

# ad pepper media International N.V.

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

Preliminary  
 Q1/23 results

**RATING**  
**PRICE TARGET**

Return Potential  
 Risk Rating

**BUY**  
**€ 3.50**  
 83.2%  
 Medium

## Q1 WEAKER THAN EXPECTED – HOPING FOR A BETTER H2

ad pepper media (APM) has presented surprisingly weak preliminary Q1 revenue & EBITDA. Revenue was down 13% y/y at €5.1m, and EBITDA turned negative (€-328k versus €33k in Q1/22). The main reason for the negative group EBITDA was lower than expected segment EBITDA at the ad agents segment. Given the good Q4/22 figures, we were convinced that APM's numbers would continue to track upwards. However, in Q1, clients were very reluctant with their bookings and seem to be keeping their powder dry for H2. The weak Q1 figures and cautious Q2 guidance (slight improvement compared to Q1, but revenue below the prior-year figure of €5.9m) cause us to lower our 2023 forecast. Nevertheless, easing inflation, robust salary increases and improving consumer confidence bode well for the German market in H2. However, the UK, which is the Webgains subsidiary's main market, is still suffering from double-digit inflation and GDP looks set to shrink in 2023. An updated DCF model yields a new price target of €3.50 (previously: €4.00). We confirm our Buy rating.

**Financial markets did not like the Q1 figures** APM's share price dipped 14% following the publication of the figures. Gross sales fell 16% y/y to €19.6m and revenues retreated 13% to €5.1m (see figure 1 overleaf). All three segments contributed to this decline. Group EBITDA fell €361k to €-328k. Segment EBITDA contributions were too weak to cover admin costs in the holding company. Liquid funds including securities at fair value rose from €20.5m to €21.3m (+4% y/y).

**ad pepper media segment sales particularly weak in Q1** Segment sales fell 26% y/y to €531k following a 40% y/y decline in Q1/22. Given this steep sales decline, we believe it is remarkable that the segment still reported a tiny positive EBITDA (€1k versus €34k in Q1/22).

(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 24 Apr 2023

Closing Price	€ 1.91
Shares outstanding	20.26m
Market Capitalisation	€ 38.69m
52-week Range	€ 1.44 / 3.61
Avg. Volume (12 Months)	5,599

Multiples	2022	2023E	2024E
P/E	n.a.	n.a.	121.1
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 Dec 2022

Liquid Assets	€ 17.01m
Current Assets	€ 41.77m
Intangible Assets	€ 0.37m
Total Assets	€ 43.95m
Current Liabilities	€ 27.45m
Shareholders' Equity	€ 15.67m

### 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	Q1-23A	Q1-23E	Delta	Q1-22A	Delta
Gross sales	19.59	22.20	-12%	23.22	-16%
Revenue	5.10	5.65	-10%	5.87	-13%
EBITDA	-0.33	-0.13	-	0.03	-
margin	-6.4%	-2.3%	-	0.6%	-

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

**Webgains is benefitting from 2022 cost cuts** The Webgains segment was the only segment where EBITDA increased. The improvement came despite lower revenues y/y as last year's cost cutting measures outweighed the segment's 13% revenue decline. Segment EBITDA rose 42% y/y to €189k (see figure 2).

**ad agents no longer outperforming** While the segment was the only one to show y/y growth in 2022, like the other segments, it had to contend with lower revenue in Q1 (-10% y/y to €1,742k, see figure 2). EBITDA slid into negative territory (€-97k versus €250k in Q1/22). This is the first negative quarterly EBITDA since 2018.

