

April 1st 2010

Small Cap | Europe | Germany

DR. KALLIWODA
RESEARCH GmbH**Initiating Coverage****BUY**

Target Price: 1,87 EUR

Industry: Online-Marketing
Country: Germany
WKN: 940883
Reuters: APME.DE
Website: www.adpepper.com

Curr. Price:	1,36
	High
Price 52 W.:	1,56
	Low
Market Cap. (Mill. EUR)	31,0
No. of Shares (in Mill.)	22,8

Shareholders

EMA B.V.	41,25 %
Treasury Stock	9,64 %
Amiral Gestion S.A.	4,90 %
U. Schmidt	4,37 %
Grabacap ApS	3,69 %
Euroserve Media GmbH	1,33 %

Performance

4 Weeks	23,00 %
13 Weeks	24,03 %
26 Weeks	5,43 %
52 Weeks	96,80 %
Curr. Year	27,12 %

Dividend

	in EUR	in %
2007	0,00	0,00 %
2008	0,00	0,00 %
2009	0,00	0,00 %
2010e	0,00	0,00 %



Source: Reuters

Dr. Norbert Kalliwoda

Phone: +49 69 97 20 58 53

E-mail: nk@kalliwoda.com

www.kalliwoda.com

AD PEPPER MEDIA INT. N.V.**Focus on Performance in the Growth Market**

- ad pepper media offers individual solutions for semantic advertising, lead generation as well as brand protection and owns a fast-growing affiliate network. ad pepper media's clients are media agencies, advertisers and websites. Nearly the entire range in the field of online advertising is offered in the sectors display, performance, e-mail, affiliate and search engine marketing as well as ad serving . Focus is on the area of performance marketing, currently the fastest growing segment of digital marketing. The company has own system technologies available and great international positioning power for campaigns in more than 50 countries. ad pepper media has 236 employees and is represented in 15 branch offices in nine European countries as well as in the U.S.
- Even if times of rapid growth for the online marketing sector are over, the digital advertising market has shown to be robust and continues to grow. As soon as the world economy sees sustainable cyclical recovery, the current level of growth should rise further. The trend to a shift of advertising budgets away from traditional media towards online formats can be considered positive.
- A lot of competition characterizes the market. Big players such as Google have made acquisitions in the past. In case of more consolidation, competitive pressure would also increase. We view ad pepper media as focused performance marketing provider with international orientation being well positioned. On the side of costs, adjustments have been made in order to stay competitive.
- We consider the stock as fairly valued with 1.87 Euro in our assessment. This is equivalent to an upward potential of 37.5 percent. We recommend the stock as a buy.

EUR m	2008	2009	2010E	2011E	2012E
Revenues	52,64	46,90	49,24	51,21	54,80
EBITDA	-3,65	-0,10	-0,14	1,86	3,03
EBIT	2,47	-32,10	-1,14	1,16	2,53
Net Income	2,61	-34,33	0,27	1,99	3,02
EPS	0,24	-1,61	0,01	0,09	0,13
BVPS	2,44	0,94	1,01	1,10	1,18
CFPS	0,32	-0,10	0,06	0,12	0,15
RoE	4,69 %	-159,83 %	1,19 %	7,98 %	11,20 %
RoS	4,96 %	-73,20 %	0,55 %	3,89 %	5,52 %
EBIT margin	4,70 %	-68,44 %	-2,31 %	2,26 %	4,62 %

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1 Company Profile

ad pepper media International N.V. is headquartered in Amsterdam, the Netherlands and was established in 1999. Being a management and holding corporation, the group performs central activities such as marketing, controlling and finance. ad pepper media is represented by 15 branch offices in nine European countries as well as in the U.S. ad pepper's campaigns are carried out by 236 staff members in more than 50 countries. ad pepper media offers individual solutions for semantic advertising lead generation as well as brand protection and owns a fast growing affiliate network. Clients of ad pepper are media agencies, advertisers and website owners. With the segments display, performance, e-mail, affiliate and search engine marketing as well as ad serving, the largest part of services for the online advertising field is offered. Founded as a specialist in the display segment, ad pepper media, in particular by means of acquisitions, has developed to a performance marketing specialist who offers clients solutions for branding and e-mail marketing as well.

2 Current Development

According to preliminary figures, sales revenues of ad pepper media amounted to 46.9mn Euro for the past fiscal year. This equates a decline opposite 2008 of -10.9 percent. Particularly strong was the decline in the segment of ad pepper media at -22 percent, meanwhile Webgains (14 percent) and ad agents (5 percent) were able to pick up.

The gross margin also developed in a decline at -6.9 percent, however lesser than sales revenues. EBIT was due to value adjustments of the company value in the third quarter clearly negative (-32mn Euro). In the previous year, this value was 2.5mn Euro. Operative cash flow developed advantageously being positive again for the first time since 2006. Particularly the fourth quarter contributed with its 1.4mn EUR to the good overall result of 0.26mn Euro. In non-consideration of one-time effects from value adjustments of the company value, there was only a slightly negative development observed in costs. They were slightly above the levels of the previous year. In its contrast, it was possible to reduce costs in the ad pepper media segment by about one quarter compared to the year before.

In the course of the past business year, the Italian branch of the company was closed. Thereby one-time expenses resulted in the amount of 0.9mn Euro. This measure is intended to lead to relief on the side of costs for the future.

In the near future, iSense technology will also be available in Spanish, so that additional markets can be covered and larger international ad campaigns can be conducted. The company hopes to gain new and larger clients as a result.

The market for online marketing had to accept losses on basis of the overall economic situation. However, these have been lesser than they were for traditional advertising media. In the course of a recovery of the world economy, investments in advertising would be increasing again. We expect that the tendency is continued to shift advertising budgets of traditional media towards the internet. Therefore, we expect prospective strong growth rates.

3 Business Model and Strategy

ad pepper media is an international marketer of online advertising. The client has services available in areas of display, performance, e-mail, affiliate and search engine marketing as well as ad serving. ad pepper assumes implementation of advertising campaigns in these areas, whereby nearly all available services are being offered.

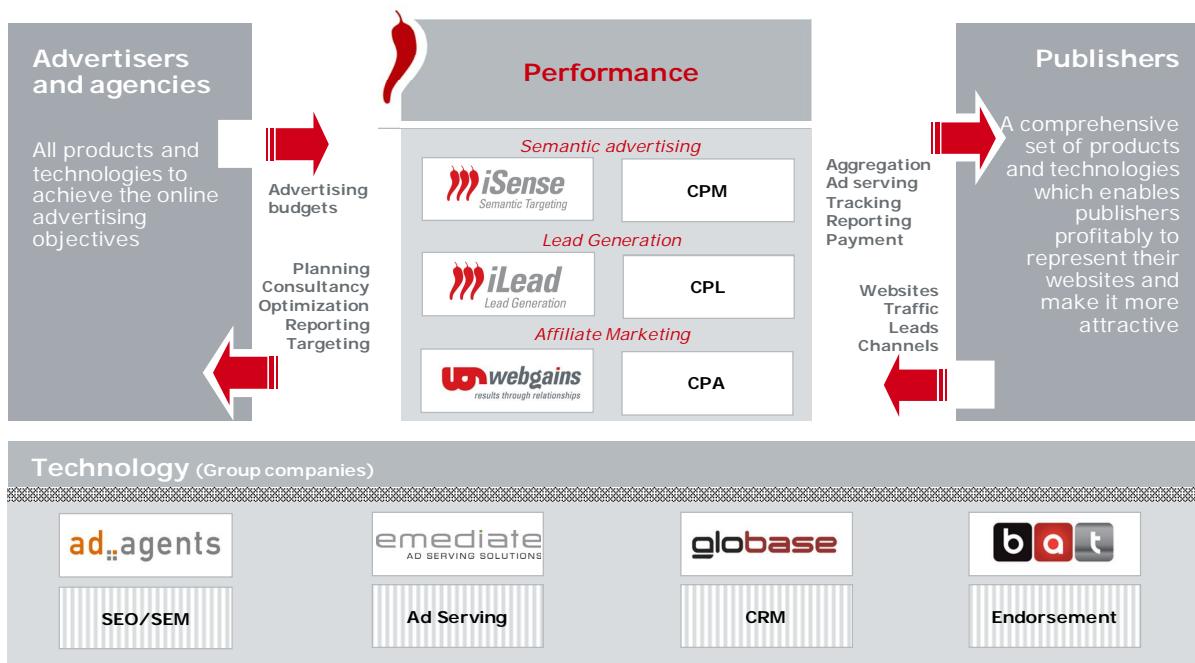
The Cost-per-Mille (CPM, thousand-contacts-price) is applied in most cases for products iSense Display and SiteScreen. Herein the advertising client pays per thousand users, upon whose visit of a website, the advertising was shown. Decisive in the success of the ad campaign and therefore ad pepper's clients' satisfaction is still the click-through-rate, which expresses the relation of number of clicks on an advertising banner to overall impressions. The success of ad pepper media is therefore always dependent on the success of the campaigns, apart from true branding campaigns.

