MGI – Media and Games Invest

Initiation of coverage

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Inderes corporate customer

An overlooked and undervalued platform company

We initiate our coverage of MGI with a target price of SEK 23 and a BUY recommendation. The majority of MGI's revenues are derived from commissions for matching advertiser and publishers on their ad software platform. As a platform company MGI's costs are mainly variable, which should enable the company to scale up while still delivering solid earnings growth. Considering these factors, we assess that the company has good prospects for long-term value creation. At the current valuation, the market expectations for MGI are low and should be beatable with decent growth and a modest upshift in valuation multiples. At the current market valuation, we consider the risk/return ratio to be attractive.

One-stop ad platform ready for a privacy centric world

Over the past years MGI has assembled an ad software platform with first-party games content that covers the entire transaction from buyer to seller. The ad platform supports all major channels used to deliver digital ads including mobile and web. This gives advertisers and publishers a one-stop shop to buy ads and sell ad inventory. The digital ad market has faced some disruption lately over privacy concerns and the actions taken to protect users' privacy. This has led to the prevailing opinion that current targeting solutions (cookies and identifiers) will disappear, leaving the market participants looking for new solutions. MGI built their platform with this in mind and stands ready with two proprietary solutions. This provides an opportunity for even stronger growth than our estimates if MGI's implementation is successful. The company's first-party content consists of a games portfolio that provides a steady stream of revenue and valuable data to the ad software platform.

An ambitious company with profitable organic growth

Despite the deteriorating macro environment, we expect MGI's near term revenue growth to stay relatively strong. The digital advertising market has traditionally been solid even in a weakening macro environment as it has captured market share from traditional forms of advertising. In the long-term, we expect the market trends to support further growth, but in a more modest pace. In view of these assumptions, we project the company's revenues in the near term (2022e-2025e) to grow at an annual rate of 11%. With the company using generated free cash flow to deleverage we project the annual earnings growth to average about 7%. With MGI's leverage ratio having climbed above the company's target of 3x (net debt/adj. EBITDA 3.6x, Q3'22) we do not expect any further acquisitions in the short- to medium-term. In our view, the main risks and threats are related to the level of digital ad spending, macroeconomy, and technological or regulatory disruptions in the digital ad market.

Downside risk reduced due to low valuation and low expectations

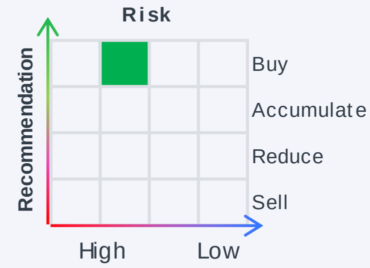
With our estimates for 2023 the company's EV/EBIT (adj.) and P/E (adj.) multiples are 8.4x and 8.7x respectively. By 2024e the corresponding multiples would be 7.6x and 7.2x. We consider these multiples low considering MGI's potential revenue growth, variable costs structure, and future cash generation capability. We are also estimating a slight decrease in profitability and even then, the multiples are on the low end. MGI has ambitious growth targets, but due to their low valuation even reaching half of these while maintaining the current profitability creates an attractive risk/reward situation. The discounted cash flow (DCF) valuation that accounts for the company's long-term value creation potential indicates a fair value of SEK 29/share, which would be a significant upside compared to today's share price.

Recommendation

Buy

23 SEK

Share price:
16.9 SEK



Key indicators

	2021	2022e	2023e	2024e
Revenue (€)	252.2	323.0	352.0	398.1
growth-%	80 %	28 %	9 %	13 %
EBIT adj.	54.9	67.8	66.5	72.7
EBIT-% adj.	21.8 %	21.0 %	18.9 %	18.3 %
Net Income	16.1	12.9	14.4	20.2
EPS (adj.)	0.24	0.19	0.18	0.21
P/E (adj.)	17.9	8.0	8.7	7.2
P/B	2.1	0.7	0.6	0.6
Dividend yield-%	0.0 %	0.0 %	0.0 %	0.0 %
EV/EBIT (adj.)	15.3	8.2	8.4	7.6
EV/EBITDA	12.9	6.9	6.4	5.8
EV/S	3.3	1.7	1.6	1.4

Source: Inderes

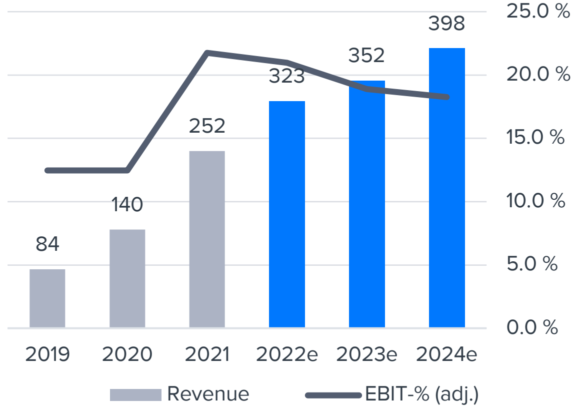
Guidance

Revenue EUR 315 – 325 million and adjusted EBITDA EUR 83-93 million.

