

Media and Games Invest SE

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

Q1/23 results

RATING BUY
PRICE TARGET € 4.00
 Return Potential 265.0%
 Risk Rating High

OUTPERFORMING SOFT AD MARKET

Q1 reporting was broadly in line with FBe. Turnover of €68.8m hit our mark, and earnings were encouragingly strong, boosted by an optimised cost structure. The programmatic business grew 8% Y/Y and outperformed the market. Plus, a new market report shows MGI's Verve group is the market leader for North American mobile programmatic advertising for Android with a 12% share. Investors are placing virtually all companies with advertising exposure in the "sin bin," and we expect investor ennui to persist over the near term. Based on the steady operational performance, we see excellent share price rebound potential and remain Buy-rated on MGI with a €4 TP.

First quarter takeaways Global ad spend volumes remain soft so far in H1 with several market watchers trimming their 2023 forecasts further to below 5% Y/Y growth. However, there are signs pointing to an uptick in H2 ad budgets. MGI outpaced the market with 8% growth from core programmatic activities. This was somewhat offset by lost gaming revenues traced to divestment of smaller and non-strategic games. Nevertheless, Fx-adjusted organic sales growth was up 1% Y/Y but dipped sequentially (Q4: 3%) owing to contraction of the net \$ expansion rate KPI to 89%. The leverage ratio remained steady at 3.0x (YE22: 2.9x), which should cheer leverage-focused investors. Net debt was hardly changed at €288m after the company issued new bonds (€225m) and bought back 2024 bonds for ~€230m to lengthen maturities.

Market leader in mobile programmatic A new report from Pivalate, an analytics outfit, placed MGI's Verve group at the top of the North American mobile programmatic advertising market for Android apps with a 12% market share in Q1. Verve also sits in the number 4 spot for iOS apps with a 6% market share. The favourable rankings should be considered against the backdrop that MGI's ad business started from scratch in 2019. The company's rapid ascent can be traced to its strong in-app supply position built upon Verve's vast direct app integrations and MGI's trove of first party data to spur ad optimisations. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2019	2020	2021	2022	2023E	2024E
Revenue (€m)	83.89	140.22	252.17	324.44	335.52	388.20
Y/Y growth	157.2%	67.1%	79.8%	28.7%	3.4%	15.7%
AEBITDA (€m)	18.11	29.09	71.10	93.15	95.18	104.69
AEBITDA margin	21.6%	20.7%	28.2%	28.7%	28.4%	27.0%
Net income (€m)*	-0.32	6.58	28.02	21.08	11.17	21.76
EPS (diluted) (€)*	-0.01	0.04	0.20	0.14	0.07	0.14
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	3.13	3.13	-12.50	-230.79	-42.45	59.96
Net gearing	22.4%	31.2%	63.7%	84.3%	79.3%	74.5%
Liquid assets (€m)	32.98	46.25	180.16	149.99	129.56	136.17

* Adjusted for PPA-amortisation

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 78% revenue CAGR (2019-2022). 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 01 Jun 2023

Closing Price € 1.10
 Shares outstanding 159.25m
 Market Capitalisation € 174.54m
 52-week Range € 1.09 / 3.25
 Avg. Volume (12 Months) 100,472

Multiples	2022	2023E	2024E
P/E	8.1	15.6	8.0
EV/Sales	1.7	1.7	1.4
EV/AEBITDA	6.0	5.8	5.3
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Mar 2023

Liquid Assets € 130.00m
 Current Assets € 191.19m
 Intangible Assets € 790.73m
 Total Assets € 995.95m
 Current Liabilities € 182.59m
 Shareholders' Equity € 313.66m

