

Media and Games Invest SE

Sweden / Application Software
 Nasdaq First North Premier & Xetra
 Bloomberg: M8G GR
 ISIN: SE0018538068

Q1 results

RATING
BUY

PRICE TARGET
€ 4.10

Return Potential 129.3%
 Risk Rating High

OPERATIONS HUMMING IN Q1

Q1 reporting extended the run of positive news flow in 2024 highlighted by the return of solid growth and positive structural changes via the Google partnership. The latter sets up MGI to maximise earnings growth and ramp up AI initiatives. Results topped FBe and were led by 21% Y/Y organic growth that drove a record first quarter. Management remain upbeat about the recovery of the ad market; a view underpinned by improving operating KPIs. The initial FY24 guide calls for sales between €350m to €370m and AEBITDA ranging €100m to €110m. The implied 9% to 6% growth may prove conservative if: (1) CPM pricing rebounds; and / or (2) US election spending reaches a fever pitch. Our TP moves to €4.1 (old: €3.8) on the Q1 report, and we remain Buy-rated on MGI.

Several things to like about Q1 Ad volumes are improving and MGI continues to onboard new software clients at a good clip to drive future growth. Total software clients numbered 2,410 at the end of Q1 (+30% Y/Y) vs 2,276 at YE23 (+6% Q/Q). Software clients, defined as those generating >€100k in sales p.a., and now including the demand-side customers, totalled 764 for the January-to-March period vs 612 in the prior year quarter (+30%) and 727 in Q4/23 (+5%). The newcomers are continuing to scale, which has contributed to the recent surge in growth and is helping offset still soft CPM (cost per thousands) pricing. Management are optimistic that the KPI should start to bounce back in the second half of the year. The net \$ expansion rate¹ also turned positive at 110% for the first time since Q3/22.

Ad tech strategy continues to mature Q1 provided further evidence that MGI is quickly earning its chops as an ad software platform. Its innovative tools continue to iterate and improve at a crucial time for the advertising world. Q1 saw two important launches of ATOM 3.0 and HyBid SDK 3.0. The latter powers non-intrusive, buffer-free video ads well suited to publishers' app context and users while providing stringent in-app safety controls. ATOM solves privacy issues for mobile advertisers and publishers and is already. . . (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2020	2021	2022	2023	2024E	2025E
Revenue (€m)	140.22	252.17	324.44	321.98	360.04	406.84
Y/Y growth	157.2%	79.8%	28.7%	-0.8%	11.8%	13.0%
AEBITDA (€m)	29.09	71.10	93.15	95.17	104.96	119.76
AEBITDA margin	20.7%	28.2%	28.7%	29.6%	29.2%	29.4%
Net income (€m)*	6.58	28.02	21.08	57.45	17.56	33.89
EPS (diluted) (€)*	0.04	0.20	0.14	0.36	0.11	0.21
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-12.50	-230.79	-42.45	33.76	28.41	60.85
Net gearing	31.2%	63.7%	84.3%	83.7%	81.4%	67.2%
Liquid assets (€m)	46.25	180.16	149.99	121.74	105.93	108.50

* Adjusted for PPA-amortisation; ¹ compares revenue generated by same customers at the BoP vs EoP

RISKS

Risks include but are not limited to: revenue diversity, financing, technology, and regulatory risks.

COMPANY PROFILE

Media and Games Invest SE is an advertising software platform with strong first-party games. MGI combines organic growth with value-generating synergetic acquisitions and has achieved strong profitable growth with a 40% revenue CAGR (2020-2023). MGI has acquired and integrated over 35 companies and assets in the past 10 years to achieve efficiency gains & competitive advantages.

MARKET DATA

As of 07 May 2024

Closing Price € 1.79
 Shares outstanding 159.25m
 Market Capitalisation € 284.74m
 52-week Range € 0.76 / 1.86
 Avg. Volume (12 Months) 52,943

Multiples	2023	2024E	2025E
P/E	4.8	15.8	8.2
EV/Sales	2.0	1.8	1.6
EV/EBITDA	6.6	6.0	5.3
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Mar 2024

Liquid Assets € 124.70m
 Current Assets € 195.10m
 Intangible Assets € 807.90m
 Total Assets € 1,023.50m
 Current Liabilities € 245.40m
 Shareholders' Equity € 364.60m

SHAREHOLDERS

Bodhivas GmbH 27.1%
 Oaktree Capital Mngt 17.7%
 Sterling Active Fund 5.1%
 Free Float 50.1%



. . . integrated into HyBid SDK. Soon it will be able to reach over 1.5bn customers across >10,000 apps worldwide, making it the only scalable solution currently available for targeting ID-less users on mobile.