Share price

Lähde: Millistream Market Data AB

Revenue & operating profit%



Source: Inderes

Earnings per share

Source: Inderes

Value drivers

- Double-digit growth in the programmatic ad market
- A number of proprietary targeting solutions for a post identifier and cookie-less world
- Low valuation multiples with upside potential as the strategy progresses and growth continues
- A trusted end-to-end omnichannel platform
- Own first-party content that provides data to the ad platform

Risk factors

- Failing to maintain/increase market share in programmatic advertising
- Market disruption due to technological or regulatory reasons
- Slowdown in advertising spending
- Leverage above financial target, but strong cash position
- Rapid slowdown in first party games revenue

Valuation	2022e	2023e	2024e
Share price (€)	1.55	1.55	1.55
Number of shares, millions	159.2	159.2	159.2
Market cap (€)	247	247	247
EV (€)	558	562	556
P/E (adj.)	8.0	8.7	7.2
P/E	19.1	17.1	12.3
P/FCF	neg.	11.4	8.5
P/B	0.7	0.6	0.6
P/S	0.8	0.7	0.6
EV/Sales	1.7	1.6	1.4
EV/EBITDA	6.9	6.4	5.8
EV/EBIT (adj.)	8.2	8.4	7.6
Payout ratio (%)	0.0 %	0.0 %	0.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %

Source: Inderes

Contents

MGI - Media and Games Invest in brief

Media and Games Invest Group

MGI is an ad-software company that facilitates the selling and buying of digital advertisements on desktop, mobile, connected TV (CTV), and digital out-of-home (DooH). The company also generates revenue and data through their own first-party games content.

2012
Current management takes over gamigo AG

2018 in Germany **(2020 in Sweden)**
IPO

252.2 MEUR **(+80 % vs. 2020)**
Revenue 2021

+44.3% **2019-2021**
Compound annual growth rate (CAGR)

54.9 MEUR **(21.8% of revenue)**
Adjusted EBIT 2021

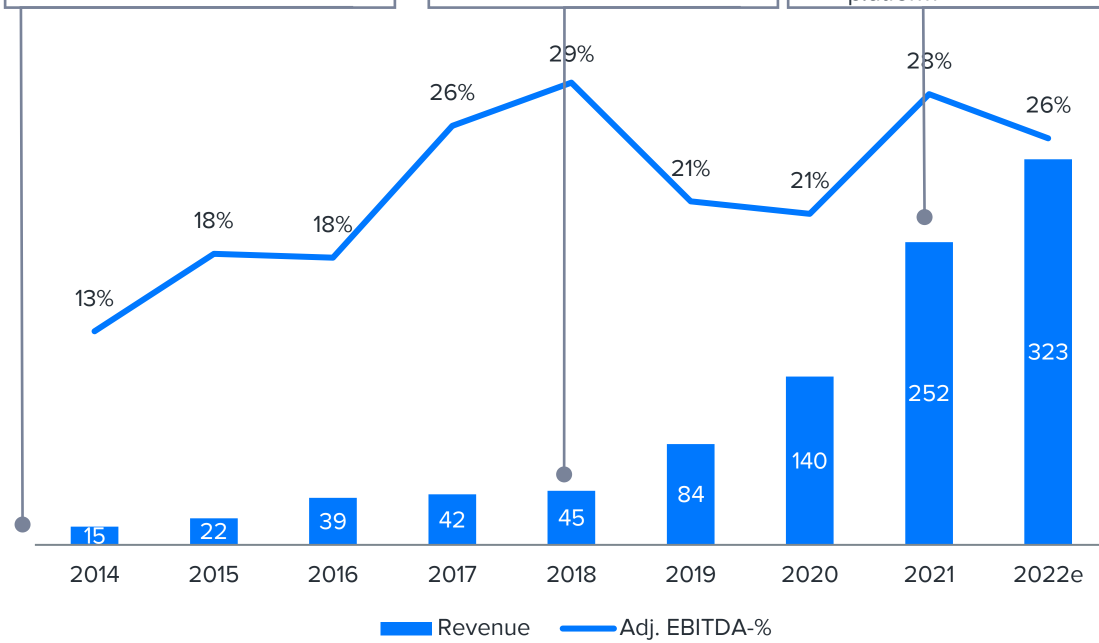
+800
Employees at the end of Q3’22

+660B yearly ad impressions
Ads delivered LTM (Q3’22)

- gamigo is bought from the German media company Axel springer in 2012
- The company starts acquiring games companies to achieve critical mass

- gamigo AG is listed on the German stock exchange through a reverse IPO with MGI
- MGI starts acquiring ad-software companies to build their own platform

- In 2021, the ad platform passes the gaming business as the main revenue source for MGI
- MGI continues to acquire companies to build out their full-stack platform



Source: MGI / Inderes

Company description

An ad-software platform with first-party content

Media and Games Invest ("MGI") facilitates the buying and selling of digital advertisements. MGI's 2021 revenues were EUR 252 million and operating profit adjusted for nonrecurring costs and amortization of PPA was EUR 55 million (adj. EBIT 22%).

Today, most digital ads we see on websites, apps, and smart TVs are bought and sold automatically. Within milliseconds after you open a website a synchronized process involving several actors coordinate behind the scenes to match the right ad with you, the end user. As soon as the webpage starts to load the supply side platform (SSP) sends out requests to multiple ad exchanges requesting bids for displaying ads to you. The ad exchanges attach what data they have on the user so the demand-side platforms (DSPs) can evaluate the opportunity and send back a bid. If several bids are received an auction process is conducted to select the winning bid and—voilà —an ad appears in front of your eyes. This process that happens within 300ms is what is know as "programmatic advertising" and is a market worth USD 418 billion.

In a generalized form this process has three main participants: the supply-side platform (SSP), the ad-exchange, and the demand-side platform (DSP). MGI owns and operates all three of these and is therefore what is know as a full-stack ad platform.

In addition to the programmatic ad platform, MGI has its own first-party content consisting of video games for PC, console, and mobile. The games not only provide revenue, but also first-party data to the ad platform, which allows MGI to learn about their audiences and serve the right ad to the right user.