**Figure 2: Reported segment figures versus forecasts**

All figures in €m	Q1-23A	Q1-23E	Delta	Q1-22A	Delta
<b>ad pepper media</b>					
Revenue	0.53	0.65	-18%	0.71	-26%
EBITDA	0.00	0.01	-90%	0.03	-97%
margin	0.2%	1.5%	-	4.8%	-
<b>Webgains</b>					
Revenue	2.83	3.10	-9%	3.23	-13%
EBITDA	0.19	0.11	72%	0.13	42%
margin	6.7%	3.5%	-	4.1%	-
<b>ad agents</b>					
Revenue	1.74	1.90	-8%	1.93	-10%
EBITDA	-0.10	0.15	-	0.25	-
margin	-5.6%	7.9%	-	13.0%	-
<b>Admin &amp; Consolidation</b>					
Revenue	0.00	0.00	-	0.00	-
EBITDA	-0.42	-0.40	-	-0.38	-
<b>Group</b>					
Revenue	5.10	5.65	-10%	5.87	-13%
EBITDA	-0.33	-0.13	-	0.03	-
margin	-6.4%	-2.3%	-	0.6%	-

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

**Mixed macroeconomic indicators** The GfK Konsumklima for Germany showed the sixth improvement in a row and reached -29.5 in April. Verdi, Germany's large public service trade union, and the employers recently agreed on a roughly double digit salary rise for most of the 2.5m employees. German inflation retreated to 7.4% y/y in March following 8.7% in both January and February. We thus expect an improved business environment for APM in H2 in Germany.



The UK Consumer Prices Index (CPI) rose by 10.1% in the 12 months to March 2023, down from 10.4% in February. PwC expects that in 2023 British real wages will be back at their 2006 levels. The IMF, in its new forecasts for the world economy from 11 April, predicts UK GDP will decline by 0.3% y/y in 2023. We thus do not expect much improvement in Webgains main market. However, the subsidiary may compensate weak UK business with growing international business (Germany, Italy, the Netherlands).

**Webgains introduces innovative technological solutions** Online performance marketing is a software-driven business and Webgains is at the forefront of implementing innovative technology to keep its competitive advantage. In January, Webgains launched the AI and ML Power Suite – a trio of technologies for advertisers and publishers, comprising “Affiliate Discovery”, “Smart Commissions” and “Product Discovery”.

- Affiliate Discovery uses machine learning (ML) to transform the publisher search process. Based on analysis of Webgains data and external sources, the tool recommends bespoke publishers that are best suited to the client’s business.
- Smart Commissions improves the control and efficiency in the affiliate payment process by allowing advertisers to pay out different levels of commission based on specific products, thus enabling them to set multiple levels of commission per publisher group.
- Product Discovery is a multi-language search function that allows product searches across the entire Webgains network, thus enabling publishers to monetise planned content and generate new content ideas.

In April, Webgains launched the Smart Publisher Platform (SPP). Powered by artificial intelligence (AI) and machine learning (ML), the new platform enables Webgains’ global network of publishers to find the right products to promote from within the Webgains marketplace, thus empowering them to make smarter connections with advertisers and enhance their revenue streams. SPP provides access to real-time analytics, ad promotion and Webgains’ AI-powered Product Discovery tool.

**Forecasts adjusted** Following the weak Q1 and low Q2 guidance, we have dialled back our forecasts for 2023 and the following years (see figure 3). We have also lowered our long-term EBIT margin assumption by 2 PP. Although we still believe that APM’s business model offers high operating leverage, we are more cautious regarding the degree of the leverage. The final Q1 2023 report will be published on 26 May 2023.

**Figure 3: Revisions to forecasts**

All figures in €m	2023E			2024E			2025E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Revenue	26.62	24.18	-9%	29.28	26.60	-9%	32.07	29.12	-9%
EBITDA	2.47	1.54	-38%	3.74	2.47	-34%	5.17	3.42	-34%
margin	9.3%	6.4%		12.8%	9.3%		16.1%	11.7%	
Net income	0.21	-0.37	-	1.11	0.32	-71%	1.98	1.13	-43%
margin	0.8%	-1.5%		3.8%	1.2%		6.2%	3.9%	
EPS (diluted)	0.01	-0.02	-	0.05	0.02	-71%	0.10	0.06	-43%

Source: First Berlin Equity Research

**Buy rating reiterated at lower price target** An updated DCF model, which takes into account the lower forecasts and long-term EBIT margin assumption, yields a new price target of €3.50 (previously: €4.00). We reiterate our Buy rating.