Products iLead and Click Generation are exclusively compensated on basis of success. For iLead the Cost-per-Lead procedure (CPL) is applied. ad pepper receives compensation for each generated lead, of which more than 50 percent remain with ad pepper, as the remaining amount is forwarded to the servicer of the website. In the Cost-per-Click process (CPC), which is used in click generation, compensation is due, when the user clicked on the advertising to open it. Even here, as in the CPM procedure, the Click-Through-Rate is decisive for success of the campaign.

In Webgains, the affiliate's network of ad pepper media, the majority of compensation consists of success-dependent commissions. In contrast to above mentioned products, the client however pays a low fixed charge. Commissions are calculated according to the Cost-per-Action procedure. The client determines the actions for which a commission is paid, such as e.g. the purchase of a product, signing up for a newsletter, a call center lead or a request for information. The largest part of this commission is forwarded to the affiliate. Fixed components included, ad pepper arrives at a share of approx. 30%.

Since fixed compensation components make up only a very small share of sales of Webgains, the company relies on carrying out successful campaigns in order to achieve attractive returns. For successful implementation of campaigns it is relevant that the advertising is shown in the right context, so that as many users as possible click it and subsequently make a purchase.

Business Units of ad pepper media



Source: Company

Semantic advertising (iSense Display)

The Sense Engine™ Technology has been developed over a 10-year development time by a team of linguists and lexicographers. It examines every single webpage semantically to understand their contents and to classify them. Aim is to place advertising best suited for the website. Thereby it is to be ensured that users views advertising relevant to them, as it matches the contents viewed by them. iSense accesses a databank containing words and phrases that permit assignment of a definitive meaning to a text. Words with several meanings are assigned by analysis of the overall text to their correct meaning. If the content of the text was definitively determined, it is classified to show matching advertising. For this, there are 3,000 different categories available. The company that advertises chooses the relevant categories for which advertising should be placed. Additionally, the advertiser may specifically define categories. Selection of relevant categories can be done in wide or very narrow ranges.

Categories of iSense



Source: Company

By means of the categories Emediate places relevant advertising on websites with corresponding contents. Matching of advertising and contents of the website makes for increased acceptance by the user. Wastage of ads can so be minimized and performance of ad campaigns optimized. Depending on the goal of the campaign and client wishes, target groups can be addressed differently with very precise or very general thematic targeting. One advantage opposite Behavioral Targeting Technology for which the search behavior of the user is analyzed and thus advertising shown, rests on data protection aspects. Semantic Targeting analyses only the contents of websites, not however the behavior of users, so that there should not be any problems to be expected in terms of data protection.

The technology is available in English, Danish, German, Dutch and as of recent in French. The Spanish version is in development and is intended to go online in the foreseeable future. Thereby the most important markets are covered and development costs nearly completed.

Brand Protection (SiteScreen)

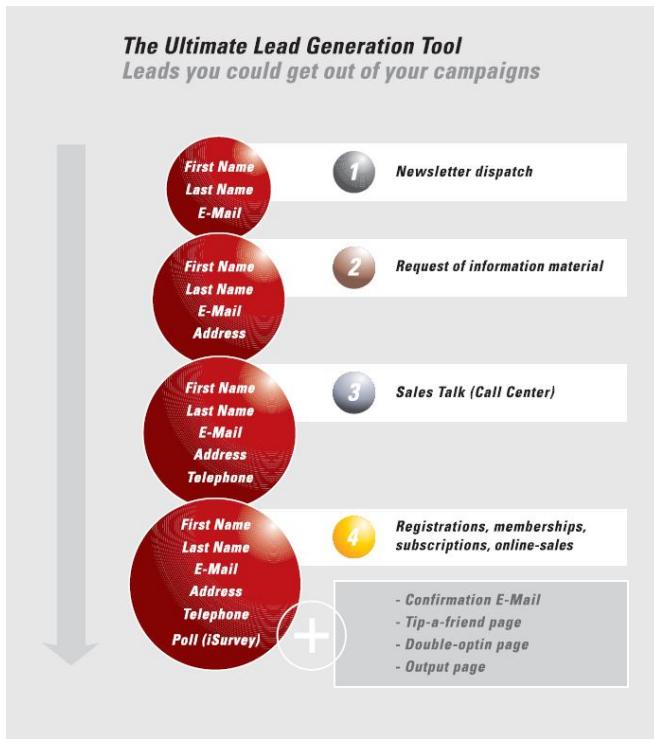
ad pepper offers with SiteScreen optimal service for brand protection. The product works with the same technology as iSense Display. Websites are analyzed semantically and in distinction to iSense, undesired contents are identified. SiteScreen analysis takes place before advertising is set on a website. This is how it is prevented that ad messages are set on websites with contents damaging to the client's brand. E.g. it is prevented that on a page with a report on a plane crash, advertising is placed for an airline. The advertising client can choose which contents should be blocked to protect his brand. Among themes that can be blocked are alcohol, smoking, drugs, file sharing, shock news, nudity and eroticism, violence, vulgar language, gambling, weapons and extremism. SiteScreen is available in twelve languages. Apart from large brand websites such as news websites, smaller websites are also analyzed. In this way, the technology does not only consider journalistic articles but also for example negative travel reports or entries to blogs.

Lead generation (iLead)

The product iLead of the permission marketing segment helps clients in gaining attention. A lead describes contact by the user whereby the user gives information about his contact data. This may happen e.g. by registration for a newsletter distribution. ad pepper media generates advertising formats and places them on suitable websites, so that the user may complete a profile with contact information in the advertising formats. These can be pop ups, newsletters or opt in e-mails (e-mail for confirmation of registration: "Click on the link to finalize registration"). Other than contact data the

consent from the user is obtained for further contacting. This is how ad pepper's client can recall desired contact information from his potential customers and carry out more marketing activities. Compensation is dependent upon success, so that costs only arise for generated leads.

Lead generation with iLead:



Source: Company

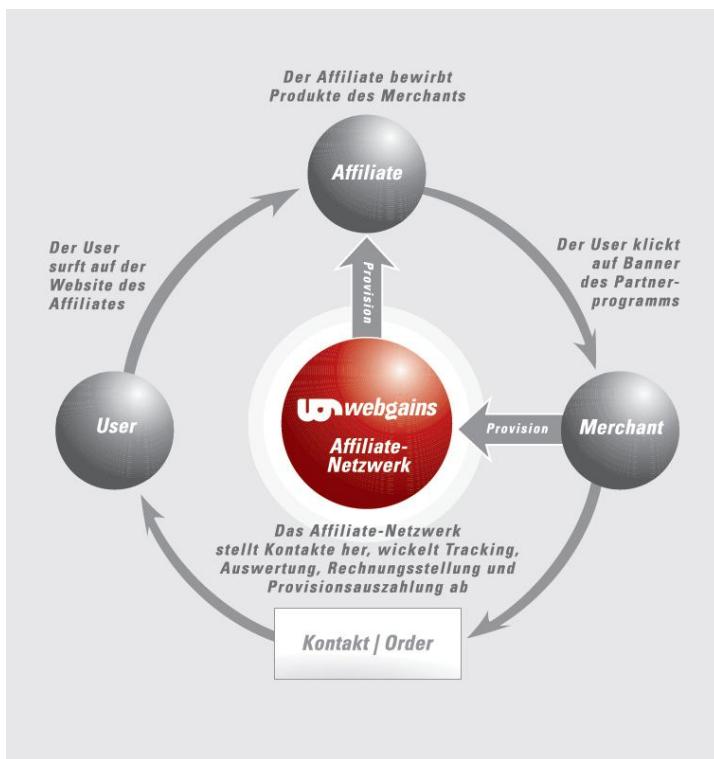
Additionally, ad pepper offers Pay-per-Click campaigns with click generation. On the websites of Ad Network by ad pepper, ads are set, which are only paid for by the client if the user gets to the target site via the link in the display. The client can increase traffic on his website with it at a pre-set budget.

Affiliate Network (Webgains)

ad pepper acts as broker between advertising businesses (merchants) and distribution partners (affiliates) on its affiliate network Webgains. ad pepper establishes contact between both parties and assumes technical and financial execution as well as reporting.

The affiliate advertizes the merchant's products on his website via a link identifying the merchant. If a user clicks on the link it is clear which affiliate has established the contact. Depending on the agreement, the affiliate receives a commission for the click on the link already (pay-per-click) or only upon successful sale of the products (pay-per-sale). In either case a commission to scale of success is paid.