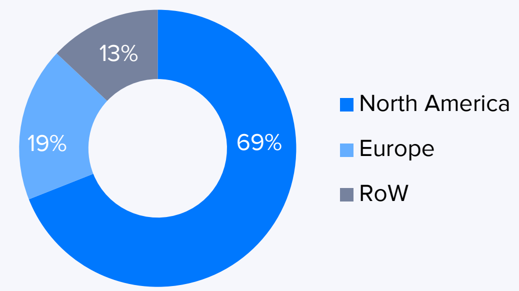
A brief history of MGI

The story of MGI started in 2012 when Remco Westermann (MGI's CEO) bought the games company gamigo AG from the German media company Axel Springer. At the time, gamigo was a struggling games company. The new management instituted a strategy of discontinuing new game development due to its high costs and risks in favor of focusing on growth through a buy and build strategy.

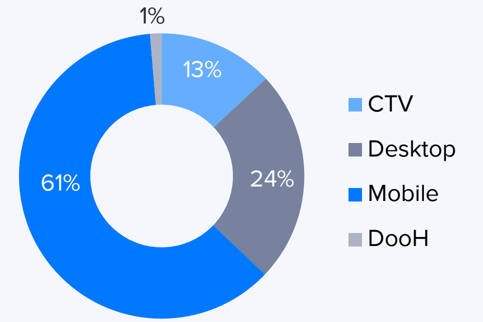
Between 2013-2018 gamigo acquired about 30 companies including games companies Looki publishing, Infernum Games, and Aeria games. Aeria games proved to be a pivotal acquisition as on top of Aeria's game portfolio gamigo also acquired its first media assets. gamigo also acquired additional media assets such as Mediakraft in 2017. These assets would start MGI's journey from a pure games company to an integrated ad software platform with first-party content.

In 2018, gamigo was listed on the Frankfurt stock exchange (Scale segment) through a reverse IPO with MGI. MGI continued to acquire media and games companies, especially companies operating in the ad-software space. Between 2019 and today, MGI acquired another 14 companies. Each acquisition was made with the philosophy of "buy, integrate, build, and improve". Through these strategic acquisitions MGI was able to piece together an ad-software platform that today covers most of the programmatic advertising value chain.

Geographical revenue breakdown (Q3'22)



MGI's revenue per stream (Q2'22)



Source: MGI, Inderes

Timeline of key acquisitions

2012
gamigo AG bought from Axel springer

2015
Acquisition of Looki Publishing, GameSpree, and Infernum Games

2016
Acquisition of Aeria Games GmbH a games and media company

2017
Acquisition of social media specialist Mediakraft

2018
Revers IPO with MGI and listed on the German stock exchange. Acquisition of Trion Worlds Inc

2019
Acquisition of Pubnative, Applift, ReachHero, and WildTangent

2020
Acquisition of Freenet digital, Platform161, Verve Wireless. MGI listed on First North Stockholm

2021
Acquisition of Match2One, Smaato, LKQD, KingsIsle, and Beemray

YTD 2022
Acquisitions of AxesInMotion and Dataseat

Business model (1/4)

Advertising software platform

Through their ad software platform, Verve Group, MGI acts as the middleman in connecting advertisers interested in buying digital ads and publishers interested in selling digital ad space (ad inventory). Advertisers consist of global multinational companies, small and medium-sized enterprises (SMEs), and advertising agencies. The advertisers are interested in placing their ads on digital platforms such as websites, mobile apps, connected TV (CTV), and digital out-of-home (DooH). To do this, they can use a demand-side platform (DSP) where they can create, manage, and track their ad campaigns.

The publishers are the owners of the websites, mobile apps, and other digital platforms. Some examples of publishers would be news sites, blogs, apps, streaming apps, and mobile games. Publishers can either directly negotiate with advertisers about placing ads on their platforms or they can sign on to a supply-side platform (SSP) where they can sell their ad inventory automatically.

MGI operates both DSPs and SSPs and receives payment for acting as the facilitator in matching advertisers and publishers. MGI also operates several other functions in the ad-tech value chain such as ad-exchanges, data management platforms, and software development kits. The company aims to provide an end-to-end service covering most of the ad-tech value chain. MGI also aims to provide their products across all major digital platforms.

MGI also has first-party content through their games and SDKs. MGI's game portfolio consists of +5,000 casual and mobile games and about 10 MMO games (Massively Multiplayer Online) for PC and console. The games business is run under the brand gamigo Group.

Diversified revenue stream

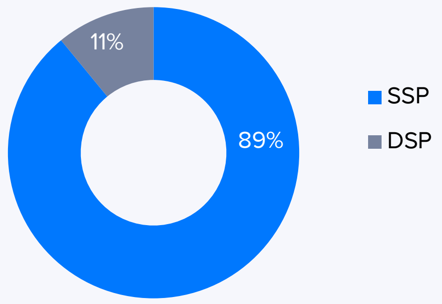
MGI's main source of revenues are fees and commissions from their ad-software platform and revenue generated by the games business.

Advertisers and publishers pay a fee for using MGI's ad-software platform. This fee is somewhat modest, and the bulk of the revenue generated from the ad platform is in the form of commissions for matching buyers and sellers. For every euro spent by the advertisers to buy ad space, about 50% ends up in the hands of the sellers of the ad inventory, i.e., the publishers. The other half is split among the DSPs, SSPs, ad-exchanges and other middlemen that operate between the advertisers and publishers.

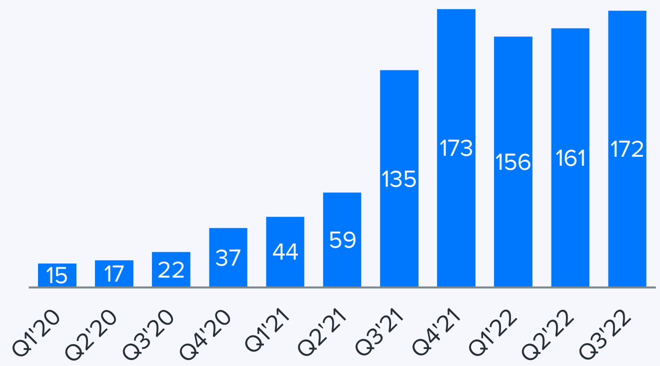
For a full-stack company (a company that covers the entire value chain) like MGI, the more their products are used in the transaction, the larger the share of the commission they get to keep. If the transaction is made entirely through MGI's supply chain, they get to keep the full commission. If for example, only their DSP or SSP is used, MGI's cut will be smaller at around 15-30%. Revenues are dependent on the volume of transactions and the price per ads. The price is set by the market through the real-time bidding system.

