

ad pepper media International N.V.

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

Q1/22 preliminary
 figures

RATING
BUY

PRICE TARGET
€ 6.20

Return Potential 69.4%
 Risk Rating Medium

WEAK Q1, EXPECT BETTER Q2

ad pepper media (APM) has reported preliminary Q1 figures which were below our forecasts and well below the prior year numbers. Revenue was down 15% y/y and 11% lower than our forecast at €5.9m. EBITDA was only slightly positive versus €1.3m in Q1/21 and FBe of €0.8m. While the ad agents segment showed solid 9% growth, Webgains segment sales declined 17% and ad pepper media segment sales slumped 42%. Restrained campaign bookings from customers due to supply chain issues as well as subdued e-commerce activities, particularly in the UK, which is the domestic market for Webgains, weighed on the revenue development of the two latter segments. All three operating segments reported positive EBITDA, which was almost completely consumed by the admin segment, which entails the holding costs. For Q2, management is guiding for revenue of €6.3m -€6.5m, which would be up to 3% below the Q2/21 figure. Given the weaker than expected Q1 figures and the subdued Q2 guidance, we lower our 2022E forecast and now expect only 4% sales growth, and EBITDA slightly below the prior year level. An updated DCF model, which takes the lowered forecasts and the higher interest rate level into account, yields a new price target of €6.20 (previously: €680). We stick to our Buy rating, as we expect ad pepper to largely maintain its profitability, the very strong balance sheet (large net cash position) and to generate positive free cash flow. APM is well-positioned as an online performance marketing pure play in a structural growth sector, but the company is not immune to macroeconomic headwinds such as high inflation, subdued growth, falling consumer confidence and customers' supply chain disruptions.

Shrinking sales and evaporating EBITDA in Q1 Gross sales fell 17% y/y to €23.2m and revenue declined 15% to €5.9m. EBITDA fell from €1.3m to €33k (see figure 1 overleaf). A quickly deteriorating macro-economic environment dampened demand. Inflation on the rise, economic growth in retreat and low visibility due to the Russian invasion in Ukraine and Chinese pandemic-related lockdowns obviously caused customers to withhold advertising budgets. (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 25 Apr 2022

Closing Price	€ 3.66
Shares outstanding	20.49m
Market Capitalisation	€ 75.00m
52-week Range	€ 3.61 / 6.58
Avg. Volume (12 Months)	12,420

Multiples	2021	2022E	2023E
P/E	43.5	54.2	29.6
EV/Sales	2.0	1.9	1.8
EV/EBITDA	12.7	13.1	9.6
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Dec 2021

Liquid Assets	€ 20.70m
Current Assets	€ 40.75m
Intangible Assets	€ 0.63m
Total Assets	€ 46.35m
Current Liabilities	€ 25.32m
Shareholders' Equity	€ 20.09m

SHAREHOLDERS

EMA B.V.	44.1%
Euro Serve Media GmbH	2.6%
Treasury shares	5.7%
Free Float	47.6%

**Figure 1: Q1 figures versus forecasts**

All figures in €m	Q1-22A	Q1-22E	Delta	Q1-21A	Delta
Gross sales	23.22	27.63	-16.0%	28.11	-17.4%
Revenue	5.87	6.58	-10.7%	6.88	-14.7%
EBITDA	0.03	0.77	-95.7%	1.31	-97.5%
margin	0.6%	11.7%	-	19.0%	-

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

Only ad agents segment showed solid growth ad pepper media was hit particularly with segment sales slumping 42% y/y to €0.7m. We nevertheless expect a better Q2, as Q1 was the last quarter which had to digest the loss of a large customer last year. We forecasted much lower segment EBITDA y/y (€0.16 versus €0.53 in Q1/21), but the outcome was even more brutal (€3k, see figure 2).

Webgains' segment revenue (€3.2m) was 17% below the prior year figure and our forecast. Segment EBITDA slumped from €1.0m to €0.1m due to subdued e-commerce activities particularly in Webgains' home UK market.

The ad agents segment reported solid 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). The admin segment's EBITDA improved from €-0.51m to €-0.38m.