Meanwhile, Google recently announced it will postpone the sunset of third-party cookies for Chrome until 2025. This had been pencilled in for late 2024. Despite the delay, MGI brass noted on the Q1 call that there has been a major shift in awareness about the need to find cookie alternatives going forward. WARC, a marketing advisory, reckons only 51% of marketers are ready for the end of third-party cookies, and that many are completely in the dark regarding workaround solutions. We think MGI is ready to capitalise on this transition with its next generation solutions and, importantly, a sales staff that has ramped up vital advertising experience during the pivot away from gaming to ad-tech.

FIRST QUARTER HIGHLIGHTS

Table 1: First quarter vs prior year and FBe

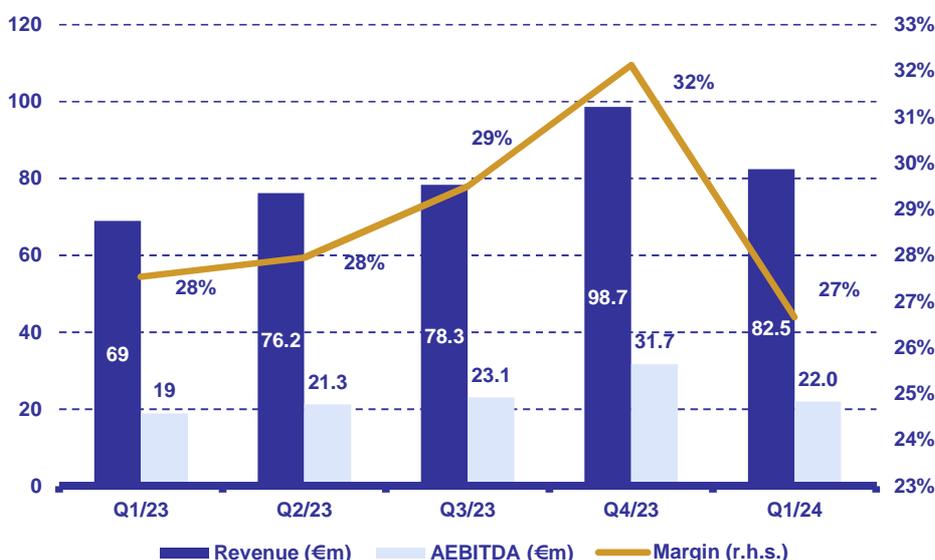
EURm	Q1/24	Q1/24E	variance	Q1/23	Variance
Revenue	82.5	79.1	4%	68.8	20%
EBITDA	20.2	19.6	3%	17.4	16%
Margin	24%	25%	-	25%	-
AEBITDA ¹	22.0	20.6	7%	19.1	15%
Margin	27%	26%	-	28%	-
AEBIT ²	16.6	16.0	4%	15.2	9%
Margin	20%	20%	-	22%	-

¹ EBITDA adjusted for one-off expenses & gains; ² EBIT adjusted for one-off & PPA expenses

Source: First Berlin Equity Research; Media and Games Invest

Operations humming in Q1 Organic sales beat the prior year comp by 21% for the first quarter. Aside from the aforementioned overall uptick in ad budgets underlying ad impressions were up 20% Y/Y and eclipsed 200bn for the second consecutive quarter (figure 2). At the Q1 juncture, sales topped €336m on an LTM basis, giving us confidence in 2024 FBe and MGI's initial sales guide (€350m to €370m).