MGI's games portfolio generates revenue in a couple of different ways. Some of the games operate on the traditional revenue model of pay-to-play (one-time purchase of the game), but most of their games operate on the free-to-play model and derive their income either through advertisements, in-game purchases, or subscriptions.

Revenue per segment (Q3'22)



Ad Impressions (in bn)



Source: MGI, Inderes

Business model (2/4)

Starting in 2022 MGI splits their revenue into DSP and SSP segments. In Q3'22, revenue was split 89% SSP and 11% DSP. The games business is reported under the SSP segment as it provides audience data and advertising inventory to the advertisers.

Cyclical and seasonal revenue

As the share of revenue from the ad software platform has grown, the company has become more sensitive to the overall level of ad spending in the economy. Ad spending is both cyclical and seasonal. Advertisers scale their advertising budgets up and down depending on the industry/overall market environment. Often, when times get tough the advertising budgets are the first ones to take a hit. As MGI is active in the faster growing submarkets of advertising (programmatic) they are not as exposed to the cyclicality of total ad spending. This is because programmatic and especially mobile programmatic has grown faster due to taking market share from non programmatic advertising forms. This was experienced in 2020 when total ad spending decreased while programmatic increased.

Seasonally, ad spending tends to be lowest in Q1 with each subsequent quarter being stronger than the previous one, as advertisers ramp up their spending towards Christmas. Consequently, like-for-like we see about a 20% drop in MGI's revenues from Q4 to Q1.

Recurring revenues from a wide customer base

MGI's revenues are recurring in nature thanks to the diverse set of revenue streams and the diversified customer base. In addition to advertisers, publishers, and players of their games, MGI's customer base also includes other companies in the ad-tech value chain. Among these are, e.g., other DSPs routing their business through MGI's SSPs and ad exchanges.

As of Q3'22 MGI had 546 (Q3'21: 408) software customers with more than USD 100,000 in revenues. MGI is not dependent on any single large customer as no single customer accounts for more than 10% of revenues. MGI employs two sales teams focused on customer acquisition. One team is focused on the DSP side, trying to sign on advertisers while the other team is focused on acquiring publishers.

The benefits of first-party content

There are three main benefits of having first party content for an ad software platform. These benefits are related to the act of selling ads, buying ads, and targeting of ads.

Games monetized through advertisements take on the role of a publisher in the ad-tech value chain i.e., they have ad inventory to sell. This is usually done by tapping into the programmatic advertising market through SSPs or SDKs such as the ones provided by MGI.

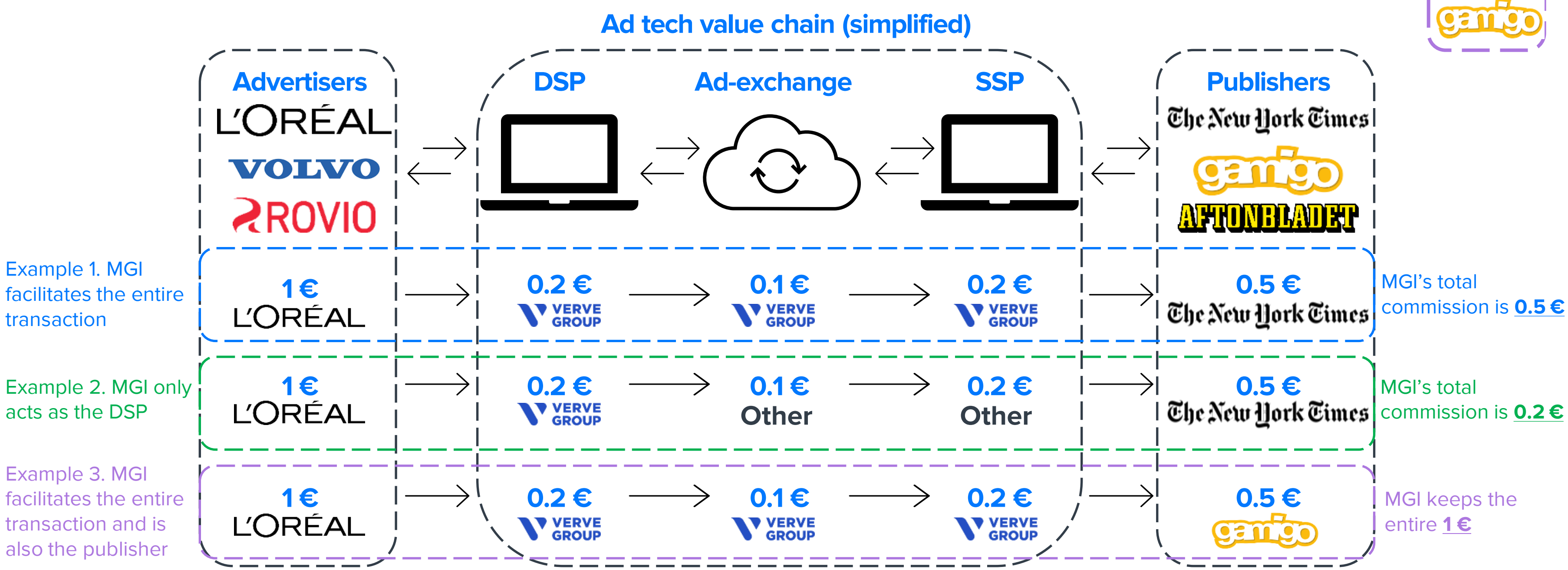
Here an obvious synergy between MGI's games and the ad platform is evident. When the games sell their ad inventory through MGI's own ad-platform, a larger share of the value stays in-house. As discussed previously, the publisher usually gets about 50% of the price paid by the advertisers and rest is pocketed by the middlemen. However, if MGI sells their ad inventory though their own ad-software platform, the company essentially keeps 100% of the payment (50% gamigo, 50% Verve group). MGI also achieves improved monetization of their games when selling ad inventory in-house through improved fill rates and higher prices per ads.