The Affiliate-Network Webgains



Source: Company

According to ad pepper, the advantage of Webgains is in the ease of use and the option for the merchant to adjust the reporting individually and to have data processed in a customized way. Moreover the option exists to carry out expansive settings in affiliate management. This way not only differentiated commissions for various products may be selected, the merchant may also choose that traffic from certain countries do not earn commissions. Thus it can be excluded that payment is due for customers with low relevance and helps prevent fraud. Modern processes are applied for the prevention of fraud as well, recognizing attempts of fraud and thus are intended to protect the merchant from unauthorized commission payments.

A new product based on iSense is iSense SiteSeeker. This technology categorizes websites of affiliates on basis of the analysis of contents and makes automated matching of merchant and affiliate possible. Thereby merchants can find suitable website partners and affiliates do not have to categorize their websites themselves, because this happens automatically.

Webgains is represented in eight European countries and in the U.S. and belongs to the fastest growing ad networks in Europe. Currently approx. 1,250 advertising businesses and approx. 67,000 affiliates cooperate with Webgains in eight countries.

E-Mail Marketing (mailpepper)

The product mailpepper offers services in the field of permission marketing. It concerns the distribution of advertising or information per e-mail for which expressed consent of the customer exists. mailpepper offers consulting to the client, drafting and distribution of the mailings as well as a survey of success. The client may specify whether distribution should be targeted to broad groups or thematically defined recipients.

Distribution takes place with the support from partner enterprises providing e-mail addresses of users and sender recognition, so that the user receives e-mails from trusted recipients. At the same time

distribution to top target groups is possible by use of user profiles, since the interests of the user are known. Partner enterprises might be for example providers of free e-mail services who survey users for their interests and obtain consent for advertising e-mails.

For e-mail marketing 15 million exclusive e-mail profiles are available.

Distribution and Marketing

New client acquisition predominately takes place on regional level via business contacts of each branch. Other than that new clients are attained by ad pepper's presence on various specialist fairs in the most important markets, such as Germany, France, the USA and UK. Large customers are acquired by the international sales team or by test projects resulting in larger follow-up orders upon successful implementation.

The Companies of ad pepper media group:

Ad Serving (Emediate)

In the year 2007 ad pepper media took over ad serving provider Emediate and thereby made itself independent from third-party providers in the area of ad serving. By now ad pepper uses the technology in all countries to save costs and to adapt it to its own needs. An own ad server is important for application of Sense Engine™ technology, while clients at the same time use online marketing networks and – servicer Emediate. With consolidation in this area over the past years, Emediate has become one of the few independent niche providers aside from big players as the ad serving provider DoubleClick, which was acquired by Google in 2008.

Search Engine Marketing (ad agents)

In 2007 ad pepper media acquired 60 percent of ad agents GmbH. The subsidiary with its 40 employees is specialized on marketing strategies in the internet. Among them are solutions in nearly all segments of search engine marketing (SEM) and search engine optimization (SEO). These services supplement the product portfolio of ad pepper. Furthermore, ad agents offers consulting as well as affiliation and regional online marketing management. Clients of ad agents are among others, companies in mail order retail and the travel industry. Customer focus is on international clients and large clients, however smaller and mid-size companies are also managed.

In the segment of entries for charge in the results lists of search engines, the company cooperates with Google, yahoo!Search and Bing. Among offered services in analysis and optimization of campaigns as well as automatic competition surveying on basis of keywords, search terms, key word chains and trademark protection.

An individual concept is drafted and implemented for search engine optimization on basis of analysis of the customer website. Aim is appearance of the website in the higher spots of search engine rankings.

The solution for regional online marketing by ad agents is called regio.ad. Ads on search engines and online portals are shown for users in a region desired by the client. For users from a different region, or when users cannot be mapped geographically, the display is not shown. Depending on location, users 50 to 80 percent can be localized, depending on technical aspects, the status of infrastructure of the internet and user preferences.

E-Mail Marketing Technology (Globase)

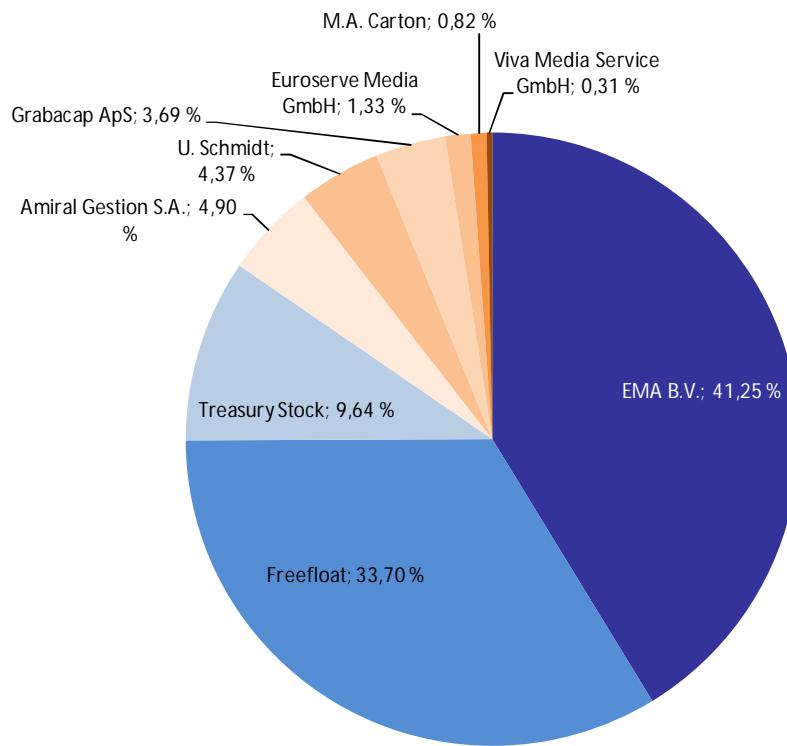
Globase is an e-mail and direct marketing tool with which e-mail campaigns, surveys and SMS campaigns can be designed and implemented. Statistics of campaigns can also be assessed thereby integrating performance scaling.

4 Client Structure

The technology is a crucial factor in the business model of Webgains. Due to above described billing models entrepreneurial risk is on side of the affiliate and the affiliate network provider. Commissions are only upon materialized sales resp. upon noticeable success. Affiliates and network provider are dependent on ads being placed in the right context. The network provider who offers the technology and operates it can take direct influence on the success of the campaign. The affiliate on the other hand is reliant on cooperating with a successful affiliate network provider. Sales by the affiliate can only be achieved with products for which there is demand by the end-customer and whose advertising is placed in the right context. The network provider therefore has to be at the disposal of the right advertising clients and functional technology, so that he is attractive to servicers of websites for the cooperation as affiliate.

The advertising client is interested in having advertising for its products placed on the right websites in the right context so that as many products as possible can be sold, resp. leads be generated. Thus it is decisive for both client groups to cooperate with a network provider who has an expansive client network on the side of the respective other client group available as well as technology to place ads in the suitable environment. ad pepper has a technology in Sense Engine which is unique and whose development costs are largely completed. iSense technology could be a crucial factor for future client acquisition. If ad pepper should distinguish itself from competitors, who do not have semantic targeting technology available, by means of this solution the company could position itself on the client side as a quality provider. With successful campaigns a high degree of customer retention and new client acquisition for both websites as well as advertising businesses should be possible.

