, APM is cautiously optimistic for H2 because of a tentative recovery in customers' e-commerce and advertising activity and initiated cost savings. We expect H2 to be stronger than H1 and stick to our forecasts. We believe that the main share price driver will be the planned purchase of a majority stake in solute Holding GmbH & Co. KG (solute), a leading price comparison portal business in the German market (billiger.de and shopping.de). The consolidation of solute would more than double revenue to almost €60m and increase the number of employees to >400 (currently 234). An updated DCF model, which does not yet incorporate the planned transaction, yields an unchanged price target of €3.50. Our rating remains Buy.

H1 figures show cost savings Selling and marketing expenses declined almost 11% y/y to €7.5m. ad pepper reduced the number of employees by 10% y/y from 260 to 234. Other operating expenses fell from €422k to €55k due mainly to lower write-downs on receivables (€14k versus €319k in H1/22). H1 EBIT amounted to €-966k versus €-700k in H1/22. Lower tax expenses (€101k versus €216k in H1/22) and lower income to non-controlling interests (€21k versus €440k) resulted in an improved net income of the parent company (€-1,035k versus €-1,470k in H1/22).

Core markets weaker, but growth markets still growing H1 revenue fell significantly in the core markets Germany (-15% y/y), and UK (almost -22% y/y). Fortunately, growth markets such as Spain (+4% y/y) and other (+27% y/y), which includes France, Italy, the Netherlands, and Switzerland partially compensated for the weakness in both core markets. (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 18 Aug 2023

Closing Price	€ 2.38
Shares outstanding	20.26m
Market Capitalisation	€ 48.21m
52-week Range	€ 1.44 / 2.59
Avg. Volume (12 Months)	5,643

Multiples	2022	2023E	2024E
P/E	n.a.	n.a.	151.0
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 30 Jun 2023

Liquid Assets	€ 19.47m
Current Assets	€ 32.68m
Intangible Assets	€ 0.26m
Total Assets	€ 37.12m
Current Liabilities	€ 21.51m
Shareholders' Equity	€ 14.45m

SHAREHOLDERS

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

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

All figures in €m	Q2-23A	Q2-23E	Delta	Q2-22A	Delta	H1-23A	H1-22A	Delta
Gross sales	20.97	21.09	-0.6%	23.19	-9.6%	40.56	46.41	-12.6%
Revenue	5.40	5.40	0.0%	5.88	-8.2%	10.50	11.75	-10.7%
EBITDA	-0.12	-0.14	-	-0.19	-	-0.45	-0.15	-
<i>margin on revenues</i>	-2.2%	-2.6%	-	-3.2%	-	-4.2%	-1.3%	-
EBIT	-0.39	-0.39	-	-0.47	-	-0.97	-0.70	-
<i>margin</i>	-7.1%	-7.3%	-	-8.0%	-	-9.2%	-6.0%	-
EBT	-0.34	-0.38	-	-0.31	-	-0.91	-0.81	-
<i>margin</i>	-6.4%	-7.1%	-	-5.2%	-	-8.7%	-6.9%	-
Net income	-0.45	-0.41	-	-0.73	-	-1.04	-1.47	-
<i>margin</i>	-8.3%	-7.5%	-	-12.4%	-	-9.9%	-12.5%	-
EPS (diluted)	-0.02	-0.02	-	-0.04	-	-0.05	-0.07	-

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

Balance sheet remains strong Cash & securities declined 7% to €21.4m. ad pepper still has no liabilities to banks. Although equity declined 8%, the equity ratio rose from 36% to 39% as the balance sheet total fell 16%. Both receivables and payables were much lower (see figure 2). Working capital remained negative at €-3.5m.

Figure 2: Selected balance sheet items

in €m	H1/23A	2022A	Delta
Receivables	12.3	17.6	-30%
Cash & securities	21.5	23.1	-7%
Equity	14.4	15.7	-8%
<i>Equity ratio</i>	38.9%	35.6%	<i>n.m.</i>
Payables	15.9	20.8	-24%
Working Capital	-3.5	-3.3	<i>n.m.</i>
Balance sheet total	37.1	44.0	-16%

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

Negative free cash flow in H1 Operating cash flow was €-1.0m and CAPEX negligible resulting in free cash flow of €-1.0m (see figure 3). Cash flow from investing amounted to €4.0m due mainly to proceeds from the sale of securities and maturity of deposits. Financing cash flow was €-0.6m due to lease payments (€0.3m) and dividends to non-controlling interests (€0.3m).