The other big benefit comes from the practices of user acquisition ("UA"). Gaming companies find new players through user acquisition. User acquisition can be organic through word-of-mouth and brand awareness or paid. Paid user acquisition is done mostly through advertisements, which are often bought using a DSP.

For most casual and mobile games, paid user acquisition is critical to the success of the games. Mobile games companies usually spend around 30% revenue on user acquisition. In effect, this means that games that are monetized through advertisements both sell and buy ads. Naturally, this means that to be profitable the games need to earn more from the ad inventory they sell than what they spend on ads to acquire new players. Hence, efficient user acquisition is key.

MGI routes their user acquisition spending through their own ad-platform. This means that MGI is essentially paying themselves to facilitate the buying of ad inventory. If this is done entirely within their own ad-platform, MGI keeps the entire commission for facilitating the transaction (50% Verve, 50% external publishers). Doing this in-house also allows MGI to maintain complete control over their user acquisition process and minimizes the risk of fraud and ads being placed on undesired sites. According to MGI, doing UA in-house is more efficient and lowers the cost of user acquisition. In Q2'22, MGI bought Dataseat, a mobile DSP that focuses on UA for mobile games. The aim of the acquisition was not only to generate future revenue but also further improve MGI's UA for their own games.

Overview of MGI's ad platform business model



Advertisers

- Advertisers consist of multinational corporations, SMEs, and ad agencies
- MGI through their gaming business gamigo also acts as an advertiser when promoting their games
- Advertisers interested in advertising on digital platforms can sign up to a DSP to automatically purchase ad inventory
- Advertisers aim to get the best ROI and are willing to spend more per ad if the placement is valuable

Ad tech value chain

- The ad tech industry connects the advertisers and publishers
- The value chain consists primarily of DSPs, SSPs, ad exchanges, ad networks, and data management platforms
- Under their Verve group brand, MGI is what is called a full-stack ad platform meaning that they can offer the entire value chain in-house

Publishers

- Publishers consist of owners of digital platforms such as websites, mobile apps, games, and mobile games
- Publishers who want to monetize their platform through ads can sign up to an SSP to automatically sell their ad inventory
- Some of MGI's games are monetized by ads and these ads are sold through MGI's ad software platform
- Publishers naturally want to sell their ad inventory for as much money as possible

Business model (3/4)

The third advantage of first-party content relates to the practice of targeting ads to users. To get the most value out of every ad displayed, different targeting solutions are used to profile the end user as to evaluate which ad best fits them. The main solution here has been using identifiers such as third-party cookies, Apple's IDFA and Google's GAID. These identifiers are used to track and gather data on users. Data collected includes things such as age, location, demographic, and interests. With this data, ad platforms can display the right ad to the right user (i.e., diapers and children's clothes for recent parents).

Efficient targeting enables the advertisers to personalize each ad for the end user rather than showing a random ad that might or might not be relevant. Therefore, the better the targeting, the more advertisers are willing to pay for each viewed ad. In other words, efficient targeting means that advertisers buy fewer ads but spend more per ad. This is also in the interest of the publishers as each individual ad slot sells for a higher price allowing them to better monetize their ad inventory.

In order to carry out this targeting, the ad-software platform requires data on the users. This data can be classified into third-party data and first-party data. Third-party data can be purchased from vendors or gathered using tools such as cookies and IDFA/GAID. First-party data is gathered from content owned or controlled by the entity. MGI has access to first-party data through their games business and software development kits (SDKs). This data is then used by MGI's ad-platform to more efficiently target users. Using first-party data also gives the company more control and transparency over the transaction. Having first-party content that supplies ad inventory also makes MGI more attractive to advertisers as there are observable and assured publishers on the platform.

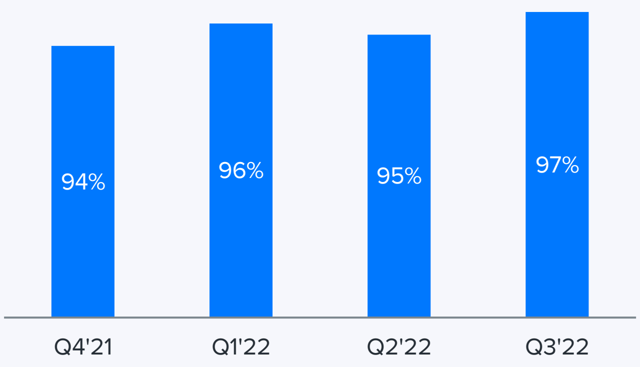
First party content and data is also used to further improve upon the ad software platform. MGI is able to use their own games as testing platforms to get quick feedback on what works and what doesn't work. Without these own games MGI would have to rely on third party developers to implement and test new products. The company is also able to use the first-party data to improve on the machine learning algorithms of different targeting methods such as MGI's moments.ai and ATOM products.