5 Shareholder Structure



Shareholder	Stake
EMA B.V.	41,25 %
Freefloat	33,70 %
Treasury Stock	9,64 %
Amiral Gestion S.A.	4,90 %
U. Schmidt	4,37 %
Grabacap ApS	3,69 %
Euroserve Media GmbH	1,33 %
M.A. Carton	0,82 %
Viva Media Service GmbH	0,31 %

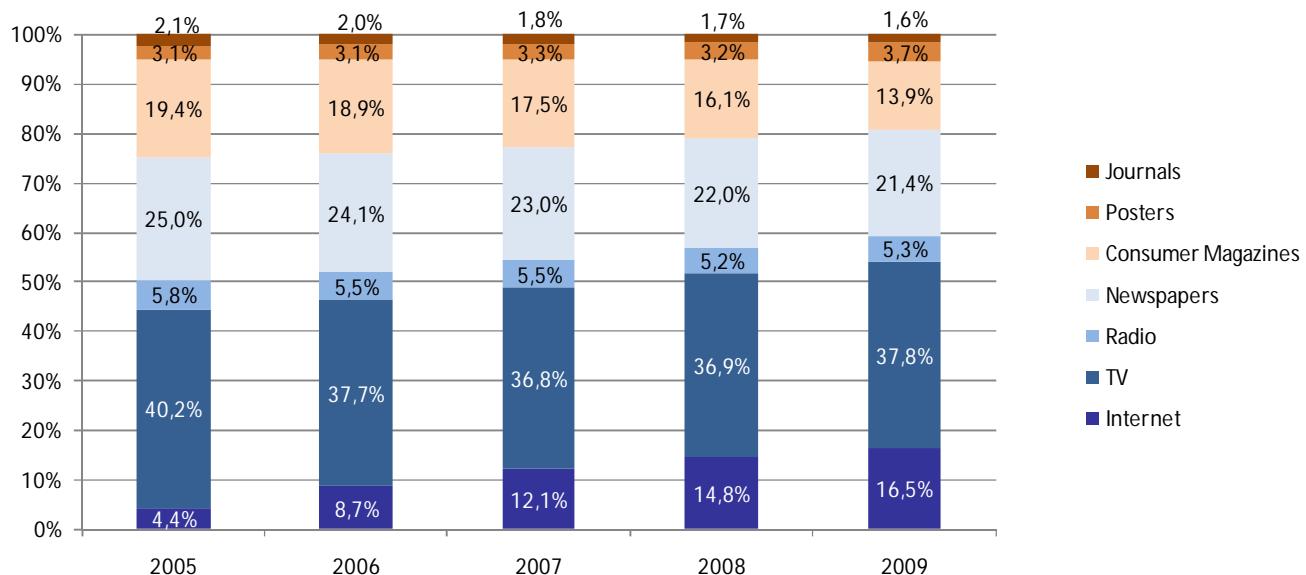
Source: Company; Dr. Kalliwoda Research GmbH

6 Market and Competition

The business of ad pepper is characterized by strong competition. In it, the company competes not only with other offerers of online marketing services but also with traditional advertising media. Among them are direct marketing, television, radio and print media. Advertising customers decide which media they will invest the available advertising budget. According to the central association of the German advertising industry (ZAW), shares of media groups in the advertising business are shifting. This is how the share of online advertising in net ad revenues increased from far below 1% in the year 1999 to 4% in the year 2008. Thereby online advertising is on even par with outdoor advertising and already ahead of radio (3%) and weekly and Sunday papers (1%). Top performers in the rankings are daily papers with 21% (from 28% in the year 1999) and TV stations at a constant 20%. The Interactive Advertising Bureau (IAB) also viewed a shift in advertising expenditures in the

USA towards online advertising in 2009. For January 2010, experts of Nielsen Media Research saw the internet on fourth place in above-the-line media.

Market shares of the media type



Source: OVK Online-Report 2010/01; Dr. Kalliwoda Research GmbH

According to the online marketer community (OVK) in the Federal Association Digital Economy (BVDW) e.V. the share of internet users among Germans over 14 years of age is at about 68%. In comparison, the share of advertising expenditures being spent for online advertising is low. We expect that this discrepancy will increasingly even out over the years by way of greater budgets for online marketing. This assessment is supported by a survey "Ad Barometer" of the European Interactive Advertising Association (EIAA).

Although investments in advertising have nominally increased slightly in the past years, according to the Central Association of the German Advertising Industry, the share of advertising expenditures in the national gross product has declined however. This figure was still at 1.61% of the NGP in the year 2000, since then it has fallen annually and was on the level of 1.58% in 2008 at 1.23%. This receding advertising momentum should however have only insignificant influence on growth rates of online marketing, since mostly shifts of the advertising budgets at the expense of traditional advertising forms is pushed ahead.

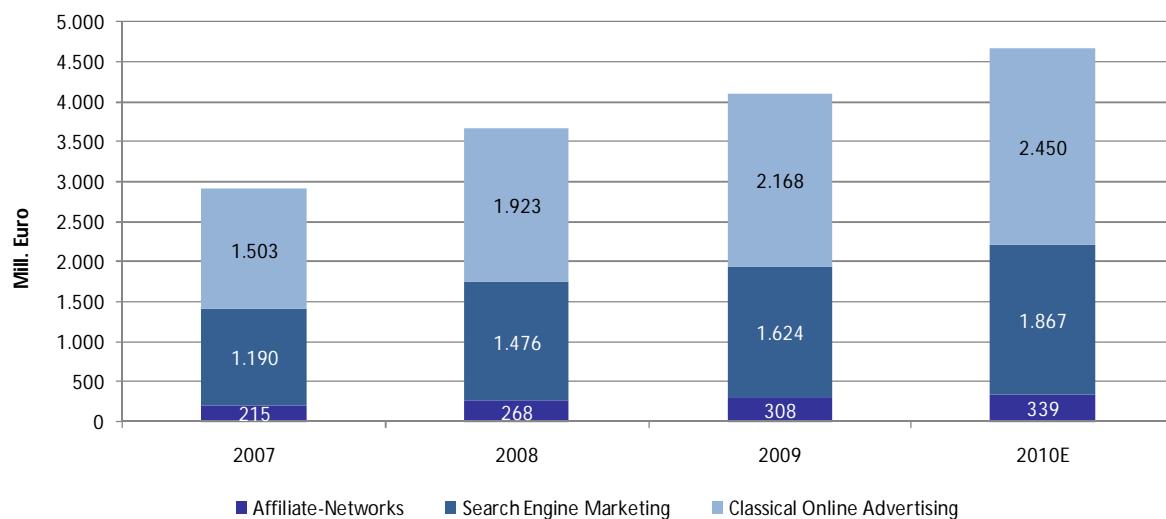
The advantage of online marketing is in our opinion that the direction of very narrow target groups is possible. Thereby wastage is less compared to traditional advertising formats. Additionally, rather simple and precise performance scaling is possible online. The fact that the majority of online campaigns are compensated depending on success makes this market more attractive for advertising businesses. Only for noticeably success such as a click or a sale or similar, compensation is due. These billing models are mostly demanded in economically weak phases, since the advertising budget can then be deployed to target and only upon actual new client acquisition resp. actually made purchase costs are incurred. Interaction offered by the medium internet makes this possible. User can immediately react to advertising they see and request information, register for a newsletter or make a transaction.

In 2009 the gross advertising volume in the online area according to OVK increased by 12%. Compared to the growth rates of previous years significantly above 20% growth had to suffer a blow

due to the overall financial and economic crisis. The double-digit growth rates show however that the sector is in the growth phase. We therefore expect continuously stable growth for the coming years. OVK predicts growth of 14% for the sector in 2010.

The largest share of gross investments in online marketing in the year 2009 went to classic online advertising with 2.2bn Euro, followed by search engine marketing with 1.6bn Euro. The remaining 300 million Euros were invested in affiliate marketing.

Advertising statistic by segments



Quelle: OVK Online-Report 2010/01; Dr. Kalliwoda Research GmbH

According to BVDW 5-10% of all ad impressions in the German online advertising market are delivered by targeting. Here we still see growth opportunities for ad pepper with the semantic targeting solution iSense, if this technology will turn out to be more successful opposite the methods of competitors in the long run.

Advertising businesses in the internet continue to be mostly internet companies. Standard sectors with high advertising volumes such as the automobiles industry or other consumer products manufacturers invest more in online marketing than before, however are still represented disproportionately. Companies of the telecommunications industry, financial services, auto and travel industries were the ones with the greatest advertising performance in the internet according to W3Scan 2009.

Apart from traditional advertising media, ad pepper is competing with companies that are also active in the online marketing sector. The market in Germany is still strongly fragmented, although increasing consolidation has taken place in the last years. Big players such as Google or Microsoft have made numerous acquisitions. More large companies in the internet industry such as eBay or yahoo are in company of large publishers pushing to the online market with their core business on basis of sinking advertising earnings in competition to ad pepper. Many more competitors are non-stock listed companies, some of who however are of considerable size.

The market has been dominated by niche providers until a few years ago. Yet the trend goes to comprehensive service offers. Large competitors of ad pepper are also internationally oriented and also have developed towards performance specialization. Aside from display and affiliate marketing services, they have available own solutions in the area of targeting in the same way and therefore are in competition with ad pepper's own targeting technology iSense. Merely in the field of ad serving

the number of independent providers is low. Large providers such as Google are leading in this field because of acquisitions. We also see the growth of Webgains positively, which counts as one of the most dynamic in the market. The larger the network of the provider is the better the chances for successful campaigns. This circumstance could lead to further increasing consolidation in the sector, as big players find incentives to broaden their reach. Thereby the number of competitors would decrease and entry barriers would be raised. On the other hand, competitive pressure would increase, particularly on remaining smaller players.

