

# ad pepper media International N.V.

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

Preliminary  
 2017 figures

**RATING**  
**PRICE TARGET**  
 Return Potential 1.8%  
 Risk Rating High

**ADD**  
**€ 4.50**

## STRONG AND PROFITABLE GROWTH IN 2017

On 24 January, ad pepper reported preliminary 2017 figures which showed record sales and earnings and topped our forecasts. Sales grew 24% y/y to €75.6m and EBITDA 26% y/y to €2.2m. Thanks to the strong Q4, ad pepper topped its EBITDA guidance of >€1.5m. We believe that the buoyant online advertising markets and the company's very good competitive position will continue to drive growth and profitability this year. An updated DCF model yields a new price target of €4.50 (previously: €430). We reiterate our Add rating.

**Strong Q4 drives 2017 figures** In Q4/17, ad pepper generated €23.5m in sales (Q4/16: €19.3m, +22% y/y, FBe: €21.2m) and EBITDA of €1.3m (Q4/16: €0.5m, +155% y/y, FBe: €0.8m). Strong revenue growth in all three segments resulted in record full-year sales of €75.6m (2016: €61.2m, +24% y/y, FBe: €73.2m). Gross profit amounted to €18.3m (2016: €16.1m, +14% y/y, FBe: €18.5m). EBITDA reached a record level of €2.2m (2016: €1.8m, +26%, FBe: €1.7m). The EBITDA margin remained stable at 2.9%. EBIT was €1.8m (2016: €1.6m).

**Higher equity and more liquid funds** Equity increased to €16.5m from €15.0m at the end of 2016 (+10% y/y). Liquid funds (including securities booked at fair value) amounted to €22.7m; a rise of 16% compared to the previous year's figure of €19.6m. As ad pepper still does not have any banks liabilities, the net cash position including securities booked at fair value is also €22.7m.

**EBITDA doubled at ad pepper media segment on strong sales growth** The ad pepper media (lead generation & audience targeting) segment sales soared almost 30% to €6.8m (2016: €5.3m). Segment EBITDA doubled from €45k in 2016 to €973k. The EBITDA margin increased more than 5PP to 14.3%.

(p.t.o.)

## FINANCIAL HISTORY & PROJECTIONS

	2015	2016	2017E	2018E	2019E	2020E
Revenue (€m)	56.01	61.16	75.56	86.68	100.46	111.51
Y-o-y growth	n.a.	9.2%	23.5%	14.7%	15.9%	11.0%
EBIT (€m)	0.24	1.61	1.82	3.14	4.52	5.80
EBIT margin	0.4%	2.6%	2.4%	3.6%	4.5%	5.2%
Net income (€m)	-0.03	0.63	0.71	1.56	2.45	3.30
EPS (diluted) (€)	0.00	0.03	0.03	0.07	0.11	0.15
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	1.44	-0.54	3.11	1.43	3.81	4.53
Net gearing	-107.6%	-126.0%	-140.8%	-136.1%	-138.6%	-138.4%
Liquid assets (€m)	16.93	17.86	20.97	22.40	26.21	30.75

## 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.

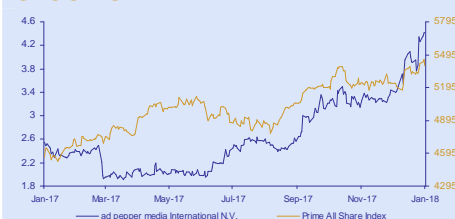
## MARKET DATA

As of 24 Jan 2018

Closing Price	€ 4.42
Shares outstanding	21.00m
Market Capitalisation	€ 92.82m
52-week Range	€ 1.91 / 4.42
Avg. Volume (12 Months)	21,609

Multiples	2016	2017E	2018E
P/E	147.6	131.4	59.4
EV/Sales	1.2	1.0	0.8
EV/EBIT	44.7	39.5	22.9
Div. Yield	0.0%	0.0%	0.0%

## STOCK OVERVIEW



## COMPANY DATA

As of 30 Sep 2017

Liquid Assets	€ 19.05m
Current Assets	€ 30.74m
Intangible Assets	€ 0.38m
Total Assets	€ 34.32m
Current Liabilities	€ 18.21m
Shareholders' Equity	€ 15.79m