Figure 3: Selected cash flow items

in €m	H1/23A	H1/22A
Operating cash flow	-0.95	-0.61
CAPEX	-0.07	-0.12
Free cash flow	-1.02	-0.73
Cash flow investing	3.96	1.81
Cash flow financing	-0.55	-1.89
Net cash flow	2.46	-0.69

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



Why do we welcome the intended acquisition of a majority stake in solute? Both APM and solute are online performance marketing companies. The product offerings of APM and solute are 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 (see our comment as of 5 July). We thus believe that the acquisition will be value-accretive.

Macroeconomic headwinds are not easing In late July, the European Central Bank raised interest rates by 25 basis points, the ninth consecutive rate hike, bringing the rate on main refinancing operations to 4.25%, the highest since October 2008. July's annual inflation rate in Germany was confirmed at 6.2%, down only 0.2 PP from 6.4% in June, well above the European Central Bank's target of 2.0%. The German economy shrank 0.2% y/y in the second quarter of 2023, the same as the 0.2% drop in the previous quarter. One ray of light was Germany's GfK Consumer Climate Indicator which rose to -24.4 heading into August 2023 from -25.2 in the prior month.

The GfK Consumer Confidence indicator in the United Kingdom fell to -30 in July 2023 from -24 in June, declining for the first time in six months as persistent inflation and rising interest rates continued to weigh on sentiment. July's core inflation rate remained at a high level of 6.9 %, unchanged from June's reading, and far above the Bank of England's 2.0% target. This prompted the central bank to raise its policy interest rate by 25 basis points to 5.25% during its August 2023 meeting, marking a 14th consecutive increase, and bringing borrowing costs to new post-2008 highs.

The macroeconomic environment in APM's core markets, Germany and UK, representing ca. 70% of total revenue, thus remains very challenging for APM.

Buy reiterated at unchanged price target We stick to our 2023 forecast, but note that recent macroeconomic figures from APM's core markets Germany and the UK were weaker than expected. An updated DCF model yields an unchanged €3.50 price target. We confirm our Buy rating.



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	-564	-635	-714	-802
Capital expenditures	-193	-266	-349	-446	-489	-535	-585	-640
Working capital	242	-493	-1,341	-540	-75	-99	-128	-162
Free cash flows (FCF)	1,464	1,335	1,055	2,138	3,024	3,452	3,927	4,456
PV of FCF's	1,408	1,155	821	1,498	1,906	1,957	2,003	2,045

All figures in thousands

PV of FCFs in explicit period (2023E-2037E)	27,441
PV of FCFs in terminal period	22,254
Enterprise value (EV)	49,694
+ Net cash / - net debt	15,645
+ Investments / minority interests	7,252
Shareholder value	72,591
Number of shares (diluted)	20,501
Fair value per share in EUR	3.54

Terminal growth	2.0%
Terminal EBIT margin	17.5%

WACC	11.1%
Cost of equity	11.1%
Pre-tax cost of debt	5.0%
Tax rate	25.0%
After-tax cost of debt	3.8%
Share of equity capital	100.0%
Share of debt capital	0.0%
Price target in EUR	3.50

WACC	Terminal growth rate						
	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
7.1%	5.41	5.63	5.89	6.21	6.59	7.07	7.67
8.1%	4.68	4.82	4.99	5.19	5.43	5.71	6.05
9.1%	4.13	4.23	4.34	4.48	4.63	4.80	5.01
10.1%	3.70	3.77	3.86	3.95	4.05	4.17	4.30
11.1%	3.36	3.42	3.48	3.54	3.61	3.69	3.79
12.1%	3.09	3.13	3.18	3.22	3.28	3.33	3.40
13.1%	2.87	2.90	2.93	2.97	3.01	3.05	3.10
14.1%	2.69	2.71	2.73	2.76	2.79	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.

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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...40	↓	↓	↓	↓
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	5 July 2023	€2.28	Buy	€3.50
48	21 July 2023	€2.30	Buy	€3.50
49	Today	€2.38	Buy	€3.50

INVESTMENT HORIZON

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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

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