

ad pepper media International N.V.

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

Final H1 2022 figures

RATING
BUY

PRICE TARGET
€ 4.40

Return Potential 113.6%
 Risk Rating Medium

MACROECONOMIC ENVIRONMENT REMAINS WEAK

ad pepper media (APM) has published final H1 figures, which match preliminary numbers. H1 revenue declined 12% y/y to €11.8m and EBITDA fell from €2.3m to €-0.2m. The net result amounted to €-1.5m (H1/21: €1.0m). For Q3, the company expects revenue on par with Q2 (€5.9m) and slightly declining operating costs q/q. High inflation, low consumer confidence and a looming recession are a difficult market environment for the advertising sector. APM has initiated cost cuts to adjust to weaker advertising demand. These focus on the UK market (Webgains), where the revenue decline was particularly high (-23% y/y). We stick to our full-year forecast for the time being, but concede that visibility remains low, especially for the important Christmas quarter. An updated DCF model still yields a €4.40 price target. We reiterate our Buy recommendation.

H1 determined by weak performance of Webgains and ad pepper media segments The 12% group revenue decline in H1 was caused by much weaker revenue at the ad pepper media (-33% y/y) and Webgains (-17% y/y) segments (see figures 1 & 2 overleaf). All three segments reported lower H1 EBITDA y/y, but Webgains was the only one with a negative contribution (see figure 2 overleaf). The group reported EBITDA of €-0.2m versus €2.3m in H1/21.

Q3 guidance suggests revenue stabilisation q/q and improved cost basis APM is guiding towards Q3 revenue at roughly the same level as in Q2. We forecast ca. €6.0m (-14% y/y). Management's forecast of slightly decreasing operating costs q/q indicates that it has started to cut costs. First effects should be visible in Q3.

Strong balance sheet helpful Although equity declined from €20.1m at the end of 2021 to €17.6m (-12%), the equity ratio rose from 43% to 45% due to a lower balance sheet total (€39.4m versus €46.4m at the end of 2021, -15%), due mainly to lower trade receivables. A high cash & securities position (€21m) and no liabilities to banks mean that APM can easily weather the looming recession.

FINANCIAL HISTORY & PROJECTIONS

	2019	2020	2021	2022E	2023E	2024E
Revenue (€m)	21.79	25.62	27.65	24.29	26.72	29.26
Y-o-y growth	7.5%	17.6%	7.9%	-12.1%	10.0%	9.5%
EBITDA (€m)	3.51	6.56	4.38	0.12	2.56	3.62
EBITDA margin	16.1%	25.6%	15.8%	0.5%	9.6%	12.4%
Net income (€m)	1.35	3.66	1.73	-0.95	0.67	1.22
EPS (diluted) (€)	0.06	0.17	0.08	-0.04	0.03	0.06
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	5.96	2.60	1.91	-0.33	1.40	1.98
Net gearing	-134.4%	-115.0%	-104.2%	-104.2%	-104.5%	-104.8%
Liquid assets (€m)	25.23	24.33	20.70	19.72	20.48	21.81

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 30 Aug 2022

Closing Price	€ 2.06
Shares outstanding	20.26m
Market Capitalisation	€ 41.73m
52-week Range	€ 2.06 / 6.08
Avg. Volume (12 Months)	10,521

Multiples	2021	2022E	2023E
P/E	24.2	n.a.	62.0
EV/Sales	0.8	0.9	0.9
EV/EBITDA	5.2	194.6	8.9
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2022

Liquid Assets	€ 20.06m
Current Assets	€ 36.01m
Intangible Assets	€ 0.50m
Total Assets	€ 39.43m
Current Liabilities	€ 20.89m
Shareholders' Equity	€ 17.61m

SHAREHOLDERS

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



Operating cash flow slightly negative Operating cash flow of €-0.6m was due mainly to the net loss of €-1.5m. The sale of securities (€19m) resulted in a cash inflow from investment activities of €1.8m. Financing cash flow amounted to €-1.9m chiefly owing to the purchase of treasury shares (€-1.2m). Net cash flow was €-0.7m.

Figure 1: Reported H1 group figures

All figures in €m	H1-22A	H1-21A	Delta
Gross sales	46.41	54.04	-14.1%
Revenue	11.75	13.40	-12.3%
EBITDA	-0.15	2.34	-
margin on revenues	-1.3%	17.5%	-
EBIT	-0.70	1.75	-
margin	-6.0%	13.1%	-
EBT	-0.84	1.70	-
margin	-7.1%	12.7%	-
Net income	-1.47	0.99	-
margin	-12.5%	7.4%	-
EPS (diluted)	-0.07	0.05	-

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

ad agents was the only segment with sales growth ad agent's top line growth of 10% in H1 was certainly a very good performance, but EBITDA nevertheless declined by 27% y/y to €0.5m (see figure 2).