## SHAREHOLDERS

EMA B.V.	41.2%
Treasury Stock	8.7%
Axxion S.A.	5.1%
Dieter Koppitz	3.0%
Free Float	42.0%



**Webgains with double-digit sales growth and lower EBITDA** The Webgains segment (affiliate network) posted a 17% y/y rise in revenues to €51.4m. EBITDA fell 16% y/y to €1.3m due to increased operating expenses mainly related to investment into the platform. The EBITDA margin declined from 3.6% to 2.5%. In our view, the investment has already started to pay off, as Q4/17 was the strongest quarter ever in terms of sales and EBITDA. The latter reached €755k, a 52% rise over the previous year's period result of €498k. The segment EBITDA margin in Q4 was 4.8% (Q4/16: 3.6%).

**ad agents with strongest segment sales growth and double-digit EBITDA growth** ad agents (full service agency) had a very successful year with sales increasing by almost 45% to €17.4m. EBITDA rose relatively moderately by almost 9% to €1.26m due mainly to investments which increased segment OPEX. The EBITDA margin fell more than 2PP to 7.2%.

**All three segments showed strong revenue growth and delivered significant EBITDA contributions** All three segments grew at double-digit rates and delivered significant EBITDA contributions of between €1.0 - €1.3m. We view this as a clear sign that all three business models are intact.

**Strong growth and increasing profitability anticipated for 2018E** We believe that each segment will grow at a double digit rate in 2018E and increase earnings. On the group level, we continue to forecast €87m in revenues (+15% y/y) and EBITDA of €3.6m (+64% y/y).

**Guidance for 2018E next share price driver** ad pepper will publish its Annual Report on 28 March 2018. We expect the company to give full-year guidance on that date, which should increase visibility of the financial figures and trust in the continuation of the growth trajectory.

**Figure 1: Reported figures versus forecasts**

All figures in €m	Q4-17A	Q4-17E	Delta	Q4-16	Delta	2017	2016	Delta
<b>ad pepper media</b>								
Sales	1.97	1.65	19.6%	1.39	41.7%	6.81	5.26	29.4%
EBITDA	-0.08	0.29	-	-0.18	-	0.97	0.49	100.6%
margin	-4.2%	17.3%	-	-13.0%	-	14.3%	9.2%	-
<b>Webgains</b>								
Sales	15.71	14.51	8.2%	14.03	12.0%	51.40	43.89	17.1%
EBITDA	0.76	0.49	53.8%	0.50	51.6%	1.31	1.54	-15.1%
margin	4.8%	3.4%	-	3.6%	-	2.5%	3.5%	-
<b>ad agents</b>								
Sales	5.85	5.00	16.9%	3.92	49.3%	17.35	12.01	44.5%
EBITDA	0.50	0.32	57.5%	0.46	8.6%	1.26	1.16	8.6%
margin	8.6%	6.4%	-	11.9%	-	7.2%	9.6%	-
<b>Admin</b>								
Sales	0.00	0.00	-	0.00	-	0.00	0.00	-
EBITDA	-0.01	-0.30	-	-0.29	-	-1.33	-1.42	-
<b>Intersegment elimination</b>								
Sales	0.00	0.00	-	0.00	-	0.00	0.00	-
EBITDA	0.09	-0.03	-	0.00	-	0.00	-0.01	-
<b>Group</b>								
Sales	23.53	21.16	11.2%	19.34	21.7%	75.56	61.17	23.5%
EBITDA	1.26	0.77	63.8%	0.49	155.1%	2.21	1.75	26.4%
margin	5.3%	3.6%	-	2.5%	-	2.9%	2.9%	-