It will be decisive among others, to what extent the iSense technology will be predominant. If it can prove to be superior to the technologies of the competitors, this could be a clear growth driver. According to the statement by ad pepper, the technology functions. In case no significant sales increases can be achieved by iSense due to the small size, ad pepper media could sell the technology to larger competitors.

ad pepper is specialist in performance marketing, the fastest growing segment of online marketing. In addition, a number of sectors of online advertising are covered. We see the company at an advantage opposite competitors, who only offer niche products. The client has the opportunity for one-stop shopping and with additionally available products has the opportunity to react to different economic situations (in weak phases with a trend to products at compensation scaled to success) or to cover any advertising target. ad pepper is on the right path with its international orientation to not only offer clients one-stop shopping, but also enable geographic campaigns with broad reach. However, larger competitors are also in the process to further expand internationally and to increase their reach. The relatively small size could make ad pepper a take-over candidate. Since a wide range of offers is advantageous in online marketing, it may be interesting for larger competitors to expand their offer by acquisition of smaller companies. Sense Engine™ technology provides ad pepper a characteristic to set itself apart, which might be an additional attraction for potential buyers.

7 Growth Strategy

Upon completion of iSense technology in Spanish ad pepper will present complete European coverage. This is a prerequisite to attain cross-country orders. The company has pushed ahead internationalization with determination in order to set itself up internationally to appropriate extent. We consider this a correct and important step to be able to gain market share. Only with international reach can large international advertising clients such as auto manufacturers and other consumer goods manufacturers be attained.

Another strategic orientation by ad pepper media is positioning as specialist in performance marketing. In the past time and again new areas have been attained by acquisitions. In the future ad pepper will cover all areas of the online advertising market if possible, because agencies in particular prefer a full service provider. Because technological change is taking place in the online advertising market, this aim could possibly be related to significant effort as clients continuously demand the latest industry standards and products. We also assess this strategy as positive, because a competitive advantage opposite niche offerers can result. The customer receives all desired services for his campaign from one place and does not have to contract different companies for various online advertising formats.

With patented iSense technology ad pepper hopes to have a competitive advantage over its competition. Competitors as well have targeting solutions available, however, as to our knowledge, not for semantic targeting technology as does ad pepper. Should iSense technology prove to be

superior, the company could position itself as quality provider in the market and thus gain market share.

The product Webgains is increasingly recognized as European player. In the year 2009, the U.S. and Spanish markets were tapped and the company is thus represented in eight European countries plus the U.S. ad pepper hopes to achieve significant increases for orders existing until now only restricted extent. Webgains gains market share as mid-sized player and is to continue this growth supported by the further expanded international orientation.

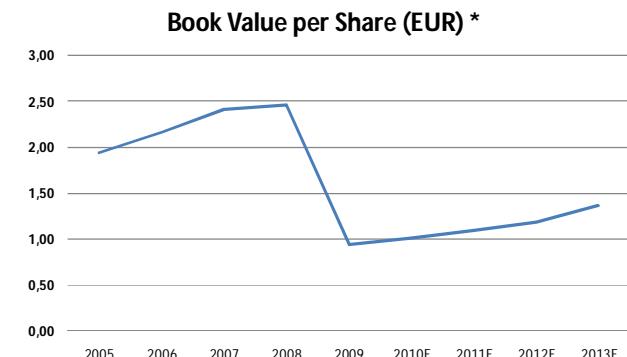
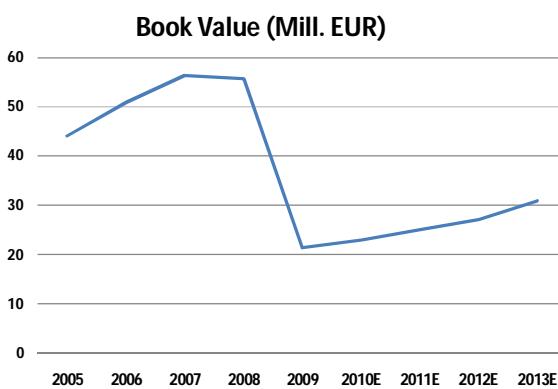
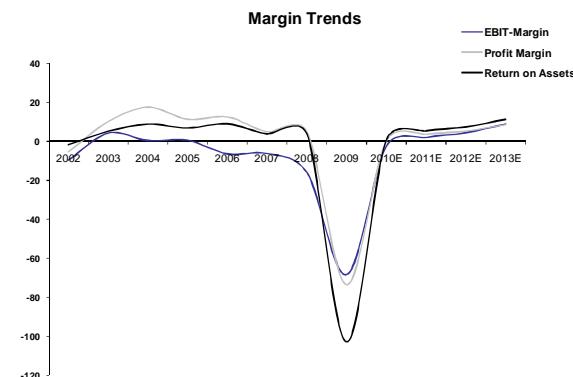
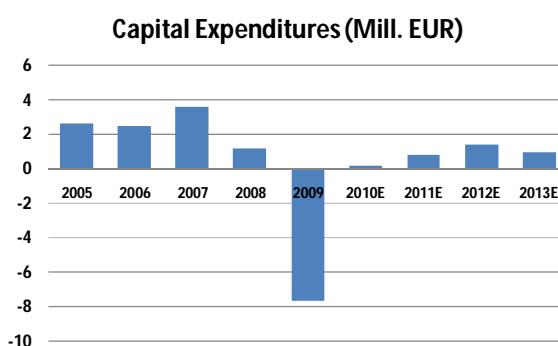
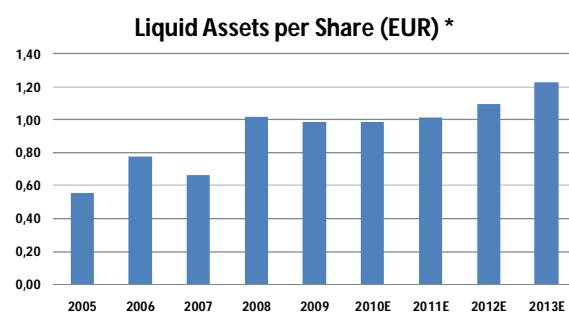
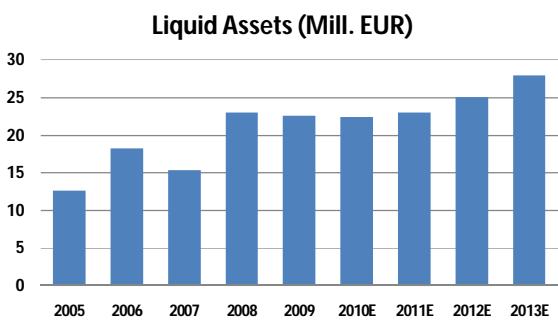
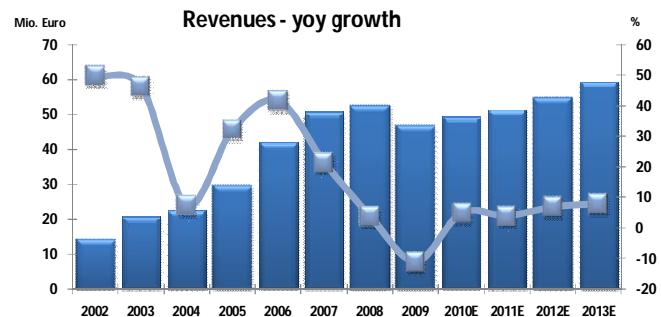
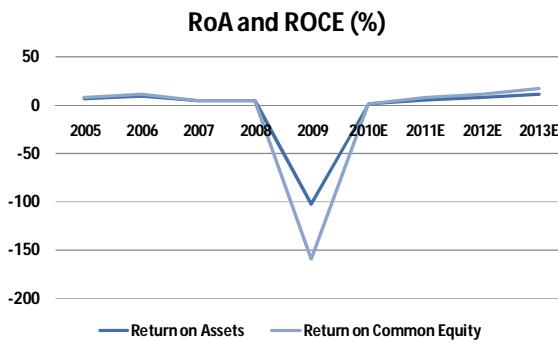
The business with search engine marketing and optimization of subsidiary ad agents is growing and adds market shares. This course is also to be continued.

We believe the company has positioned itself advantageously. The online advertising market should be continuing its growth so that we consider ad pepper to be in a sector with good perspectives. The expanded international orientation in relation to the positioning as full service provider is also considered positively by us. Both aspects are crucial for the acquisition of large international advertising clients. The question will be, whether ad pepper can assert itself over the big competitors (e.g. Google and Microsoft).