Figure 2: Q1 segment figures versus forecasts

All figures in €m	Q1-22A	Q1-22E	Delta	Q1-21A	Delta
ad pepper media					
Revenue	0.71	0.80	-11.0%	1.23	-42.1%
EBITDA	0.03	0.16	-78.8%	0.53	-93.6%
margin	4.8%	20.0%	-	43.3%	-
Webgains					
Revenue	3.23	3.89	-16.9%	3.89	-16.9%
EBITDA	0.13	0.86	-84.4%	1.04	-87.2%
margin	4.1%	22.0%	-	26.7%	-
ad agents					
Revenue	1.93	1.89	2.2%	1.76	9.3%
EBITDA	0.25	0.28	-11.7%	0.25	0.4%
margin	13.0%	15.0%	-	14.1%	-
Admin & Consolidation					
Revenue	0.00	0.00	-	0.00	-
EBITDA	-0.38	-0.53	-	-0.51	-
Group					
Revenue	5.87	6.58	-10.7%	6.88	-14.7%
EBITDA	0.03	0.77	-95.7%	1.31	-97.5%
margin	0.6%	11.7%	-	19.0%	-

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



Forecasts lowered For Q2, management is guiding for revenue of €6.3m - €6.5m, which would be up to 3% below the Q2/21 figure. Given the weaker than expected Q1 figures and the subdued Q2 guidance, we have lowered our 2022E forecast and now expect only 4% sales growth y/y (previously: 8%), and EBITDA slightly below the prior year level of €4.4m (previously: +18% y/y, see figure 3). The Q1/22 report will be published on 25 May 2022.

Figure 3: Revisions to forecasts

All figures in €m	2022E			2023E			2024E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Revenue	29.86	28.81	-3.5%	32.85	31.69	-3.5%	35.97	34.70	-3.5%
EBITDA	5.16	4.23	-18.1%	6.80	5.80	-14.8%	8.84	7.49	-15.3%
margin	17.3%	14.7%		20.7%	18.3%		24.6%	21.6%	
Net income	2.07	1.38	-33.1%	3.27	2.54	-22.5%	4.65	3.68	-20.8%
margin	6.9%	4.8%		10.0%	8.0%		12.9%	10.6%	
EPS (diluted)	0.10	0.07	-33.1%	0.15	0.12	-22.5%	0.22	0.17	-20.8%

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

Valuation model revised Given the higher interest rate level (10y German government bond now yields 0.9%), we have increased our WACC estimate from 9.6% to 9.9%. We have lowered our terminal EBIT margin assumption from 23% to 22% as we believe that increased competition will bite a bit more into margins, which nevertheless have a significant upside potential due to the high operating leverage (2021 EBIT margin: 11.6%). The updated DCF model yields a new price target of €6.20 (previously: €6.80).

Buy rating confirmed ad pepper remains a profitable company, has a very strong balance sheet with a large net cash position, and generates positive free cash flows. Negative working capital means that growth does not harm free cash flow generation. ad pepper is an online performance marketing pure play which is active in a structural growth sector. We have reflected current business cycle headwinds in our forecasts, but this does not alter our positive view on the stock. Following the recent share price depreciation (YTD: -37%), the valuation now looks attractive with 2023E EV/EBITDA of 10x. We thus confirm our Buy recommendation. Upside ca. 70%.



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	2,591	3,193	3,927	4,482	4,460	4,441	4,420	4,397

All figures in thousands		
PV of FCFs in explicit period (2022E-2036E)	60,286	
PV of FCFs in terminal period	45,652	
Enterprise value (EV)	105,938	
+ Net cash / - net debt	19,458	Terminal growth 2.0%
+ Investments / minority interests	4,470	Terminal EBIT margin 22.0%
Shareholder value	129,866	
Number of shares (diluted)	21,109	
Fair value per share in EUR	6.15	

WACC		Terminal growth rate							
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	
Cost of equity	9.9%	5.9%	10.25	10.86	11.61	12.55	13.77	15.40	17.72
Pre-tax cost of debt	4.0%	6.9%	8.56	8.94	9.40	9.94	10.61	11.44	12.53
Tax rate	25.0%	7.9%	7.35	7.60	7.89	8.23	8.64	9.12	9.71
After-tax cost of debt	3.0%	8.9%	6.44	6.62	6.81	7.04	7.29	7.60	7.96
Share of equity capital	100.0%	9.9%	5.74	5.86	6.00	6.15	6.33	6.53	6.76
Share of debt capital	0.0%	10.9%	5.18	5.27	5.37	5.48	5.60	5.74	5.89
		11.9%	4.73	4.79	4.87	4.94	5.03	5.13	5.24
		12.9%	4.35	4.40	4.46	4.52	4.58	4.65	4.73
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...29	↓	↓	↓	↓
30	25 May 2021	€5.82	Buy	€8.40
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	Today	€3.66	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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