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



## VALUATION MODEL

DCF valuation model								
All figures in EUR '000								
	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Net sales	75,563	86,681	100,460	111,511	122,864	134,369	145,851	157,122
<b>NOPLAT</b>	<b>1,224</b>	<b>2,119</b>	<b>3,103</b>	<b>4,042</b>	<b>4,595</b>	<b>5,179</b>	<b>5,788</b>	<b>6,416</b>
+ depreciation & amortisation	391	477	501	556	616	681	747	815
Net operating cash flow	1,614	2,595	3,604	4,598	5,211	5,859	6,536	7,231
- total investments (CAPEX and WC)	1,512	-1,204	156	-121	-209	-266	-330	-401
Capital expenditures	-512	-520	-603	-669	-737	-806	-875	-943
Working capital	2,025	-684	759	548	528	541	545	542
Free cash flows (FCF)	3,127	1,391	3,760	4,477	5,002	5,594	6,206	6,829
<b>PV of FCF's</b>	<b>3,127</b>	<b>1,262</b>	<b>3,074</b>	<b>3,296</b>	<b>3,318</b>	<b>3,343</b>	<b>3,341</b>	<b>3,312</b>

All figures in thousands	
PV of FCFs in explicit period (2017E-2031E)	44,442
PV of FCFs in terminal period	28,106
Enterprise value (EV)	72,548
+ Net cash / - net debt	20,968
+ Investments / minority interests	2,424
Shareholder value	95,940

Fair value per share in EUR 4.50

WACC		Terminal growth rate						
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
7.0%	11.0%	6.76	7.04	7.37	7.76	8.24	8.84	9.61
8.0%	6.0%	5.87	6.06	6.27	6.52	6.81	7.16	7.59
9.0%	30.0%	5.20	5.33	5.47	5.64	5.83	6.05	6.31
10.0%	4.2%	4.68	4.77	4.87	4.98	5.11	5.26	5.43
11.0%	100.0%	4.26	4.33	4.40	4.48	4.57	4.67	4.79
12.0%	0.0%	3.92	3.97	4.03	4.09	4.15	4.22	4.30
13.0%		3.64	3.68	3.72	3.77	3.81	3.87	3.93
14.0%		3.41	3.44	3.47	3.50	3.54	3.58	3.62

\* for layout purposes the model shows numbers only to 2024, but runs until 2031



## INCOME STATEMENT

All figures in EUR '000	2015A	2016A	2017E	2018E	2019E	2020E
<b>Revenues</b>	<b>56,009</b>	<b>61,164</b>	<b>75,563</b>	<b>86,681</b>	<b>100,460</b>	<b>111,511</b>
Cost of goods sold	40,165	45,076	57,215	65,082	76,119	84,748
<b>Gross profit</b>	<b>15,844</b>	<b>16,088</b>	<b>18,348</b>	<b>21,599</b>	<b>24,341</b>	<b>26,763</b>
S&M	10,575	9,055	10,393	11,615	12,558	13,381
G&A	6,382	6,155	6,285	7,021	7,434	7,806
Other operating income	1,406	1,059	659	780	873	1,004
Other operating expenses	49	329	512	607	703	781
<b>EBITDA</b>	<b>540</b>	<b>1,748</b>	<b>2,209</b>	<b>3,613</b>	<b>5,021</b>	<b>6,355</b>
Depreciation and amortisation	296	140	391	477	501	556
<b>Operating income (EBIT)</b>	<b>244</b>	<b>1,608</b>	<b>1,818</b>	<b>3,136</b>	<b>4,520</b>	<b>5,799</b>
Net financial result	199	82	-17	43	50	56
Non-operating expenses	0	0	0	0	0	0
<b>Pre-tax income (EBT)</b>	<b>443</b>	<b>1,690</b>	<b>1,801</b>	<b>3,179</b>	<b>4,570</b>	<b>5,854</b>
Income taxes	308	594	594	1,017	1,417	1,756
Minority interests	-168	-467	-500	-600	-700	-800
<b>Net income / loss</b>	<b>-33</b>	<b>629</b>	<b>706</b>	<b>1,562</b>	<b>2,453</b>	<b>3,298</b>
<b>Diluted EPS (in €)</b>	<b>0.00</b>	<b>0.03</b>	<b>0.03</b>	<b>0.07</b>	<b>0.11</b>	<b>0.15</b>