8 SWOT

Strengths	Weaknesses
<ul style="list-style-type: none"> - Wide service portfolio with focus on performance marketing - International orientation - Webgains is one of the fastest growing affiliates networks - Unique technologies 	<ul style="list-style-type: none"> - Investments in iSense barely reflected in sales - Products requiring explanations - Technology with high demands on consulting
Opportunities	Risks
<ul style="list-style-type: none"> - Online marketing is a growth market - Market is set out for performance marketing - Trend leading away from traditional advertising towards online marketing - Patented technology for semantic targeting can become competitive advantage 	<ul style="list-style-type: none"> - Increasing competitive intensity by way of consolidation - No or later access to the market for mobile applications

9 Financial Ratios



* In 2009 a stock split was performed. Thus the number of shares in previous years was adjusted.

10 Key Data

Operating figures - ad pepper media International NV

Share Price Operating Figures (EUR)	P&L Figures (EUR, M)	Valuation Figures (numbers company)
Price Close: 1,45	Tot Revenue, LFI: 11,44	Curr P/E Normalized, LFY: 12,53
Date Last Close Price: 12.03.2010	Tot Revenue, LTM: 48,99	Curr EV/Tot Revenue (LFI/LTM): 0,27
Price - 52 Wk High: 1,56	Tot Revenue, LFY: 52,64	Curr EV/EBITDA (LFI/LTM): -
Date Price 52 Wk High: 08.03.2010	EBITDA, LFI: -27,84	Curr EV/EBIT (LFI/LTM): -
Price - 52 Wk Low: 0,43	EBITDA, LTM: -29,43	Curr Mkt Cap (m): 30,12
Date Price 52 Wk Low: 27.05.2009	EBITDA, LFY: -3,65	(+) Tot Debt Cap, LFI (m): 4,26
Price % Chg 1-Day: 1,40%	EBIT, LFI: -28,4	(-) Cash & Equiv, LFI (m): -21,14
Price % Chg 4-Wk: 20,83%	EBIT, LTM: -31,95	(=) Curr EV, LFI (m): 13,24
Price % Chg 13-Wk: 22,88%	EBIT, LFY: -8,35	Curr EV/Tot Revenue (LFY): 0,18
Price % Chg 26-Wk: 11,54%	Income Bef Tax, LFI: -31,32	Curr EV/EBITDA (LFY): -
Price % Chg 52-Wk: 89,54%	Income Bef Tax, LTM: -32,35	Curr EV/EBIT (LFY): -
Price % Chg YTD: 22,88%	Income Bef Tax, LFY: 3,73	Curr Mkt Cap (m): 30,12
10 Day Avg Daily Vol (M): 0,09	Income Aft Tax, LFI: -31,78	(+) Tot Debt Cap, LFY (m): 2,62
3 Mo Avg Monthly Vol (M): 1,01	Income Aft Tax, LTM: -34,44	(-) Cash & Equiv, LFY (m): -23,04
Beta 2Yr Monthly:	Income Avail Comm, LTM: 2,62	(=) Curr EV, LFY (m): 9,7

Figures per Share	Profitability - Margins (%)	Ratios
Earnings per Share LFY	0,12	Gross % margin, LTM: 44,7
Revenues per Share, LFY	2,33	Curr Ratio, LFI: 1,99
Tot Cash per Share, LFY:	0,79	Curr Ratio, LFY: 2,81
Cash Flow per Share, LFY:	0,32	LT Debt/Tot Eqty, LFI: 0
Book Value per Share, LFI:	1,03	LT Debt/Tot Assets, LFI: 0
Book Value per Share, LFY:	2,52	Tot Debt/Tot Eqty, LFY: 0

Growth Rates (%)	Performance Ratios (%)	Employees
Revenues, %Yr/Yr, LFI: -0,26	ROC Tot LT Cap, LFI: -85,29	Employees 236
Revenues, %Yr/Yr, LTM: -7,17	ROC Tot LT Cap, LTM: -85,96	Revenues/Employees, LFI: 191.157,04
Revenues, %Yr/Yr, LFY: 3,98	ROC Tot LT Cap, LFY: -25,73	Revenues/Employees, LTM: 204.133,33
Revenues - 5 Yr. Growth Rate: 20,52	ROE Comm Eqty, LFI: 20,05	Revenues/Employees, LFY: 219.325,00
EPS, %Yr/Yr, LFI: -2.823,31	ROE Comm Eqty, LTM: -6,38	Net Result/Employees, LFI: -531.155,21
EPS, %Yr/Yr, LTM: -1.322,73	ROE Comm Eqty, LFY: 4,69	Net Result/Employees, LTM: -143.512,50
EPS, %Yr/Yr, LFY: 5,81	ROA Tot Assets, LFI: -67,53	Net Result/Employees, LFY: 10.875,00

Numbers: Reuters

LFI = Last Financial Interim

LTM = Last Twelve Months

LFY = Last Financial Year

Valuation Figures (numbers Reuters)

Curr EV/Tot Revenue (LFI/LTM):	0,44
Curr EV/EBITDA (LFI/LTM):	-
Curr EV/EBIT (LFI/LTM):	-
Curr Mkt Cap (m):	30,12
(+) Tot Debt Cap, LFI (m):	4,26
(-) Cash & Equiv, LFI (m):	-12,78
(=) Curr EV, LFI (m):	21,6
Curr EV/Tot Revenue (LFY):	0,26
Curr EV/EBITDA (LFY):	-
Curr EV/EBIT (LFY):	-
Curr Mkt Cap (m):	30,12
(+) Tot Debt Cap, LFY (m):	2,62
(-) Cash & Equiv, LFY (m):	-19,1
(=) Curr EV, LFY (m):	13,64

11 Financials

12 Profit and Loss Statements

Profit & Loss Statements							
Numbers in EUR m	Financial Year						
	2007	2008	2009	2010e	2011e	2012e	2013e
Revenues	51	53	47	49	51	55	59
Cost of sales	-26	-30	-26	-26	-26	-27	-28
Gross profit	24	23	21	24	25	28	31
Selling and marketing expenses	-15	-17	-14	-14	-14	-15	-15
General and administrative expenses	-11	-12	-9	-9	-9	-10	-10
Other operating income	1	2	1	1	1	1	1
Other operating expenses	-2	-5	-31	-3	-2	-2	-2
Operating profit	-3	-8	-32	-1	1	3	5
Gain on sales of shares in associates and other investments	7	11	0	0	0	0	0
EBIT	4	2	-32	-1	1	3	5
Financial income	1	1	1	2	2	2	2
Financial expenses	0	0	-3	0	0	0	0
Earnings before taxes	4	4	-34	0	3	4	7
Income taxes	-2	-1	-1	0	-1	-1	-2
Net income for the year	3	3	-34	0	2	3	5
attributable to shareholders of the parent company	3	3	-34	0	2	3	5
attributable to minority interest	0	0	0	0	0	0	0
 EPS (basic)	0,23	0,24	-1,61	0,01	0,09	0,13	0,23
EPS (diluted)	0,22	0,23	-1,60	0,01	0,09	0,13	0,23
<hr/> Profit & Loss (Year on Year) <hr/>							
Revenues	4,0 %	-10,9 %	5,0 %	4,0 %	7,0 %	8,0 %	
Cost of sales	13,8 %	-13,6 %	-1,2 %	1,0 %	4,0 %	4,0 %	
Gross profit	-6,8 %	-7,2 %	12,7 %	7,3 %	10,1 %	11,9 %	
Selling and marketing expenses	9,5 %	-16,6 %	-3,6 %	1,0 %	8,0 %	2,0 %	
General and administrative expenses	6,3 %	-22,5 %	2,0 %	2,0 %	2,0 %	2,0 %	
Other operating income	314,6 %	-59,0 %	0,0 %	0,0 %	0,0 %	0,0 %	
Other operating expenses	213,1 %	529,0 %	-90,3 %	-30,0 %	-5,0 %	-5,0 %	
Operating profit	173,2 %	284,6 %	-96,5 %	-202,0 %	118,6 %	115,3 %	
Gain on sales of shares in associates and other investments	58,4 %	-100,0 %					
EBIT	-34,4 %	-1397,3 %	-96,5 %	-202,0 %	118,6 %	115,3 %	
Financial income	96,1 %	0,0 %	18,6 %	0,0 %	0,0 %	0,0 %	
Financial expenses	-76,5 %	24900,0 %	-100,0 %				
Earnings before taxes	-14,7 %	-1007,7 %	-101,1 %	630,3 %	51,7 %	72,4 %	
Income taxes	-37,3 %	-55,2 %	-81,8 %	630,3 %	51,7 %	72,4 %	
Net income for the year	0,9 %	-1415,4 %	-100,8 %	630,3 %	51,7 %	72,4 %	
<hr/> Profit & Loss (% of Revenues) <hr/>							
Revenues	100,0 %	100,0 %	100,0 %	100,0 %	100,0 %	100,0 %	100,0 %
Cost of sales	-52,3 %	-57,2 %	-55,4 %	-52,2 %	-50,7 %	-49,3 %	-47,4 %
Gross profit	47,7 %	42,8 %	44,6 %	47,8 %	49,3 %	50,7 %	52,6 %
Selling and marketing expenses	-30,3 %	-31,9 %	-29,9 %	-27,4 %	-26,6 %	-26,9 %	-25,4 %
General and administrative expenses	-21,6 %	-22,1 %	-19,2 %	-18,6 %	-18,3 %	-17,4 %	-16,5 %
Other operating income	1,2 %	4,6 %	2,1 %	2,0 %	2,0 %	1,8 %	1,7 %
Other operating expenses	-3,1 %	-9,4 %	-66,1 %	-6,1 %	-4,1 %	-3,6 %	-3,2 %
Operating profit	-6,0 %	-15,9 %	-68,4 %	-2,3 %	2,3 %	4,6 %	9,2 %
Gain on sales of shares in associates and other investments	13,5 %	20,6 %	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %
EBIT	7,5 %	4,7 %	-68,4 %	-2,3 %	2,3 %	4,6 %	9,2 %
Financial income	1,3 %	2,4 %	2,7 %	3,0 %	2,9 %	2,7 %	2,5 %
Financial expenses	-0,1 %	0,0 %	-6,4 %	0,0 %	0,0 %	0,0 %	0,0 %
Earnings before taxes	8,6 %	7,1 %	-72,1 %	0,7 %	5,2 %	7,4 %	11,7 %
Income taxes	-3,5 %	-2,1 %	-1,1 %	-0,2 %	-1,3 %	-1,8 %	-2,9 %
Net income for the year	5,1 %	5,0 %	-73,2 %	0,6 %	3,9 %	5,5 %	8,8 %