SHAREHOLDERS

Bodhivas GmbH 26.4%
 Oaktree Capital Mngt 17.7%
 Free Float 55.9%



FIRST QUARTER HIGHLIGHTS

Table 1: First quarter vs prior year and FBe

EURm	Q1/23	Q1/23E	Variance	Q1/22	Variance
Revenue	68.8	68.1	1%	65.9	4%
EBITDA	17.4	18.1	-4%	16.9	3%
Margin	25%	27%	-	26%	-
EBIT	11.0	11.5	-4%	9.8	12%
Margin	16%	17%	-	15%	-
AEBITDA ¹	19.1	18.9	1%	17.6	9%
Margin	28%	28%	-	27%	-
AEBIT ²	15.2	15.0	1%	13.6	12%
Margin	22%	22%	-	21%	-

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

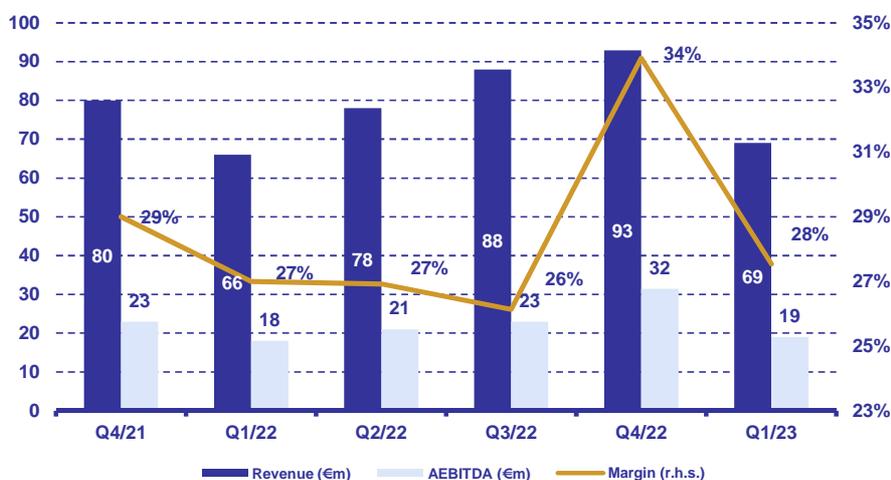
Source: First Berlin Equity Research; Media and Games Invest

Operations continue to buck the trend The 4% year-over-year growth was spurred by an 8% rise in the programmatic ad business, which helped compensate for the loss of gaming revenues with the disposal of non-strategic games in the portfolio. Fx-adjusted OSG tallied 1% but tailed off Q/Q because of a decrease in the net \$ expansion rate to 89% on market headwinds (Q4: 96%). Sales topped €327m with AEBITDA of €95m on an LTM basis at the Q1 juncture, giving us confidence in 2023 FBe.

Software clients, defined as those generating > €100k in sales p.a., totalled 557 for the January-to-March period vs 479 in the prior year quarter (+16%) and 550 in Q4/22. Despite the flat sequential development, MGI brass noted on the earnings call that Verve had actually onboarded 50 to 60 new software clients but that these needed to be scaled up to breach the €100k p.a. sales threshold. This will hinge largely on ad spend budgets going forward.

The Q/Q decline in sales is traced to seasonality effects; not to flagging operations. Q4 is supercharged by Christmas and holiday sales and is normally followed by a 20% to 30% drop-off in turnover in Q1. The company expects a normally quarterly operational cadence as we progress through the year.

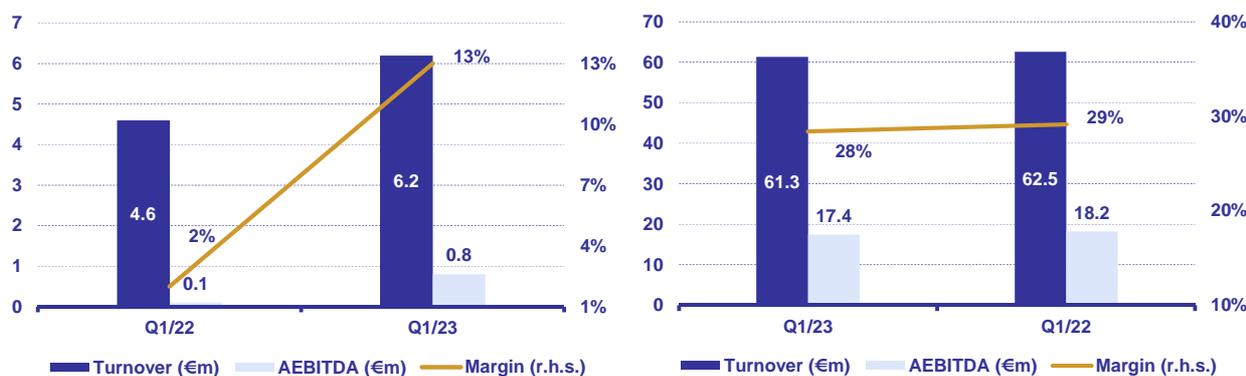
Figure 1: Quarterly sales and earnings development