Figure 2: Reported H1 segment sales & EBITDA

All figures in €m	H1-22A	H1-21A	Delta
ad pepper media			
Revenue	1.46	2.17	-32.8%
EBITDA	0.17	0.74	-77.7%
margin	11.4%	34.3%	-
Webgains			
Revenue	6.26	7.56	-17.1%
EBITDA	-0.14	1.86	-
margin	-2.2%	24.5%	-
ad agents			
Revenue	4.03	3.68	9.7%
EBITDA	0.46	0.63	-26.6%
margin	11.5%	17.1%	-
Admin & Consolidation			
Revenue	0.00	0.00	-
EBITDA	-0.64	-0.88	-
Group			
Revenue	11.75	13.40	-12.3%
EBITDA	-0.15	2.34	-
margin	-1.3%	17.5%	-

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



Macroeconomic environment remains weak German inflation was 7.9% y/y in August, and real wages fell 4.4% y/y in Q2/22. The German Bundesbank expects around 10% inflation in the autumn. According to the latest GfK poll, German consumer sentiment reached a record low (-27.4, lowest value since German reunification). In the UK, the situation is even worse with inflation hitting a 40 year high of 10.1% in July, and the Bank of England expects inflation to peak at 13.3% in October. Lower consumption expenditure will probably lead to lower advertising budgets, which will make it more difficult for APM to sell its digital performance marketing products and services.

Buy reiterated at unchanged price target We stick to our 2022 forecasts for the time being despite low visibility for Q4. An updated DCF model still yields a €4.40 price target. We reiterate our Buy rating, as we expect a strong rebound in sales and earnings once the recession is over.



VALUATION MODEL

DCF valuation model								
All figures in EUR '000	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
Net revenue	24,290	26,719	29,257	32,037	35,079	38,403	42,013	45,897
NOPLAT	-1,007	1,046	1,788	2,213	2,721	3,307	3,978	4,741
+ depreciation & amortisation	1,123	1,155	1,192	1,217	1,231	1,248	1,267	1,289
Net operating cash flow	117	2,201	2,980	3,430	3,952	4,554	5,245	6,029
- total investments (CAPEX and WC)	-613	-726	-928	-659	-696	-734	-773	-812
Capital expenditures	-559	-588	-673	-705	-746	-789	-833	-876
Working capital	-54	-138	-255	46	50	55	59	64
Free cash flows (FCF)	-496	1,476	2,052	2,771	3,255	3,820	4,472	5,217
PV of FCF's	-479	1,291	1,623	1,983	2,108	2,237	2,369	2,500

All figures in thousands		
PV of FCFs in explicit period (2022E-2036E)	33,446	
PV of FCFs in terminal period	33,969	
Enterprise value (EV)	67,416	
+ Net cash / - net debt	19,458	Terminal growth 2.0%
+ Investments / minority interests	4,470	Terminal EBIT margin 22.0%
Shareholder value	91,344	
Number of shares (diluted)	20,876	
Fair value per share in EUR	4.38	

WACC		Terminal growth rate							
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	
Cost of equity	10.5%	6.5%	7.13	7.52	7.99	8.57	9.29	10.21	11.44
Pre-tax cost of debt	4.0%	7.5%	6.01	6.26	6.56	6.92	7.34	7.86	8.50
Tax rate	25.0%	8.5%	5.19	5.36	5.56	5.79	6.06	6.38	6.75
After-tax cost of debt	3.0%	9.5%	4.56	4.69	4.82	4.98	5.16	5.37	5.61
Share of equity capital	100.0%	10.5%	4.08	4.17	4.27	4.38	4.50	4.64	4.80
Share of debt capital	0.0%	11.5%	3.69	3.76	3.83	3.91	4.00	4.10	4.21
		12.5%	3.38	3.43	3.48	3.54	3.60	3.68	3.75
		13.5%	3.12	3.16	3.20	3.24	3.29	3.34	3.40

* 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	97,999	107,799	118,040
Media costs	61,987	75,729	83,893	73,709	81,080	88,783
Revenues	21,787	25,615	27,646	24,290	26,719	29,257
Cost of sales	820	928	1,059	1,002	1,155	1,170
Gross profit	20,967	24,687	26,587	23,288	25,564	28,087
S&M	12,225	13,411	15,739	16,624	16,482	17,500
G&A	6,853	7,108	7,707	7,811	7,922	8,310
Other operating income	943	1,514	530	602	754	702
Other operating expenses	313	234	477	462	508	556
EBITDA	3,512	6,559	4,378	117	2,561	3,615
Depreciation and amortisation	993	1,111	1,184	1,123	1,155	1,192
Operating income (EBIT)	2,519	5,448	3,194	-1,007	1,406	2,423
Net financial result	-209	-116	-38	-151	-73	-71
Non-operating expenses	0	0	0	0	0	0
Pre-tax income (EBT)	2,310	5,332	3,156	-1,158	1,333	2,353
Income taxes	390	991	592	-313	360	635
Minority interests	-568	-677	-839	-100	-300	-500
Net income / loss	1,352	3,664	1,725	-945	673	1,217
Diluted EPS (in €)	0.06	0.17	0.08	-0.04	0.03	0.06
Ratios						
Gross margin in % of gross sales	25.0%	24.4%	23.8%	23.8%	23.7%	23.8%
Gross margin in % of revenues	96.2%	96.4%	96.2%	95.9%	95.7%	96.0%
EBITDA margin in % of revenues	16.1%	25.6%	15.8%	0.5%	9.6%	12.4%
EBIT margin	11.6%	21.3%	11.6%	-4.1%	5.3%	8.3%
Net margin	6.2%	14.3%	6.2%	-3.9%	2.5%	4.2%
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%	68.4%	61.7%	59.8%
G&A (as % of revenues)	31.5%	27.7%	27.9%	32.2%	29.6%	28.4%
Depreciation and amortisation	4.6%	4.3%	4.3%	4.6%	4.3%	4.1%
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%	-12.1%	10.0%	9.5%
Net revenues	7.5%	17.6%	7.9%	-12.1%	10.0%	9.5%
EBITDA	159.4%	86.8%	-33.3%	-97.3%	2090.1%	41.2%
Operating income	145.3%	116.3%	-41.4%	n.m.	n.m.	72.3%
Net income/ loss	447.4%	171.0%	-52.9%	n.m.	n.m.	80.9%