13 Balance Sheets

Balance Sheets							
Numbers in EUR m	Financial Year						
	2007	2008	2009	2010e	2011e	2012e	2013e
Assets							
<i>Non-current assets</i>							
Goodwill	21	21	0	0	0	0	0
Intangible assets	9	5	1	1	1	1	1
Property, plant and equipment	1	1	1	1	1	1	1
Securities at fair value through profit and loss	0	2	2	3	2	2	2
Securities available for sale	2	4	5	6	6	5	5
Other financial assets	1	3	1	1	1	1	1
Deferred tax assets	3	1	0	0	0	0	0
Total non-current assets	37	36	10	12	11	10	10
<i>Current assets</i>							
Securities and deposits with maturity over three months	3	11	3	3	4	5	7
Trade receivables	13	10	6	7	8	9	10
Income tax receivables	1	1	1	1	1	1	1
Prepaid expenses and other current assets	1	0	1	1	0	0	0
Other financial assets	2	2	0	1	2	3	4
Cash and cash equivalents	12	6	11	11	11	13	14
Total current assets	32	31	23	24	26	31	36
Total assets	69	67	33	35	37	41	46
Equity and liabilities							
<i>Equity attributable to shareholders of the parent company</i>							
Issued capital	1	1	1	1	1	1	1
Additional paid-in capital	66	67	67	67	67	67	67
Treasury shares	-1	-2	-3	-2	-2	-1	-1
Accumulated deficit	-8	-6	-40	-40	-38	-38	-36
Accumulated other comprehensive losses	-2	-5	-4	-3	-3	-2	0
Total	56	56	21	23	25	27	31
<i>Minority interest</i>							
Total equity	56	56	21	23	25	27	31
<i>Non-current liabilities</i>							
Deferred tax liabilities	1	0	0	0	0	0	0
Total non-current liabilities	1	0	0	0	0	0	0
<i>Current liabilities</i>							
Trade payables	8	7	6	6	7	8	8
Other current liabilities	1	1	2	2	1	1	2
Other financial liabilities	3	3	4	4	4	5	5
Income tax liabilities	0	0	0	0	0	0	0
Total current liabilities	11	11	12	12	12	14	15
Total liabilities	12	11	12	12	12	14	15
Total equity and liabilities	69	67	33	35	37	41	46

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14 Cash Flow Statements

Statement of Cash Flows		Financial Year						
Numbers in EUR m		2007	2008	2009	2010e	2011e	2012e	2013e
Net income for the period		2,6	2,6	-34,3	0,3	2,0	3,0	5,2
Depreciation and amortization		2,6	4,7	32,0	1,0	0,7	0,5	0,5
Change in trade receivables		-2,3	1,1	3,0	-0,7	-1,0	-1,0	-1,0
Change in trade payables		0,0	-0,1	-1,5	0,5	1,0	1,0	0,0
Change in other assets		1,2	0,4	0,0	1	1	0	0
Change in other liabilities		-1,4	0,1	-0,1	0,0	0,0	0,2	-0,3
Change in Working Capital		-2,4	1,5	1,4	0,8	1,0	0,2	-1,3
Loss/ Gain on sale of fixed assets		0,0	0,0	0,0	0,0	0,0	0,0	0,0
Gain/ Loss on sale of securities		0,0	-0,2	-0,3	0,0	1,0	0,0	0,0
Share-based compensation		0,4	0,4	0,3	0,2	0,3	0,5	0,5
Other financial income and financial expenses		-0,6	-1,3	-0,6	-1,5	-1,5	-1,5	-1,5
Income taxes		1,8	1,1	0,8	0,1	0,7	1,0	1,7
Gain on sale of shares in associates and other investments		-6,8	-10,8	0,0	0,0	0,0	0,0	0,0
Other non-cash expenses and income		0,5	0,7	0,0	0,0	0,0	0,3	0,1
Income taxes paid		-0,3	-0,4	-0,3	-0,1	-0,3	-0,5	-0,6
Interest received		0,5	0,9	1,5	1,5	1,5	1,5	1,5
Interest paid		0,0	0,0	0,0	0,0	0,0	0,0	0,0
Net cash flow from operating activities		-1,8	-0,7	0,3	2,3	5,4	5,0	6,2
Additions to intangible assets and property, plant and equipment		-3,6	-1,2	-0,5	-1,0	-1,2	-2,1	-2,5
Proceeds from sale of intangible assets and property, plant and equipment		0,4	0,0	0,0	0,0	0,0	0,0	0,0
Proceeds from sale of shares in associates and other investments		5,6	10,8	1,2	0,0	0,0	0,0	0,0
Acquisition of other investments		0,0	-1,8	0,0	0,0	0,0	-1,0	0,0
Acquisition of subsidiaries, net of cash acquired		-6,0	0,0	0,0	0,0	0,0	0,0	0,0
Proceeds from sale of securities and maturity of fixed-term deposits		3,3	0,2	13,1	4,0	3,3	5,8	4,2
Purchase of securities and investment in deposits with maturity over 3 months		-1,5	-13,1	-5,4	-3,2	-2,9	-4,1	-2,6
Loans granted		0,0	0,0	-0,8	0,0	0,0	0,0	0,0
Net cash flow from investing activities		-1,7	-5,0	7,6	-0,2	-0,8	-1,4	-0,9
Increase in capital		2,3	0,0	0,0	0,0	0,0	0,0	0,0
Dividends paid to minorities		0,0	0,0	0,0	-1,0	-1,0	-1,0	-2,0
Sale of treasury shares		0,1	0,0	0,0	0,0	0,0	0,0	0,0
Purchase of treasury shares		-1,2	-0,5	-1,4	-1,0	-1,0	0,0	0,0
Repayment of loans granted		0,0	0,1	0,1	0,0	0,0	0,0	0,0
Net cash flow from financing activities		1,1	-0,4	-1,3	-2,0	-2,0	-1,0	-2,0
Cash-effective decrease / increase in cash and cash equivalents		-2,4	-6,1	6,6	0,1	2,6	2,6	3,2
Cash and cash equivalents at beginning of year		14,4	12,0	5,8	12,3	11,4	14,1	16,4
Effect of exchange rates on cash and cash equivalents		0,1	-0,1	-0,2	-1,0	0,2	-0,3	-0,2
Cash and cash equivalents at end of period		12,0	5,8	12,3	11,4	14,1	16,4	19,5

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15 Valuation

16 DCF-Model

In order to determine the fair value, we established a three-stage discounted cash flow model and used market data for the peer group companies. All data are based on the consolidated financial statements.

Through discounting the operative free cash flows to the valuation date we accommodated the during the period valuation date. As the valuation date we chose March 1, 2010. As far as non operating assets are concerned, their value was derived separately and added to the present value of the payouts.

Tying in with this, the phase of terminal value follows, for which we calculated with a growth rate of 3% p.a.