## VALUATION MODEL

DCF valuation model								
All figures in EUR '000	2023 E	2024 E	2025 E	2026 E	2027 E	2028 E	2029 E	2030 E
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	-442	-490	-543	-602
Capital expenditures	-193	-266	-349	-446	-489	-535	-585	-640
Working capital	242	-493	-1,341	-540	47	45	43	38
Free cash flows (FCF)	1,464	1,335	1,055	2,138	3,145	3,597	4,098	4,655
PV of FCF's	1,362	1,117	794	1,449	1,918	1,973	2,022	2,067

### All figures in thousands

PV of FCFs in explicit period (2023E-2037E)	27,466
PV of FCFs in terminal period	22,215
Enterprise value (EV)	49,682
+ Net cash / - net debt	15,645
+ Investments / minority interests	7,252
Shareholder value	72,579
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%	5.40	5.64	5.92	6.27	6.68	7.20	7.86
8.1%	4.66	4.82	5.01	5.23	5.48	5.79	6.16
9.1%	4.11	4.22	4.35	4.49	4.66	4.86	5.09
10.1%	3.68	3.76	3.85	3.95	4.07	4.20	4.35
11.1%	3.34	3.40	3.47	3.54	3.62	3.71	3.82
12.1%	3.07	3.11	3.16	3.22	3.28	3.34	3.42
13.1%	2.84	2.88	2.92	2.96	3.00	3.05	3.10
14.1%	2.66	2.69	2.71	2.74	2.78	2.81	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
<b>Gross sales</b>	<b>101,344</b>	<b>111,539</b>	<b>98,229</b>	<b>95,507</b>	<b>105,058</b>	<b>115,039</b>
Media costs	75,729	83,893	73,361	71,328	78,461	85,915
<b>Revenues</b>	<b>25,615</b>	<b>27,646</b>	<b>24,868</b>	<b>24,179</b>	<b>26,597</b>	<b>29,124</b>
Cost of sales	928	1,059	1,164	1,262	1,250	1,165
<b>Gross profit</b>	<b>24,687</b>	<b>26,587</b>	<b>23,704</b>	<b>22,917</b>	<b>25,347</b>	<b>27,959</b>
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
<b>EBITDA</b>	<b>6,559</b>	<b>4,378</b>	<b>1,275</b>	<b>1,539</b>	<b>2,471</b>	<b>3,421</b>
Depreciation and amortisation	1,111	1,184	1,088	1,009	1,001	946
<b>Operating income (EBIT)</b>	<b>5,448</b>	<b>3,194</b>	<b>187</b>	<b>530</b>	<b>1,470</b>	<b>2,476</b>
Net financial result	-116	-38	-131	-76	-73	29
Non-operating expenses	0	0	0	0	0	0
<b>Pre-tax income (EBT)</b>	<b>5,332</b>	<b>3,156</b>	<b>56</b>	<b>454</b>	<b>1,396</b>	<b>2,505</b>
Income taxes	991	592	306	123	377	676
Minority interests	-677	-839	-643	-700	-700	-700
<b>Net income / loss</b>	<b>3,664</b>	<b>1,725</b>	<b>-893</b>	<b>-369</b>	<b>319</b>	<b>1,128</b>
<b>Diluted EPS (in €)</b>	<b>0.17</b>	<b>0.08</b>	<b>-0.04</b>	<b>-0.02</b>	<b>0.02</b>	<b>0.06</b>
<b>Ratios</b>						
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%
<b>Expenses as % of sales or revenues</b>						
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%
<b>Y-Y Growth</b>						
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
<b>Assets</b>						
<b>Current assets, total</b>	<b>44,718</b>	<b>40,753</b>	<b>35,692</b>	<b>35,746</b>	<b>37,607</b>	<b>38,566</b>
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
<b>Non-current assets, total</b>	<b>4,123</b>	<b>5,599</b>	<b>8,262</b>	<b>8,105</b>	<b>8,095</b>	<b>8,158</b>
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
<b>Total assets</b>	<b>48,841</b>	<b>46,352</b>	<b>43,954</b>	<b>43,851</b>	<b>45,702</b>	<b>46,723</b>