Figure 1: Quarterly sales and earnings development

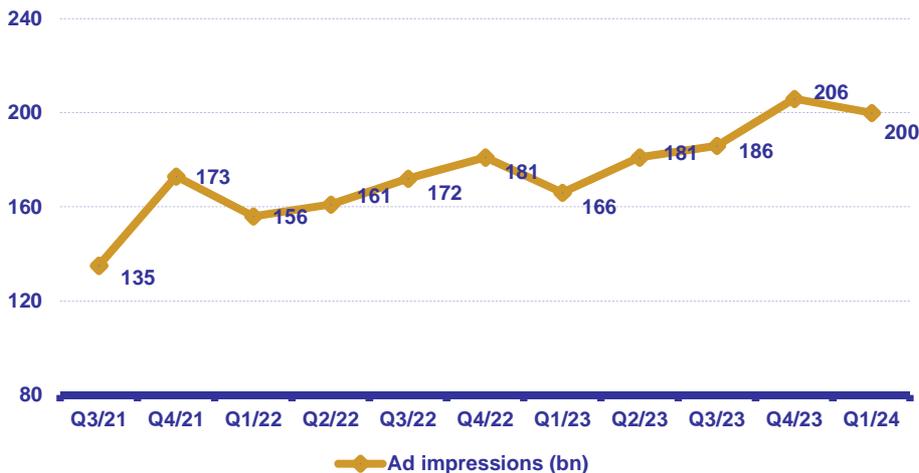


Source: First Berlin Equity Research; Media and Games Invest



AEBITDA totalled €22m for the January-to-March period and beat the prior year comp by 15%, while AEBIT, excluding PPA amortisation of ~€2.5m, also rose slightly and amounted to €16.6m. With cost cutting measures kicking in, profitability remains a positive. The Q1 AEBITDA margin totalled 27% (Q1/23: 28%) and landed firmly within management’s targeted medium-term corridor of 25% to 30%. The company will continue to invest in future growth with a sharpened AI focus this year. We thus expect the margin to remain within the upper end of the guided range. On a TTM basis, AEBITDA tallied €98m putting the company within striking distance of guidance for the KPI (€100m to €110m).

Figure 2: Ad impression top 200bn again



Source: First Berlin Equity Research; Media and Games Invest

The net \$ expansion rate at highest mark in two years After enduring nearly 18 months of market headwinds, the KPI continued to rebound and turned positive for the first time since Q3/22 (figure 3). The company sees scope for the metric to remain positive during 2024 if market conditions witnessed the past months persist.

Figure 3: Net \$ expansion rate positive again



¹ compares revenue generated by same customers at the BoP vs EoP

Source: First Berlin Equity Research; Media and Games Invest

**Table 2: Financial position highlights**

EURm	Q1/24	2023	Variance
Cash	125	122	2%
Liabilities (short- and long-term)	659	766	-14%
Net debt	319	295	8%
Intangible assets	808	797	1%
Total assets	1,024	1,007	2%
Total equity	365	353	3%
Equity ratio	36%	35%	-
Interest coverage ratio*	2.4x	2.5x	-
Net leverage ratio	3.2x	3.1x	-

* based on cash interest expenses

Source: First Berlin Equity Research; Media and Games Invest

Equity ratio steady at 36% Cash and liquid assets rose some 2% Y/Y. The leverage ratio stood at 3.2x at the Q1 juncture vs 3.1x at the end of 2023. The company reiterated plans to bring the KPI below the 3.0x mid-term target by the end of 2024 on the earnings call.

Table 3: Cash flow developments

EURm	Q1/24	Q1/23	Variance	2023
Operating cash flow	24	18	34%	61
Change in working capital	-15	-26	n.m.	14
Net operating cash flow	9	-9	n.m.	75
Investing cash flow	-12	8	n.m.	-34
Financing cash flow	5	-20	n.m.	-66
Net cash flow	2	-20	n.m.	-25
Cash & cash equivalents	125	130	-4%	122

Source: First Berlin Equity Research; Media and Games Invest

Operating cash flow amounted to €24m before WC adjustments. Timing effects between settlements received from demand partners and payments to suppliers meant that WC consumed around €15m in cash flow during the first quarter. MGI expects these effects to reverse throughout the year with the seasonality shift common to the ad business. The positive OCF result was offset by €-12m in investing cash flow stemming chiefly from development costs for internal and external software.



OUTLOOK AND VALUATION

Figure 4: Initial 2024 guidance vs FBe

	Unit	2023	Guidance 2024	FBe
Revenue	€m	322	350 - 370	360
Grow th	%	-1	9 - 15	12
AEBITDA	€m	95	100 - 110	105
Grow th	%	31	5 - 16	10

Source: First Berlin Equity Research; Media and Games Invest

We have refreshed our 2024 estimates on Q1 reporting and aligned our targets with the midpoint of the initial guidance. Management have taken a conservative approach on the initial outlook, which feels prudent given a volatile geopolitical environment. Potential growth drivers include: (1) customer growth and rebounding CMPs; (2) gangbuster political spending for the US election; and (3) potential improvements in the macro environment which could trigger increased ad budgets. Our target price moves to €4.1 (old: €3.8) on the upgraded numbers.