Source: First Berlin Equity Research; Media and Games Invest

AEBITDA tallied €19.1m for the three month period (+9% Y/Y) and outpaced revenue growth, thanks largely to cost structure optimisation in response to industry headwinds. AEBIT, excluding PPA amortisation of ~€4.1m, amounted to €152m (+12%). Profitability remains encouraging with the 28% AEBITDA margin landing firmly within management's targeted corridor of 25% to 30%.

Figure 2: Demand-side & Supply-side Segment performances



Source: First Berlin Equity Research; Media and Games Invest

Table 2: Financial position highlights

EURm	Q1/23	2022	Variance
Cash	130	150	-13%
Liabilities (short- and long-term)	682	723	-6%
Net debt	288	274	5%
Intangible assets	791	791	0%
Total assets	996	1,045	-5%
Total equity	314	322	-2%
Equity ratio	31%	31%	-
Interest coverage ratio*	3.5x	4.0x	-
Net leverage ratio	3.0x	2.9x	-

* based on cash interest expenses

Source: First Berlin Equity Research; Media and Games Invest

Table 3: Cash flow developments

EURm	Q1/23	Q1/22	Variance	2022
Operating cash flow	17.7	15.8	12%	78.9
Change in working capital	-26.4	0.5	n.m.	55.3
Net operating cash flow	-8.7	16.3	-153%	134.2
Investing cash flow	8.3	-32.9	n.m.	-176.7
Financing cash flow	-19.6	-36.0	n.m.	12.3
Net cash flow	-19.8	-52.6	n.m.	-30.2
Cash & cash equivalents	130.0	127.6	2%	150.0

Source: First Berlin Equity Research; Media and Games Invest

Operating cash flow amounted to €17.7m before WC adjustments. Cash consumption by working capital meant that net operating cash flow turned negative at €-8.7m (€16.3m). This decline is traced to: (1) a reduction in the receivables securitisation program; (2) one-time restructuring costs; and (3) Verve's increased pay-outs to publishers for the seasonal Q4 surge. Normalised for these effects, net OCF amounted to around €-2m. The OCF result was largely compensated by €8m in investing cash flow stemming from the sale of the EG7 stake. MGI expects net cash conversion to normalise throughout the year.



VALUATION MODEL

Table 4: Initial 2023 outlook

	Unit	2022	Guidance 2023	FBe
Revenue	€m	324	335 - 345	336
Grow th	%	29	3 - 7	3
AEBITDA	€m	93	95 - 105	95
Grow th	%	31	2 - 13	2

Source: First Berlin Equity Research estimates; Media and Games Invest

Sticking to Buy rating and €4 target The digital advertising market continues to idle, although there are indications that ad budgets will be bumped up in H2/23 by clients looking to defend market shares. Should this materialise, the upper end of guidance is within reach. For now, we stick to our 2023 targets matching the lower band of the guide.