BALANCE SHEET

All figures in EUR '000	2019A	2020A	2021A	2022E	2023E	2024E
Assets						
Current assets, total	40,731	44,718	40,753	37,422	39,142	40,977
Cash and cash equivalents	25,229	24,330	20,704	19,722	20,477	21,811
Short-term investments	47	29	26	26	26	26
Receivables	14,897	19,727	19,319	16,970	17,935	18,436
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	5,682	5,762	5,890
Property, plant & equipment	391	412	346	340	359	389
Goodwill & other intangibles	359	737	628	717	777	876
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	43,104	44,904	46,867
Shareholders' equity & debt						
Current liabilities, total	24,299	26,761	25,318	22,915	23,742	23,988
Short-term debt	0	0	0	0	0	0
Accounts payable	18,593	20,738	20,247	17,844	18,671	18,917
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	1,513	1,813	2,313
Shareholders' equity	17,105	19,681	18,675	17,730	18,403	19,620
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	-47,127	-46,454	-45,237
Total consolidated equity and debt	44,052	48,841	46,352	43,104	44,904	46,867
Ratios						
Current ratio (x)	1.68	1.67	1.61	1.63	1.65	1.71
Quick ratio (x)	1.68	1.67	1.61	1.63	1.65	1.71
Net debt	-22,983	-22,634	-19,458	-18,476	-19,231	-20,565
Net gearing	-134.4%	-115.0%	-104.2%	-104.2%	-104.5%	-104.8%
Equity ratio	41.0%	42.7%	43.3%	44.6%	45.0%	46.8%
Book value per share (in €)	0.81	0.93	0.89	0.84	0.87	0.93
Return on equity (ROE)	7.9%	18.6%	9.2%	-5.3%	3.7%	6.2%
Return on investment (ROI)	3.1%	7.5%	3.7%	-2.2%	1.5%	2.6%
Return on assets (ROA)	3.1%	7.5%	3.7%	-2.2%	1.5%	2.6%



CASH FLOW STATEMENT

All figures in EUR '000	2019A	2020A	2021A	2022E	2023E	2024E
EBIT	2,519	5,448	3,194	-1,007	1,406	2,423
Depreciation and amortisation	993	1,111	1,184	1,123	1,155	1,192
EBITDA	3,512	6,559	4,378	117	2,561	3,615
Changes in working capital	4,352	-1,527	636	-54	-138	-255
Other adjustments	-1,382	-1,650	-2,806	161	-433	-706
Operating cash flow	6,482	3,382	2,208	224	1,990	2,654
Investments in PP&E	-221	-238	-121	-219	-240	-263
Investments in intangibles	-303	-549	-178	-340	-347	-410
Free cash flow	5,958	2,595	1,909	-334	1,402	1,981
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	-559	-588	-673
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	-647	-647
Financing cash flow	-1,173	-2,278	-3,829	-647	-647	-647
FOREX & other effects	51	-232	236	0	0	0
Net cash flows	6,996	-899	-3,626	-982	755	1,334
Cash, start of the year	18,233	25,229	24,330	20,704	19,722	20,477
Cash, end of the year	25,229	24,330	20,704	19,722	20,477	21,811
EBITDA/share (in €)	0.17	0.31	0.21	0.01	0.12	0.17
Y-Y Growth						
Operating cash flow	n.m.	-47.8%	-34.7%	-89.8%	787.4%	33.4%
Free cash flow	n.m.	-56.4%	-26.4%	n.m.	n.m.	41.3%
EBITDA/share	161.0%	87.1%	-32.7%	-97.3%	2090.1%	41.2%

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Ggf. Inhaltlich Verantwortlicher gem. § 6 MDStV

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The production of this recommendation was completed on 31 August 2022 at 09:01

Person responsible for forwarding or distributing this financial analysis: Martin Bailey

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PRICE TARGET DATES

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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...33	↓	↓	↓	↓
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	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	Today	€2.06	Buy	€4.40

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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