### Ratios

Gross margin	28.3%	26.3%	24.3%	24.9%	24.2%	24.0%
EBITDA margin on revenues	1.0%	2.9%	2.9%	4.2%	5.0%	5.7%
EBIT margin on revenues	0.4%	2.6%	2.4%	3.6%	4.5%	5.2%
Net margin on revenues	-0.1%	1.0%	0.9%	1.8%	2.4%	3.0%
Tax rate	69.5%	35.1%	33.0%	32.0%	31.0%	30.0%

### Expenses as % of revenues

S&M	18.9%	14.8%	13.8%	13.4%	12.5%	12.0%
G&A	11.4%	10.1%	8.3%	8.1%	7.4%	7.0%
Depreciation and amortisation	0.5%	0.2%	0.5%	0.5%	0.5%	0.5%
Other operating expenses	0.1%	0.5%	0.7%	0.7%	0.7%	0.7%

### Y-Y Growth

Revenues	n.a.	9.2%	23.5%	14.7%	15.9%	11.0%
Operating income	n.a.	559.0%	13.1%	72.5%	44.1%	28.3%
Net income/ loss	n.a.	n.m.	12.3%	121.1%	57.1%	34.4%



## BALANCE SHEET

All figures in EUR '000	2015A	2016A	2017E	2018E	2019E	2020E
<b>Assets</b>						
<b>Current assets, total</b>	<b>27,726</b>	<b>28,672</b>	<b>32,980</b>	<b>37,349</b>	<b>43,424</b>	<b>49,774</b>
Cash and cash equivalents	16,932	17,859	20,968	22,403	26,213	30,746
Short-term investments	297	138	138	138	138	138
Receivables	9,983	10,116	11,315	14,249	16,514	18,331
Inventories	0	0	0	0	0	0
Other current assets	292	408	408	408	408	408
<b>Non-current assets, total</b>	<b>6,314</b>	<b>2,706</b>	<b>2,828</b>	<b>2,871</b>	<b>2,973</b>	<b>3,086</b>
Property, plant & equipment	150	212	237	268	308	346
Goodwill & other intangibles	349	572	669	681	742	817
Other assets	5,815	1,922	1,922	1,922	1,922	1,922
<b>Total assets</b>	<b>34,040</b>	<b>31,378</b>	<b>35,808</b>	<b>40,220</b>	<b>46,397</b>	<b>52,859</b>
<b>Shareholders' equity &amp; debt</b>						
<b>Current liabilities, total</b>	<b>17,436</b>	<b>16,282</b>	<b>19,506</b>	<b>21,756</b>	<b>24,779</b>	<b>27,144</b>
Short-term debt	0	0	0	0	0	0
Accounts payable	13,618	12,357	15,581	17,831	20,854	23,219
Current provisions	0	0	0	0	0	0
Other current liabilities	3,818	3,925	3,925	3,925	3,925	3,925
<b>Long-term liabilities, total</b>	<b>96</b>	<b>117</b>	<b>117</b>	<b>117</b>	<b>117</b>	<b>117</b>
Long-term debt	0	0	0	0	0	0
Deferred revenue	0	0	0	0	0	0
Other liabilities	96	117	117	117	117	117
<b>Minority interests</b>	<b>503</b>	<b>690</b>	<b>1,190</b>	<b>1,790</b>	<b>2,490</b>	<b>3,290</b>
<b>Shareholders' equity</b>	<b>16,005</b>	<b>14,289</b>	<b>14,995</b>	<b>16,557</b>	<b>19,011</b>	<b>22,309</b>
Share capital	1,150	1,150	1,150	1,150	1,150	1,150
Capital reserve	63,305	61,116	61,116	61,116	61,116	61,116
Other reserves	-2,199	-2,356	-2,356	-2,356	-2,356	-2,356
Loss carryforward / retained earnings	-46,250	-45,621	-44,915	-43,353	-40,899	-37,601
<b>Total consolidated equity and debt</b>	<b>34,040</b>	<b>31,378</b>	<b>35,808</b>	<b>40,220</b>	<b>46,397</b>	<b>52,859</b>
<b>Ratios</b>						
Current ratio (x)	1.59	1.76	1.69	1.72	1.75	1.83
Quick ratio (x)	1.59	1.76	1.69	1.72	1.75	1.83
Net debt	-17,229	-17,997	-21,106	-22,541	-26,351	-30,884
Net gearing	-107.6%	-126.0%	-140.8%	-136.1%	-138.6%	-138.4%
Equity ratio	48.5%	47.7%	45.2%	45.6%	46.3%	48.4%
Book value per share (in €)	0.75	0.67	0.70	0.78	0.89	1.05
Return on equity (ROE)	-0.2%	4.4%	4.7%	9.4%	12.9%	14.8%
Days of sales outstanding (DSO)	65.1	60.4	54.7	60.0	60.0	60.0
Days inventory outstanding	0.0	0.0	0.0	0.0	0.0	0.0
Days in payables (DIP)	123.8	100.1	99.4	100.0	100.0	100.0