Table 4: Changes to FBe and TP

	old	new	revision	upside	dividend yield	total return
Price target (€)	3.8	4.1	7.9%	135.1%	0.0%	135.1%
All figures in € '000	2024E			2025E		
	old	new	revision	old	new	revision
Revenue	357,399	360,040	0.7%	403,861	406,845	0.7%
EBITDA	92,069	99,464	8.0%	109,442	115,765	5.8%
Margin (%)	25.8%	27.6%	-	27.1%	28.5%	-
EBIT	58,074	66,012	13.7%	73,834	79,956	8.3%
Margin (%)	16.2%	18.3%	-	18.3%	19.7%	-
AEBITDA*	96,069	104,964	9.3%	113,442	119,765	5.6%
Margin (%)	26.9%	29.2%	-	28.1%	29.4%	-

* adjusted for one-offs

Source: First Berlin Equity Research estimates



Table 5: DCF model

All figures in EUR '000	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Revenue	360,040	406,845	449,563	487,776	521,921	548,017	569,937	587,035
NOPLAT	47,529	57,568	68,284	74,135	79,875	86,832	91,091	95,770
(+) depreciation & amortisation	33,453	35,809	31,471	34,031	36,319	38,067	39,536	40,681
(=) Net operating cash flow	80,981	93,377	99,755	108,166	116,193	124,899	130,627	136,451
(-) Investments	-60,253	-53,025	-29,724	-29,886	-30,192	-30,415	-29,922	-30,819
(-) Working capital	-7,315	3,574	3,569	3,401	2,887	1,234	1,478	960
(=) Free cash flows (FCF)	13,413	43,926	73,599	81,681	88,889	95,719	102,183	106,592
PV of FCF's	12,556	37,127	56,169	56,284	55,305	53,773	51,831	48,819

All figures in thousands		Terminal EBIT margin							
		16.9%	18.9%	20.9%	22.9%	24.9%	26.9%	28.9%	
PV of FCFs in explicit period	462,901	9.3%	4.17	4.63	5.09	5.55	6.01	6.47	6.93
PV of FCFs in terminal period	548,001	9.8%	3.77	4.18	4.59	5.00	5.41	5.82	6.23
Enterprise value (EV)	1,010,902	10.3%	3.42	3.79	4.16	4.52	4.89	5.26	5.62
(+) Net cash / (-) net debt (pro-forma)	-294,900	10.8%	3.12	3.45	3.78	4.11	4.44	4.77	5.10
(-) Non-controlling interests	-607	11.3%	2.84	3.14	3.44	3.74	4.03	4.33	4.63
Shareholder value	715,396	11.8%	2.60	2.87	3.14	3.41	3.68	3.95	4.22
Fair value per share (€)	4.10	12.3%	2.38	2.62	2.87	3.11	3.36	3.60	3.85

		Terminal growth rate							
		1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	
Cost of equity	13.6%	9.3%	4.70	4.95	5.23	5.55	5.92	6.36	6.89
Pre-tax cost of debt	9.0%	9.8%	4.29	4.50	4.73	5.00	5.31	5.67	6.09
Tax rate	28.0%	10.3%	3.91	4.09	4.30	4.52	4.78	5.08	5.43
After-tax cost of debt	6.5%	10.8%	3.58	3.74	3.91	4.11	4.32	4.57	4.86
Share of equity capital	60.0%	11.3%	3.28	3.42	3.57	3.74	3.92	4.13	4.37
Share of debt capital	40.0%	11.8%	3.02	3.13	3.26	3.41	3.57	3.75	3.95
WACC	10.8%	12.3%	2.77	2.87	2.99	3.11	3.25	3.40	3.58

*Please note our model runs through 2033 and we have only shown the abbreviated version for formatting purposes