Key performance indicators

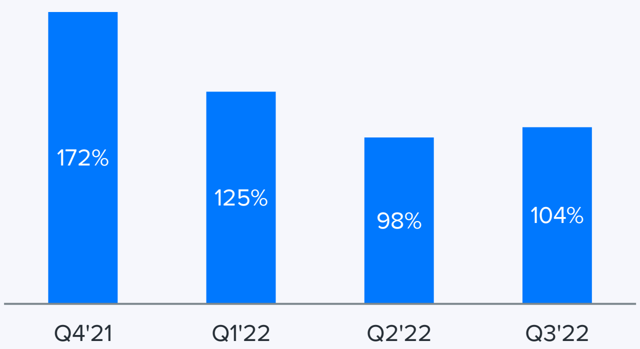
MGI uses different KPIs to measure its ad platforms performance. This includes indicators such as retention rate, net dollar expansion rate, ad impressions, and ad spend growth. The retention rate shows how many of the company's customers with revenues over USD 100k did repeat business with them on a year-over-year basis. In Q3'22, MGI's retention rate was 97%. Looking at the last four quarters we see that MGI's retention rate has been quite stable averaging 96%.

The net dollar expansion rate states how much MGI's customers spent compared to the comparison period last year. A rate above 100% means that customers are spending more than last year. Growth is a combination of acquiring new customers and how much the existing customers spend. In Q3'22 the net dollar expansion rate was 104%. After coming off two strong quarters of 172% in Q4'21 and 125% in Q1'22 MGI has seen a lower net expansion rates the last two quarters due to some softness in the advertising market.

Retention rate of software clients



Net $ Expansion rate of software clients



Source: MGI, Inderes

Business model (4/4)

Ad impressions measures how many times an ad has been viewed. In Q3'22 MGI delivered a total of 172 billion ad impressions and over the last twelve months 660 billion ad impressions where delivered. This figured has grown dramatically over the last few year with MGI delivering 91 billion ad impressions in 2020. See page 8 for a graph showing the development of ad impressions since 2020.

Ad spend growth measures how much money flowed through MGI's ad software platform and is a combination of volume and Cost per thousand (CPM), which denotes the price per 1,000 ad impressions. MGI's ad spend growth in Q3'22 was a respectable 54%.

A scalable cost structure

MGI's cost structure is split roughly 70/30 in favor of variable costs. Variable costs are mainly infrastructure costs for datacenters and cloud computing services. These costs are booked under the 'Purchased services' item. The costs are largely based on a pay-as-you-go model, and the company is to some extent able to ramp the costs up and down in line with business activity. Purchased services have been stable at 55% of revenue for the three last years. Also included into variable costs is the item 'Other operating expenses' that consists of admin, legal, auditing and other costs. Other operating expenses have fluctuated between 10-31% during the last four years.

The fixed costs are mostly personnel expenses (wages and social security), which naturally are quite inflexible. As a share of revenue these expenses have fluctuated during the last four years with being 33% in 2019 and 22% in 2021. Controlling personnel expenses is critical to the future profitability of the company. MGI does, however, expect some inflationary pressure on wages going forward.

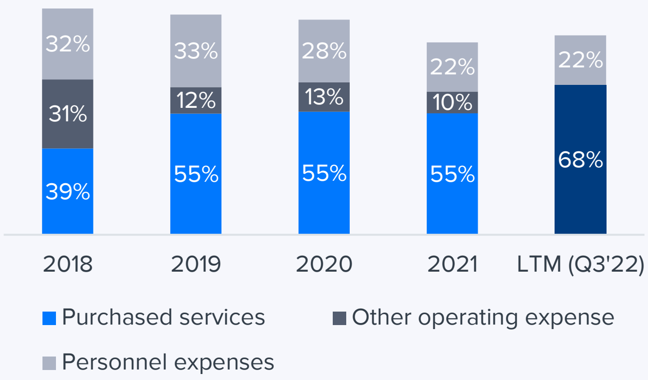
Due to the large amount of costs being variable in nature, MGI's business model scales nicely, which should enable the company to benefit from economies of scale as revenues grow.

Capital commitment

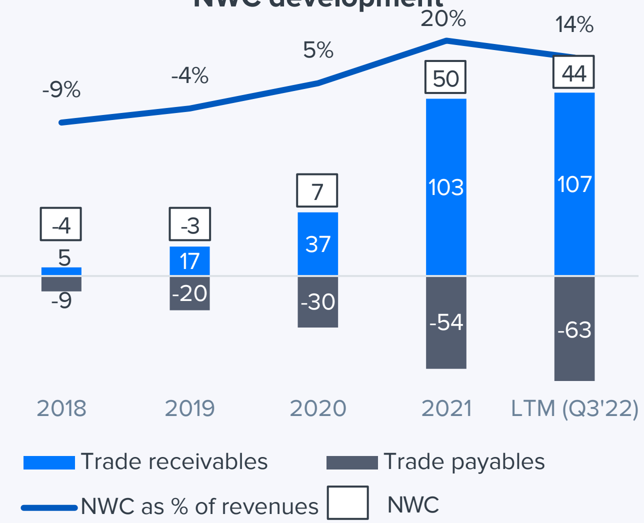
With the company moving away from being a pure games company and the changes that come with the transition, MGI's net working capital (NWC) turned positive in 2020. In 2021, the company had NWC of EUR 50 million. The company expects NWC to remain positive as you pay publishers within 30-45 days, while you collect receivables from the advertisers within 60-90 days. As revenues grow, NWC will also grow and tie up more cash. As a share of revenue NWC increased substantially in 2021 to 20% compared to 5% in 2020. As of LTM Q3'22, the share has come down to 14%. The company expects NWC as a share of revenue to be somewhat lower going forward.

The company invests both into tangible and intangible assets. In 2021, MGI invested EUR 5 million into tangible assets. These investments consists mainly of investments into operating and business equipment, IT equipment, and right of use assets. MGI also invested EUR 35 million into intangible assets. These investments are mostly capitalized own work related to development on the ad software platform, games content, and game licenses.