Table 5: DCF model

All figures in EUR '000	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Revenue	335,521	388,198	442,545	491,225	530,523	557,049	584,902	608,298
NOPLAT	40,428	49,415	58,105	68,818	74,585	79,577	85,252	89,587
(+) depreciation & amortisation	32,530	36,059	38,201	34,262	36,895	38,672	40,538	42,106
(=) Net operating cash flow	72,958	85,474	96,306	103,080	111,480	118,249	125,791	131,693
(-) Investments	-34,180	-41,387	-44,366	-32,479	-32,505	-32,224	-32,462	-31,936
(-) Working capital	-2,996	-1,446	-1,692	-1,817	-1,764	-1,575	-1,686	1,925
(=) Free cash flows (FCF)	35,782	42,641	50,248	68,784	77,210	84,450	91,642	101,683
PV of FCFs	33,737	36,330	38,687	47,856	48,543	47,979	47,049	47,174

All figures in thousands	WACC	Terminal EBIT margin							
		15.3%	17.3%	19.3%	21.3%	23.3%	25.3%	27.3%	
PV of FCFs in explicit period	472,847	9.2%	4.06	4.52	4.98	5.44	5.91	6.37	6.83
PV of FCFs in terminal period	500,947	9.7%	3.68	4.09	4.50	4.91	5.31	5.72	6.13
Enterprise value (EV)	973,795	10.2%	3.34	3.71	4.07	4.44	4.80	5.17	5.53
(+) Net cash / (-) net debt (pro-forma)	-271,297	10.7%	3.05	3.38	3.70	4.03	4.35	4.68	5.01
(-) Non-controlling interests	-584	11.2%	2.79	3.08	3.37	3.67	3.96	4.25	4.55
Shareholder value	701,914	11.7%	2.55	2.82	3.08	3.35	3.61	3.88	4.14
Fair value per share (€)	4.00	12.2%	2.34	2.58	2.82	3.06	3.30	3.54	3.78

	WACC	Terminal growth rate							
		1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	
Cost of equity	13.5%	9.2%	4.65	4.88	5.14	5.44	5.80	6.21	6.70
Pre-tax cost of debt	9.0%	9.7%	4.24	4.43	4.65	4.91	5.19	5.53	5.93
Tax rate	28.0%	10.2%	3.87	4.04	4.23	4.44	4.68	4.96	5.28
After-tax cost of debt	6.5%	10.7%	3.55	3.69	3.85	4.03	4.23	4.46	4.73
Share of equity capital	60.0%	11.2%	3.25	3.38	3.51	3.67	3.84	4.03	4.25
Share of debt capital	40.0%	11.7%	2.99	3.10	3.22	3.35	3.49	3.66	3.84
WACC	10.7%	12.2%	2.75	2.84	2.95	3.06	3.19	3.33	3.48

