


Buy

Recommendation unchanged

Share price: EUR 2.02

closing price as of 14/10/2010

Target price: EUR 2.40

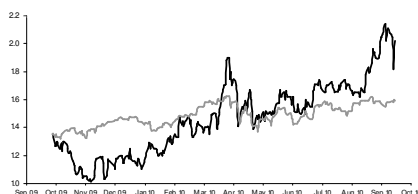
Target Price unchanged

Reuters/Bloomberg

APME.F/APM GY

Market capitalisation (EURm)	43
Current N° of shares (m)	21
Free float	37%
Daily avg. no. trad. sh. 12 mth	55,736
Daily avg. trad. vol. 12 mth (m)	0
Price high 12 mth (EUR)	2.14
Price low 12 mth (EUR)	1.01
Abs. perf. 1 mth	13.48%
Abs. perf. 3 mth	26.25%
Abs. perf. 12 mth	48.53%

Key financials (EUR)	12/09	12/10e	12/11e
Sales (m)	47	51	55
EBITDA (m)	(6)	2	4
EBITDA margin	nm	3.9%	7.5%
EBIT (m)	(32)	1	3
EBIT margin	nm	2.5%	6.1%
Net Profit (adj.)(m)	(14)	3	3
ROCE	nm	52.7%	100.1%
Net debt/(cash) (m)	(23)	(25)	(28)
Net Debt/Equity	-1.1	-1.0	-1.0
Debt/EBITDA	3.8	-12.3	-6.8
Int. cover(EBITDA/Fin. int)	4.5	(1.5)	(2.8)
EV/Sales	0.0	0.5	0.4
EV/EBITDA	nm	11.6	5.1
EV/EBITDA (adj.)	nm	11.6	5.1
EV/EBIT	nm	18.4	6.2
P/E (adj.)	nm	14.6	13.0
P/BV	1.2	1.8	1.6
OpFCF yield	-19.1%	4.1%	7.3%
Dividend yield	0.0%	0.0%	0.0%
EPS (adj.)	(0.63)	0.14	0.16
BVPS	0.99	1.12	1.27
DPS	0.00	0.00	0.00



Source: Factset

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Solid 3Q10 confirms our positive view

The facts: Ad Pepper (APM) published 3Q10 results already yesterday. The company came up with **3Q10 sales of EUR 12.26m which compares to our forecast of EUR 12.40m** and were thus broadly in line.

As regards the **segments**, APM has only published growth rates, but implicitly, Webgains must have been a bit weaker than expected with sales of EUR 4.0m in 3Q10 (equinet: EUR 4.2m) whereas ad agents was actually flat qoq at EUR 1.5m (equinet: EUR 1.5m). Thus, ad pepper media explained the deviation to group level with a slight shortfall of EUR 0.14m (3Q10: EUR 6.7m).

The company said gross profit margin to be at c. 45.4% in the quarter which was in line with our expectation of 45.5%. The EBITDA amounted however to EUR 0.36m (equinet: EUR 0.2m) thanks to a better OPEX development. This was also the case for **EBIT that was said to be EUR 0.2m (equinet: break-even)**.

The financial result was heavily distorted mainly by a one-off associated with a value re-appreciation of the investment in Brand Affinity Technologies (BAT). Here, the financial line was EUR 762k higher than expected which was the reason for EPS coming in at 6 Cents vs. our estimate of 2 Cents. Adjusted for this one off and assuming no change in the tax line, EPS would have been at 3 Cents.

3Q10 review

in EUR m	3Q10a	3Q10e	deviation	3Q09	yoy
Sales	12.3	12.4	-1%	11.4	7%
EBITDA	0.4	0.2	80%	-4.0	n.a.
Net result	1.4	0.4	247%	-31.8	n.a.
EPS	0.06	0.02	200%	-1.47	n.a.

Source: company data. equinet estimates

The company has not elaborated on the outlook in the press release. Net cash increased to more than EUR 23m (> EUR 1 per share).

Our analysis: A solid set of figures. **The run-rate of OPEX appears to be under control which allows for sustainable profit generation.** We do not take missing comments on the outlook as a concerning sign. In fact, this should just mean that APM keeps the EBITDA guidance of EUR 1.5m for the time being, i.e. at least until the release of the final figures on November 11.

Model changes

in EUR m	10 old	10 new	change	11 old	11 new	change	12 old	12 new	change
Sales	50.6	50.6	0%	55.0	55.0	0%	59.1	59.1	0%
EBITDA	2.0	2.0	0%	4.1	4.1	0%	5.8	5.8	1%
EPS [EUR]	0.10	0.14	40%	0.16	0.16	0%	0.20	0.20	0%

Source: equinet estimates

We have applied only minor changes to our model as can be seen above and included the non-cash one-off in the financial line in FY10 which causes reported EPS to rise by EUR 0.04.

We continue to speculate that APM is able to come up with EUR 2m for the FY10 operating profit before depreciation line. Prerequisite for this assumption is a strong 4Q10 gross margin in its biggest segment, ad pepper media.

Conclusion & Action: We confirm both rating and PT (Buy, EUR 2.4).