Costs as share of revenue*



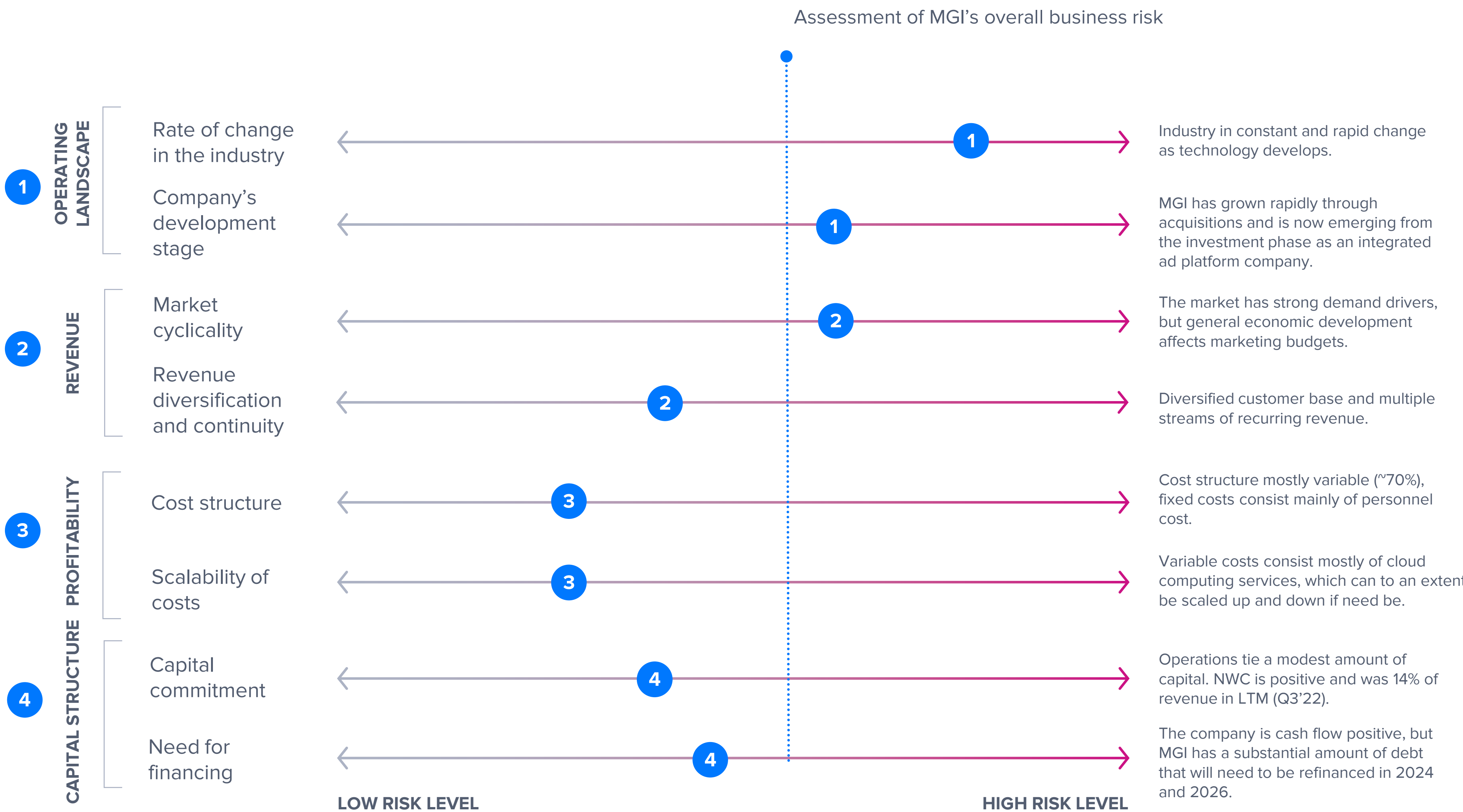
NWC development



Source: MGI, Inderes

* Purchased services and Other operating expense are reported together in the quarterly reports

Risk profile of the business model



Source: Inderes

Market overview – Digital advertising (1/4)

The digital advertising market

The digital advertising market is a submarket of the overall advertising market that is made up of digital and non-digital ads. The market size is estimated based on media ad spending. According to eMarketer the total worldwide media ad spending was USD 819 billion in 2021. Digital ad spending was USD 521 billion, which corresponds to a 64% share of total ad spending.

Traditionally, digital advertisements were sold the same way as non-digital ads. Advertisers and publishers would negotiate directly with one another about placing ads on their platforms. These ads functioned the same way as a traditional billboard where every visitor to the site saw the same ad regardless of whether it was relevant to them or not. Eventually, the practice of automatically matching ads and ad inventory was introduced and together with user targeting programmatic advertising was born. The share of digital ads served programmatically has increased rapidly and as of 2020, programmatic advertising was the main form of digital ads. In 2021, global programmatic ad spending was USD 418 billion (Statista). This corresponds to 80% of digital ad spending and 51% of total ad spending.

Geographically split, North America is the largest market accounting for around 42% of global programmatic ad spending. The second largest market is Asia with a market share of 35% followed by Europe at 18% (Statista).

Mobile is the largest digital ad platform with mobile ad spending in 2021 being USD 295 billion.