*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	2019	2020	2021	2022	2023E	2024E
Revenues	83,893	140,220	252,166	324,444	335,521	388,198
Capitalised work	10,187	15,994	22,851	28,928	20,668	26,203
Total output	94,080	156,214	275,017	353,373	356,189	414,401
Cost of goods sold	-45,803	-77,620	-137,968	-188,618	-184,201	-213,121
Gross profit	48,277	78,594	137,049	164,755	171,988	201,280
Other OpEx	-10,012	-18,745	-24,655	-27,001	-27,513	-31,036
Personnel expenses	-27,359	-39,573	-55,978	-76,207	-77,841	-88,261
Other operating income	4,636	6,272	8,626	23,206	22,046	22,707
EBITDA	15,542	26,549	65,042	84,753	88,680	104,691
Depreciation & amortisation	-10,543	-15,508	-28,238	-58,135	-32,530	-36,059
Operating income (EBIT)	4,999	11,041	36,804	26,618	56,150	68,631
Net financial result	-5,758	-7,139	-21,919	-37,959	-44,566	-44,022
Pre-tax income (EBT)	-759	3,901	14,885	-11,341	11,584	24,609
Income taxes	2,012	-1,194	1,169	-9,064	-10,460	-12,898
Net income	1,253	2,707	16,054	-20,405	1,125	11,711
Discontinued operations	0	0	0	0	0	0
Consolidated profit	1,253	2,707	16,054	-20,405	1,125	11,711
Minority interests	-1,577	352	7	88	-1	-12
Net income to owners	-324	3,059	16,060	-20,317	1,124	11,700
Diluted EPS (in €)	-0.01	0.03	0.11	-0.13	0.01	0.07
Adj. EPS (excl PPA amort.) (diluted)	-0.01	0.04	0.20	0.14	0.07	0.14
AEBITDA (excl: one-offs)	18,110	29,090	71,100	93,153	95,180	104,691
AEBIT (excl: PPA amort. & one-offs)	4,999	14,916	54,826	76,508	72,700	78,681
Ratios						
Gross margin on revenues	57.5%	56.1%	54.3%	50.8%	51.3%	51.9%
EBITDA margin on revenues	18.5%	18.9%	25.8%	26.1%	26.4%	27.0%
EBIT margin on revenues	6.0%	7.9%	14.6%	8.2%	16.7%	17.7%
Net margin on revenues	-0.4%	2.2%	6.4%	-6.3%	0.3%	3.0%
AEBITDA margin on revenues	21.6%	20.7%	28.2%	28.7%	28.4%	27.0%
Tax rate	n.a.	30.6%	n.a.	-79.9%	29.0%	32.5%
Expenses as % of revenues						
Other OpEx	11.9%	13.4%	9.8%	8.3%	8.2%	8.0%
Personnel expenses	32.6%	28.2%	22.2%	23.5%	23.2%	22.7%
Depreciation & amortisation	12.6%	11.1%	11.2%	17.9%	9.7%	9.3%
Y-Y Growth						
Revenues	157.2%	67.1%	79.8%	28.7%	3.4%	15.7%
EBITDA	79.8%	70.8%	145.0%	30.3%	4.6%	18.1%
Operating income	114.7%	120.9%	233.4%	-27.7%	111.0%	22.2%
Net income/ loss	n.m.	n.m.	425.0%	n.m.	n.m.	941.0%



BALANCE SHEET

All figures in EUR '000	2019	2020	2021	2022	2023E	2024E
Assets						
Current assets, total	55,856	92,375	283,599	221,022	203,095	221,250
Cash and equivalents	32,984	46,254	180,157	149,992	129,556	136,165
Trade receivables	22,872	46,121	103,442	71,030	73,539	85,084
Non-current assets, total	256,593	293,467	650,495	823,637	798,474	792,645
Property, plant & equipment	3,521	1,742	4,681	5,522	5,858	6,052
Intangible assets	233,208	272,829	605,746	791,284	782,912	776,744
Deferred taxes	11,215	15,737	11,545	6,651	6,784	6,920
Investments in associated companies	6,410	1,207	1,154	1,003	1,003	1,003
Other financial assets	2,239	1,952	27,369	19,177	1,918	1,927
Total assets	312,449	385,842	934,094	1,044,659	1,001,569	1,013,895
Shareholders' equity & debt						
Current liabilities, total	54,544	78,205	243,434	219,471	178,692	178,808
Trade payables	20,274	30,037	53,754	68,711	68,224	78,323
ST financial debt	6,772	6,087	32,027	31,903	0	0
Provisions	12,585	17,257	54,036	65,225	66,203	67,196
Other current financial liabilities	0	12,897	83,568	32,290	22,603	11,302
Other current liabilities	14,913	11,927	20,049	21,342	21,662	21,987
Long term liabilities, total	89,347	130,792	383,168	503,443	500,007	500,505
Long-term debt	8,369	11,671	16,034	89,618	89,618	89,618
Bonds	63,988	95,355	343,925	389,386	385,461	385,461
Other LT liabilities	0	0	0	0	0	0
Deferred tax liabilities	16,990	23,766	23,209	24,439	24,928	25,426
Shareholders' equity	168,558	176,845	307,492	321,745	322,870	334,582
Total consolidated equity and debt	312,449	385,842	934,094	1,044,659	1,001,569	1,013,895
Ratios						
Current ratio (x)	1.0	1.2	1.2	1.0	1.1	1.2
Net debt	37,776	55,188	195,795	271,297	255,905	249,296
ICR (x)	3.1	4.1	4.6	4.0	3.6	4.0
Net gearing	22%	31%	64%	84%	79%	75%
Net debt / EBITDA (x)	2.1	1.9	2.8	2.9	2.7	2.4
Equity ratio	54%	46%	33%	31%	32%	33%
Return on equity (ROE)	0.7%	1.5%	5.2%	-6.3%	0.3%	3.5%
Capital employed (CE)	257,905	307,637	690,660	825,188	822,877	835,087
Return on capital employed (ROCE)	2%	4%	5%	3%	7%	8%