/ Discounted Cash Flow-Modell (Basis 3/2010)

	Phase 1					
(m EUR)	2010e	2011e	2012e	2013e	2014e	2015e
Revenues	49,244	51,214	54,799	59,183	60,958	62,787
Rate of change	5%	4%	7%	8%	3%	3%
EBIT	-1,136	1,158	2,532	5,450	5,559	5,671
Rate of change	-96%	-202%	119%	115%	2%	2%
Margin	-2,3%	2,3%	4,6%	9,2%	9,1%	9,0%
Interest and Shareholding Income	0,000	0,000	0,000	0,000	0,000	0,000
EBT	-1,136	1,158	2,532	5,450	5,559	5,671
Operational tax expenses	-0,091	-0,665	-1,008	-1,738	-1,112	-1,134
Effective Tax Rate (ex. Interest Income)	-8,0%	57,4%	39,8%	31,9%	20,0%	20,0%
Depreciation and Amortization	1,000	0,700	0,500	0,500	0,500	0,500
Depreciation Ratio (% Revenues)	2,0%	1,4%	0,9%	0,8%	0,8%	0,8%
Changes in long-term provisions	0,000	0,000	0,000	0,000	0,000	0,000
Proportion of Revenues	-	-	-	-	-	-
Cash Flow -Business needs (change WC)	0,834	1,000	0,200	-1,300	-1,326	-1,353
Working-Capital-Ratio (%Revenues)	1,7%	2,0%	0,4%	-2,2%	-2,2%	-2,2%
Investments into fixed assets	-0,200	-0,800	-1,400	-0,920	-0,966	-1,014
Investments ratio (% Revenues)	-0,4%	-1,6%	-2,6%	-1,6%	-1,6%	-1,6%
Other	0,000	0,000	0,000	0,000	0,000	0,000
Free Cash-Flow	0,407	1,394	0,824	1,993	2,656	2,670

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17 WACC

The discount rate was calculated by deriving the weighted cost of capital. We assume that the target capital structure will not change in the subsequent business years.

WACC Assumptions		Adjustments for debt to current interest were not made. Risk free profitability is based on the average profitability of the 30-year bond.
Growth Propositions		
Long-Term growth rate / Inflation	3,0%	
Assimilation Phase (from 2015)	5 Jahre	
Revenue growth in the beginning	1,0%	
Margin development (p.a.)	+1 BP	
Equity Cost		Figuring a risk prime follows the capital asset pricing model (CAPM) and covers in particular the systemic risks (market risk prime esp. company specific risk). The beta value we used to identify the company specific risk is based on the performance of the reference index Dax.
Long-Term risk-free rate	4,4%	
Market Risk Premium	5,0%	
Beta of the Company / Approximation	1,01	
Equity Cost	9,45%	
Debt Cost		
Debt Cost (before tax)	7,0%	
Tax rate on Debt interest	30,0%	
Debt Cost (after tax)	4,9%	
Equity Value	34	
Market Value of net debt	0	
Gearing (Market Values)	0,0%	
WACC	9,45%	

18 Fair Value – Sensitivities

Our derived fair value per share amounts to Euro 1,87. This implies an upside potential of 37,5 % to the current share price (EUR 1,36). The modification of the action parameter in terminal value is shown below in the sensitivity analysis. It shows variance in our derived fair value in variant scenarios.

Sensitivity analysis		Fair value per share					Sensitivity analysis		Market capitalization						
(EUR)	$\beta = 1,01$	Discount rate	8,95%	9,20%	9,45%	9,70%	9,95%	(Mio.EUR)	$\beta = 1,01$	Discount rate	8,95%	9,20%	9,45%	9,70%	9,95%
Growth	2,0%	1,90	1,85	1,81	1,76	1,73		2,0%	43,22	42,14	41,14	40,20	39,31		
	2,5%	1,93	1,88	1,84	1,79	1,75		2,5%	44,09	42,93	41,84	40,83	39,89		
	3,0%	1,98	1,92	1,87	1,82	1,78		3,0%	45,12	43,84	42,66	41,57	40,55		
	3,5%	2,03	1,97	1,91	1,86	1,81		3,5%	46,33	44,91	43,61	42,42	41,31		
	4,0%	2,10	2,03	1,96	1,91	1,85		4,0%	47,78	46,19	44,74	43,42	42,21		

19 Peer Group Analysis

We verified our DCF model of ad pepper media Int. N.V. additionally with a peer group analysis. We chose especially companies that specialize in online marketing. Multiples-based approaches area based on a comparative perspective, by assigning suitable multiples derived from capital market data and financial reporting of listed comparable companies to the company which is being valued.

The comparative data (in local currency) are sourced from Reuters.

Multiples - Peer Group

Peer Group	EV/Sales		EV/EBIT		P/E		EBIT-Margin	
	2010E	2011E	2010E	2011E	2010E	2011E	2010E	2011E
AdLINK Group	0.60	0.56	9.57	7.95	18.21	13.84	6.31	7.10
Hi-Media SA	1.05	0.95	10.30	7.95	18.39	13.57	10.21	12.00
Marchex Inc	1.69	1.57	-30.17	-72.91	-38.00	-106.40	-5.60	-2.15
Tomorrow Focus AG	1.96	1.74	19.57	13.29	30.36	22.37	10.00	13.06
Tradedoubler AB	0.44	0.40	10.52	8.14	17.14	13.61	4.21	4.88
United Internet AG	1.58	1.52	9.72	9.12	13.21	12.21	16.22	16.68
Valueclick Inc	1.67	1.59	8.37	7.33	16.92	15.35	20.01	21.70
Median	1.58	1.52	9.72	7.95	17.14	13.61	10.00	12.00
AD PEPPER MEDIA INT. N.V.	0.47	0.39	-20.25	17.27	125.21	17.14	-2.31	2.26
Discount (-)/Premium (+)	-70.38	-74.32	-308.26	117.24	630.69	25.97	-123.07	-81.14
Valuation Range	1,45 EUR to 2,61 EUR							

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ad pepper media International N.V.
Frankenstraße 150 C
90461 Nürnberg

Tel.: +49 (0) 911 929057-0
Fax: +49 (0) 911 929057-157
E-Mail: info(at)adpepper.com

DR. KALLIWODA RESEARCH GmbH		Unterlindau 22 60323 Frankfurt Tel.: 069-97 20 58 53 www.kalliwoda.com
Primary Research Fair Value Analysis International Roadshows		
Head: Dr. Norbert Kalliwoda E-Mail: nk@kalliwoda.com	CEFA-Analyst; University of Frankfurt/Main; PHD Economics; Dipl.-Kfm.	<u>Sectors:</u> IT, Software, Electricals & Electronics, Mechanical Engineering, Logistics, Laser, Technology, Raw Materials
Michael John E-Mail: mj@kalliwoda.com	Dipl.-Ing. (Aachen)	<u>Sectors:</u> Chemicals, chemical engineering, basic metals, renewable energies, laser/physics
Dr. Thomas Krassmann E-Mail: tk@kalliwoda.com	Dipl.-Geologist, M.Sc.;University of Göttingen & Rhodes University, South Africa;	<u>Sectors:</u> Raw Materials, Mining, Precious Metals, Gem stones.
Wolfgang Neuner E-Mail: wn@kalliwoda.com	MBA (Candidate 2009 Uni. Iowa (US)) and Dipl.-Kfm. (Major Finance and Monetary Economics 2009).	<u>Sectors:</u> Banks, Financial Services, Real Estates - REITS.
Dr. Christoph Piechaczek E-Mail: cp@kalliwoda.com	Dipl.-Biologist; Technical University Darmstadt; Univ. Witten-Herdecke.	<u>Sectors:</u> Biotech & Healthcare; Medical Technology Pharmaceutical
Kolja Schick – Freiherr von Flotow	Dipl.-Kaufmann, (University Frankfurt).	<u>Sectors:</u> Consumers, Automotives, Automotive Suppliers, Mechanical Engineering
Dr. Erik Schneider E-Mail: es@kalliwoda.com	Dipl.-Biologist; Technical University Darmstadt; Univ. Hamburg.	<u>Sectors:</u> Biotech & Healthcare; Medical Technology Pharmaceutical
David Schreindorfer E-Mail: ds@kalliwoda.com	MBA, Economic Investment Management; Univ. Frankfurt/ Univ. Iowa (US).	<u>Sectors:</u> IT/Logistics; Quantitative Modelling
Hermann Schaarschmidt; E-Mail: hs@kalliwoda.com	Dipl.-Geophysicists; University of Frankfurt.	<u>Sectors:</u> Oil, Regenerative Energies, Specialities Chemicals, Utilities
Nele Rave E-Mail: nr@kalliwoda.com	Lawyer; Native Speaker, German School London,	<u>Translations English</u>

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Analyst of this research: Dr.Norbert Kalliwoda, CEFA



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