<b>Shareholders' equity &amp; debt</b>						
<b>Current liabilities, total</b>	<b>26,761</b>	<b>25,318</b>	<b>27,448</b>	<b>27,014</b>	<b>27,846</b>	<b>27,038</b>
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
<b>Long-term liabilities, total</b>	<b>1,242</b>	<b>946</b>	<b>840</b>	<b>840</b>	<b>840</b>	<b>840</b>
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
<b>Minority interests</b>	<b>1,157</b>	<b>1,413</b>	<b>1,176</b>	<b>1,876</b>	<b>2,576</b>	<b>3,276</b>
<b>Shareholders' equity</b>	<b>19,681</b>	<b>18,675</b>	<b>14,490</b>	<b>14,121</b>	<b>14,441</b>	<b>15,569</b>
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
<b>Total consolidated equity and debt</b>	<b>48,841</b>	<b>46,352</b>	<b>43,954</b>	<b>43,851</b>	<b>45,702</b>	<b>46,723</b>
<b>Ratios</b>						
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
<b>EBIT</b>	<b>5,448</b>	<b>3,194</b>	<b>187</b>	<b>530</b>	<b>1,470</b>	<b>2,476</b>
Depreciation and amortisation	1,111	1,184	1,088	1,009	1,001	946
<b>EBITDA</b>	<b>6,559</b>	<b>4,378</b>	<b>1,275</b>	<b>1,539</b>	<b>2,471</b>	<b>3,421</b>
Changes in working capital	-1,527	636	3,256	242	-493	-1,341
Other adjustments	-1,650	-2,806	-2,600	-198	-450	-647
<b>Operating cash flow</b>	<b>3,382</b>	<b>2,208</b>	<b>1,931</b>	<b>1,582</b>	<b>1,528</b>	<b>1,433</b>
Investments in PP&E	-238	-121	-108	-97	-133	-175
Investments in intangibles	-549	-178	-111	-97	-133	-175
<b>Free cash flow</b>	<b>2,595</b>	<b>1,909</b>	<b>1,712</b>	<b>1,389</b>	<b>1,262</b>	<b>1,084</b>
Acquisitions & disposals, net	10	57	1,938	0	0	0
Other investments	-994	-1,999	-5,000	0	0	0
<b>Investment cash flow</b>	<b>-1,771</b>	<b>-2,241</b>	<b>-3,281</b>	<b>-193</b>	<b>-266</b>	<b>-349</b>
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
<b>Financing cash flow</b>	<b>-2,278</b>	<b>-3,829</b>	<b>-2,356</b>	<b>-659</b>	<b>-725</b>	<b>-659</b>
FOREX & other effects	-232	236	10	0	0	0
<b>Net cash flows</b>	<b>-899</b>	<b>-3,626</b>	<b>-3,696</b>	<b>730</b>	<b>537</b>	<b>425</b>
Cash, start of the year	25,229	24,330	20,704	17,008	17,738	18,274
<b>Cash, end of the year</b>	<b>24,330</b>	<b>20,704</b>	<b>17,008</b>	<b>17,738</b>	<b>18,274</b>	<b>18,699</b>
<b>EBITDA/share (in €)</b>	<b>0.31</b>	<b>0.21</b>	<b>0.06</b>	<b>0.08</b>	<b>0.12</b>	<b>0.17</b>
<b>Y-Y Growth</b>						
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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Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy <sup>1</sup>	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%

<sup>1</sup> 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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Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	9 January 2018	€4.06	Add	€4.30
2...37	↓	↓	↓	↓
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	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	Today	€1.91	Buy	€3.50

**INVESTMENT HORIZON**

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