CASH FLOW STATEMENT

All figures in EUR '000	2019	2020	2021	2022	2023E	2024E
Net income	1,253	2,707	16,054	-20,405	1,125	11,711
Depreciation and amortisation	10,543	15,508	28,238	58,135	32,530	36,059
Results from sale of subsidiaries	0	0	0	0	0	0
Other non-cash adjustments	-5,752	4,072	1,165	4,805	0	0
Net interest expense	5,529	6,264	21,600	35,061	44,566	44,022
Tax result	-822	1,194	1,939	5,702	10,460	12,898
Operating cash flow	10,751	29,745	68,996	83,298	88,680	104,691
Tax expense	0	0	-425	-4,362	-10,460	-12,898
Change in working capital	5,365	-4,543	-4,634	55,284	-1,342	234
Net operating cash flow	16,116	25,202	63,937	134,220	76,879	92,027
Cash flow from investing	-12,987	-37,707	-294,729	-176,672	-16,921	-41,396
Cash flow from financing	25,408	25,774	364,695	12,288	-80,394	-44,022
Net cash flows	28,537	13,269	133,903	-30,164	-20,436	6,609
Fx adjustments	0	0	0	0	0	0
Cash, start of the year	4,447	32,984	46,254	180,157	149,992	129,556
Cash, end of the year	32,984	46,253	180,157	149,992	129,556	136,165
Free cash flow (FCF)	3,129	-12,505	-230,792	-42,452	59,958	50,631
FCFps (in €)	0.05	-0.15	-1.63	-0.27	0.38	0.32
Y-Y Growth						
Operating cash flow	132.2%	56.4%	153.7%	109.9%	-42.7%	19.7%
Free cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	-15.6%
FCF / share	-74.6%	n.m.	n.m.	n.m.	n.m.	-15.6%

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PRICE TARGET DATES

Unless otherwise indicated, current prices refer to the closing prices of the previous trading day.

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The present financial analysis is based on the author's own knowledge and research. The author prepared this study without any direct or indirect influence exerted on the part of the analysed company. Parts of the financial analysis were possibly provided to the analysed company prior to publication in order to avoid inaccuracies in the representation of facts. However, no substantial changes were made at the request of the analysed company following any such provision.

ASSET VALUATION SYSTEM

First Berlin's system for asset valuation is divided into an asset recommendation and a risk assessment.

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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The First Berlin categories for risk assessment are low, average, high and speculative. They are determined by ten factors: Corporate governance, quality of earnings, management strength, balance sheet and financial risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, strength of brandname, market capitalisation and free float. These risk factors are incorporated into the First Berlin valuation models and are thus included in the target prices. First Berlin customers may request the models.

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...21	↓	↓	↓	↓
22	3 March 2022	€3.56	Buy	€7.90
23	25 April 2022	€3.23	Buy	€7.90
24	4 May 2022	€3.29	Buy	€8.20
25	2 June 2022	€3.08	Buy	€8.20
26	29 July 2022	€2.24	Buy	€4.40
27	9 September 2022	€1.92	Buy	€4.40
28	17 November 2022	€1.79	Buy	€4.40
29	6 March 2023	€1.62	Buy	€4.00
30	Today	€1.10	Buy	€4.00

INVESTMENT HORIZON

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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

can be accessed through the following internet link: <https://firstberlin.com/disclaimer-english-link/>

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