INCOME STATEMENT

All figures in EUR '000	2020	2021	2022	2023	2024E	2025E
Revenues	140,220	252,166	324,444	321,981	360,040	406,845
Capitalised work	15,994	22,851	28,928	25,954	26,809	27,911
Total output	156,214	275,017	353,373	347,935	386,848	434,755
Services purchased + Other OpEx	-96,365	-162,623	-215,619	-212,949	-220,344	-243,521
Personnel expenses	-39,573	-55,978	-76,207	-77,975	-72,368	-80,958
Other operating income	6,272	8,626	23,206	71,447	5,328	5,488
EBITDA	26,549	65,042	84,753	128,458	99,464	115,765
Depreciation & amortisation	-15,508	-28,238	-58,135	-29,456	-33,453	-35,809
Operating income (EBIT)	11,041	36,804	26,618	99,002	66,012	79,956
Net financial result	-7,139	-21,919	-37,959	-50,067	-52,221	-48,279
Pre-tax income (EBT)	3,901	14,885	-11,341	48,936	13,791	31,677
Income taxes	-1,194	1,169	-9,064	-2,718	-6,279	-6,335
Net income	2,707	16,054	-20,405	46,218	7,512	25,341
Discontinued operations	0	0	0	0	0	0
Consolidated profit	2,707	16,054	-20,405	46,218	7,512	25,341
Minority interests	352	7	88	513	-8	-25
Net income to owners	3,059	16,060	-20,317	46,731	7,505	25,316
Diluted EPS (in €)	0.03	0.11	-0.13	0.27	0.04	0.15
Adj. EPS (excl PPA amort.) (diluted)	0.04	0.20	0.14	0.36	0.11	0.21
AEBITDA (excl: one-offs)	29,090	71,100	93,153	95,171	104,964	119,765
AEBIT (excl: PPA amort. & one-offs)	14,916	54,826	76,508	76,943	81,562	92,506
Ratios						
EBITDA margin on revenues	18.9%	25.8%	26.1%	39.9%	27.6%	28.5%
EBIT margin on revenues	7.9%	14.6%	8.2%	30.7%	18.3%	19.7%
Net margin on revenues	2.2%	6.4%	-6.3%	14.5%	2.1%	6.2%
AEBITDA margin on revenues	20.7%	28.2%	28.7%	29.6%	29.2%	29.4%
Tax rate	30.6%	n.a.	-79.9%	2.5%	10.0%	20.0%
Expenses as % of revenues						
Services purchased + Other OpEx	68.7%	64.5%	66.5%	66.1%	61.2%	59.9%
Personnel expenses	28.2%	22.2%	23.5%	24.2%	20.1%	19.9%
Depreciation & amortisation	11.1%	11.2%	17.9%	9.1%	9.3%	8.8%
Y-Y Growth						
Revenues	67.1%	79.8%	28.7%	-0.8%	11.8%	13.0%
EBITDA	70.8%	145.0%	30.3%	51.6%	-22.6%	16.4%
Operating income	120.9%	233.4%	-27.7%	271.9%	-33.3%	21.1%
Net income/ loss	n.m.	425.0%	n.m.	n.m.	-83.9%	237.3%



BALANCE SHEET

All figures in EUR '000	2020	2021	2022	2023	2024E	2025E
Assets						
Current assets, total	92,375	283,599	221,022	193,513	183,694	192,156
Cash and equivalents	46,254	180,157	149,992	121,739	105,929	108,496
Trade receivables	37,009	97,497	52,229	32,281	39,456	44,586
Other ST assets	9,112	5,945	18,801	39,493	38,308	39,074
Non-current assets, total	293,467	650,495	823,637	813,515	826,304	821,114
Property, plant & equipment	1,742	4,681	5,522	3,963	4,143	4,346
Intangible assets	272,829	605,746	791,284	796,607	808,999	803,383
Deferred taxes	15,737	11,545	6,651	10,506	10,716	10,930
Investments in associated companies	1,207	1,154	1,003	1,003	1,003	1,003
Other financial assets	1,952	27,369	19,177	1,436	1,443	1,450
Total assets	385,842	934,094	1,044,659	1,007,029	1,009,998	1,013,269
Shareholders' equity & debt						
Current liabilities, total	78,205	243,434	219,471	240,769	222,248	199,589
Trade payables	30,037	53,754	68,711	80,335	80,195	88,898
ST debt	6,087	32,027	31,903	32,000	35,000	25,000
Provisions	17,257	54,036	65,225	61,656	62,581	63,520
Other current financial liabilities	12,897	83,568	32,290	45,257	22,629	0
Other current liabilities	11,927	20,049	21,342	21,521	21,844	22,171
Long term liabilities, total	130,792	383,168	503,443	413,804	419,382	419,971
Other LT financial liabilities	11,671	16,034	89,618	36,881	41,881	41,881
Bonds	95,355	343,925	389,386	348,038	348,038	348,038
Deferred tax liabilities	23,766	23,209	24,439	28,885	29,463	30,052
Shareholders' equity	176,845	307,492	321,745	352,456	368,368	393,709
Total consolidated equity and debt	385,842	934,094	1,044,659	1,007,029	1,009,998	1,013,269
Ratios						
Current ratio (x)	1.2	1.2	1.0	0.8	0.8	1.0
Net debt	55,188	195,795	271,297	294,900	299,737	264,542
ICR (x)	4.1	4.6	4.0	2.5	3.0	3.6
Net gearing	31%	64%	84%	84%	81%	67%
Net debt / EBITDA (x)	1.9	2.8	2.9	3.1	2.9	2.2
Equity ratio	46%	33%	31%	35%	36%	39%
Return on equity (ROE)	1.5%	5.2%	-6.3%	13.1%	2.0%	6.4%
Capital employed (CE)	307,637	690,660	825,188	766,260	787,750	813,680
Return on capital employed (ROCE)	4%	5%	3%	13%	8%	10%