## CASH FLOW STATEMENT

All figures in EUR '000	2015A	2016A	2017E	2018E	2019E	2020E
<b>EBIT</b>	<b>244</b>	<b>1,608</b>	<b>1,818</b>	<b>3,136</b>	<b>4,520</b>	<b>5,799</b>
Depreciation and amortisation	140	296	391	477	501	556
<b>EBITDA</b>	<b>384</b>	<b>1,904</b>	<b>2,209</b>	<b>3,613</b>	<b>5,021</b>	<b>6,355</b>
Changes in working capital	2,257	-1,164	2,025	-684	759	548
Other adjustments	-1,014	-717	-612	-974	-1,366	-1,701
<b>Operating cash flow</b>	<b>1,627</b>	<b>23</b>	<b>3,622</b>	<b>1,955</b>	<b>4,413</b>	<b>5,202</b>
Investments in PP&E	-67	-144	-146	-173	-201	-223
Investments in intangibles	-118	-417	-366	-347	-402	-446
<b>Free cash flow</b>	<b>1,442</b>	<b>-538</b>	<b>3,109</b>	<b>1,435</b>	<b>3,811</b>	<b>4,533</b>
Acquisitions & disposals, net	3,363	3,920	0	0	0	0
Other investments	16	209	0	0	0	0
<b>Investment cash flow</b>	<b>3,194</b>	<b>3,568</b>	<b>-512</b>	<b>-520</b>	<b>-603</b>	<b>-669</b>
Debt financing, net	0	0	0	0	0	0
Equity financing, net	176	-2,217	0	0	0	0
Dividends paid	0	0	0	0	0	0
Other financing	0	-280	0	0	0	0
<b>Financing cash flow</b>	<b>176</b>	<b>-2,497</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
FOREX & other effects	8	-167	0	0	0	0
<b>Net cash flows</b>	<b>5,006</b>	<b>927</b>	<b>3,109</b>	<b>1,435</b>	<b>3,811</b>	<b>4,533</b>
Cash, start of the year	11,926	16,932	17,859	20,968	22,403	26,213
<b>Cash, end of the year</b>	<b>16,932</b>	<b>17,859</b>	<b>20,968</b>	<b>22,403</b>	<b>26,213</b>	<b>30,746</b>
<b>EBITDA/share (in €)</b>	<b>0.02</b>	<b>0.09</b>	<b>0.10</b>	<b>0.17</b>	<b>0.24</b>	<b>0.30</b>
<b>Y-Y Growth</b>						
Operating cash flow	n.a.	-98.6%	15645.8%	-46.0%	125.8%	17.9%
Free cash flow	n.a.	n.m.	n.m.	-53.9%	165.6%	19.0%
EBITDA/share	n.a.	402.0%	15.2%	63.6%	39.0%	26.6%

## FIRST BERLIN 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...1	↓	↓	↓	↓
2	Today	€4.42	Add	€4.50

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### INFORMATION PURSUANT TO SECTION 34B OF THE GERMAN SECURITIES TRADING ACT [WPHG], TO REGULATION (EU) NO 596/2014 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF APRIL 16, 2014, ON MARKET ABUSE (MARKET ABUSE REGULATION) AND TO THE GERMAN ORDINANCE ON THE ANALYSIS OF FINANCIAL INSTRUMENTS [FINANV]

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- **valuation methods and principles**
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