CASH FLOW STATEMENT

All figures in EUR '000	2020	2021	2022	2023	2024E	2025E
Net income	2,707	16,054	-20,405	46,218	7,512	25,341
Depreciation and amortisation	15,508	28,238	58,135	29,456	33,453	35,809
Other non-cash adjustments	4,072	1,165	1,907	-66,403	0	0
Net interest expense	6,264	21,600	37,959	50,065	52,221	48,279
Tax result	1,194	1,939	5,702	439	6,279	6,335
Operating cash flow	29,745	68,996	83,298	59,774	99,464	115,765
Tax expense	0	-425	-4,362	-2,379	-6,279	-6,335
Change in working capital	-4,543	-4,634	55,284	12,051	-4,515	4,449
Net operating cash flow	25,202	63,937	134,220	69,446	88,670	113,878
Cash flow from investing	-37,707	-294,729	-176,672	-35,694	-60,260	-53,032
Equity inflow, net	26,876	109,338	28,517	0	0	0
Debt inflow, net	-1,420	33,230	-51	-2,991	8,000	-10,000
Corporate debt inflow, net	27,678	247,047	42,733	-8,162	0	0
Interest paid	-6,018	-22,059	-33,610	-47,972	-52,221	-48,279
Payments for non-controlling interests	-17,480	0	0	0	0	0
Other adjustments	-3,862	-2,861	-25,301	0	0	0
Cash flow from financing	25,774	364,695	12,288	-59,125	-44,221	-58,279
Net cash flows	13,269	133,903	-30,164	-25,373	-15,810	2,567
Fx adjustments	0	0	0	-2,882	0	0
Cash, start of the year	32,984	46,254	180,157	149,992	121,739	105,929
Cash, end of the year	46,253	180,157	149,992	121,737	105,929	108,496
Free cash flow (FCF)	-12,505	-230,792	-42,452	33,752	28,410	60,846
FCFps (in €)	-0.15	-1.63	-0.27	0.21	0.18	0.38
Y-Y Growth						
Operating cash flow	56.4%	153.7%	109.9%	-48.3%	27.7%	28.4%
Free cash flow	n.m.	n.m.	n.m.	n.m.	-15.8%	114.2%
FCF / share	n.m.	n.m.	n.m.	n.m.	-15.8%	114.2%

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ASSET RECOMMENDATION

The recommendations determined in accordance with the share price trend anticipated by First Berlin in the respectively indicated investment period are as follows:

Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy ¹	An expected favourable price trend of:	> 50%	> 30%
Buy	An expected favourable price trend of:	> 25%	> 15%
Add	An expected favourable price trend of:	0% to 25%	0% to 15%
Reduce	An expected negative price trend of:	0% to -15%	0% to -10%
Sell	An expected negative price trend of:	< -15%	< -10%

¹ The expected price trend is in combination with sizable confidence in the quality and forecast security of management.

Our recommendation system places each company into one of two market capitalisation categories. Category 1 companies have a market capitalisation of €0 – €2 billion, and Category 2 companies have a market capitalisation of > €2 billion. The expected return thresholds underlying our recommendation system are lower for Category 2 companies than for Category 1 companies. This reflects the generally lower level of risk associated with higher market capitalisation companies.

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RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	7 November 2019	€1.23	Buy	€2.10
2...27	↓	↓	↓	↓
28	17 November 2022	€1.79	Buy	€4.40
29	6 March 2023	€1.62	Buy	€4.00
30	2 June 2023	€1.10	Buy	€4.00
31	12 September 2023	€1.14	Buy	€3.20
32	7 December 2023	€0.80	Buy	€3.20
33	11 March 2024	€1.37	Buy	€3.60
34	20 March 2024	€1.27	Buy	€3.60
35	9 April 2024	€1.86	Buy	€3.80
36	Today	€1.79	Buy	€4.10

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Legally required information regarding

- key sources of information in the preparation of this research report
- valuation methods and principles
- sensitivity of valuation parameters

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