Growth

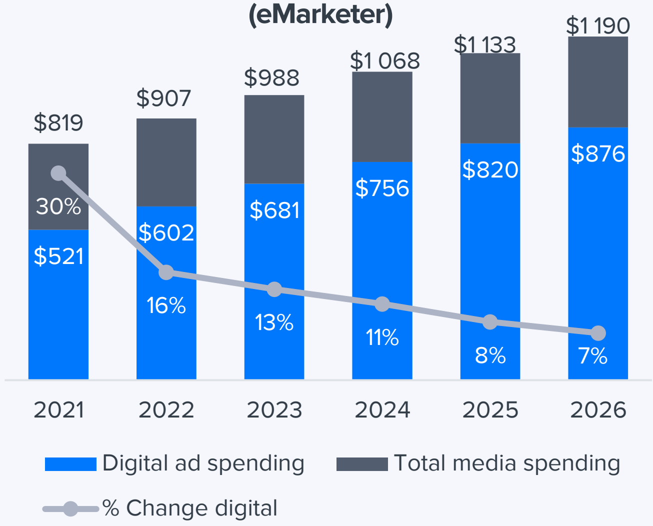
The overall ad market is expected to grow to USD 1,190 billion by 2026, which corresponds to a CAGR of 7.8%. The digital ad market has grown rapidly over the last decades as it has captured market share from non-digital forms. Global digital ad spending is expected to keep gaining market share and is projected to grow to around USD 876 billion by 2026, which corresponds to a CAGR of 11.0%.

Programmatic ad spending is projected to grow slightly faster than digital ad spending. Statista projects that global programmatic ad spending will grow to USD 725 billion by 2026, which represents a CAGR of 11.6%. With these projections programmatic would grow to represent 83% of the total digital ad market in 2026.

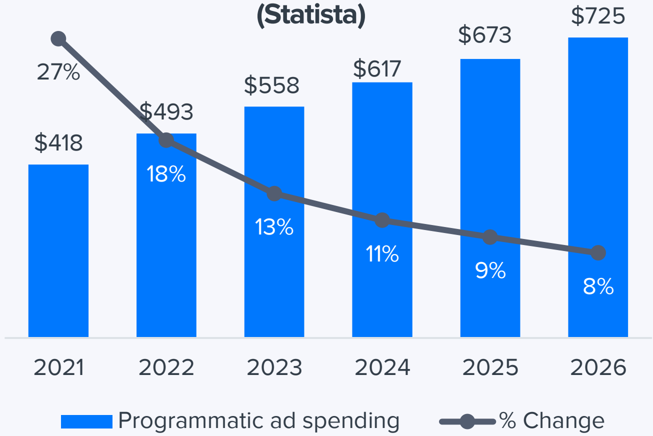
Looking at platforms the two fastest growing ones have been mobile and CTV. Mobile is already the largest platform, and it is expected to continue to grow faster than the overall market. The mobile market is expected to increase to USD 350 billion in 2022, representing a CAGR of 22% across the last four years.

CTV is a relatively new market, but it's the fastest growing segment. According to Statista, US ad spending on CTV alone was USD 14 billion in 2021 and is set to grow to USD 39 billion by 2026. This corresponds to a CAGR of 22%. MGI's ad software platform provides services to all devices but is strongest on mobile (69% of Q2'22 revenue).

Global media ad spending in USD billion (eMarketer)



Global Programmatic ad spending in USD billion (Statista)



Sources: eMarketer: Worlwide Ad Spending 2022 (May 22), Statista.com, MGI

Market overview – Digital advertisement (2/4)

Market participants and competitors

The market players can be divided into two categories: the walled gardens and the open internet. The walled gardens control about 75% of the digital ad market and consist of large vertically integrated internet companies such as Google, Meta, Apple, and Amazon. These walled gardens have their own closed ecosystems that cover the entire value chain including owning their own content platforms such as YouTube, Facebook, and Amazon.com. The walled garden companies usually conduct the entire transaction from advertiser to publisher in-house. Taking Meta as an example, advertisers deal exclusively with Meta to place ads on their platforms (Facebook, Instagram, WhatsApp).

The open internet is one ecosystem that incorporates most of the other participants in the programmatic industry including MGI (Verve group). Within this ecosystem the participants both compete and conduct business with each other. The open internet segment of the programmatic market is characterized by fragmentation with a lot of participants throughout the value chain. Some companies specialize in only one aspect while others operate in multiple ones, and some cover the entire value chain. The walled garden companies do also to some extent work outside their “walls” and interact with the open internet. For example, Meta’s Audience Network allows advertisers to place ads on non-Meta third-party apps.

From MGI’s perspective many of the other ad-tech companies on the open internet are both competitors and partners at the same time. The Trade Desk is a large DSP, which competes with MGI for advertisers, but at the same time The Trade Desk also drives business to MGI’s SSP platforms. The same is also true for SSP providers such as Pubmatic. On one hand, they are a competitor to MGI but on the other, they also do business with MGI’s DSPs and ad exchanges.

MGI themselves identify their largest peers as Applovin, The Trade Desk, Magnite, and the walled garden companies. The first of these Applovin is in many ways a peer to MGI as they to some extent cover the same sections of the value chain, i.e., from DSP to SSP and also have their own first-party content.

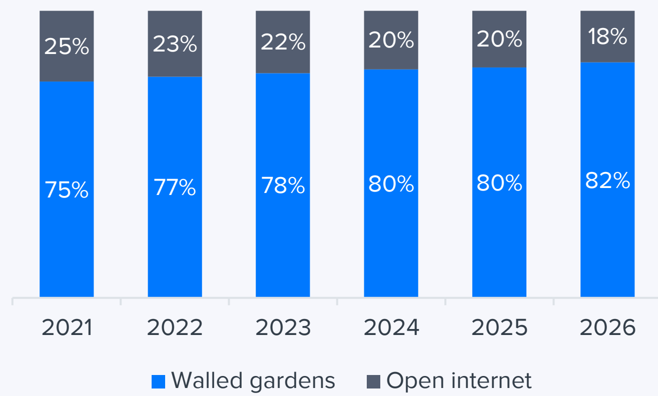
Choosing between multiple ad platforms

With several options to choose between, how do advertisers and publishers choose what ad platforms to go with? There is the choice between walled gardens and the open internet companies. Moreover, both have several companies within them to choose from. By market share, we can easily deduce that a lot of customers go with one of the big walled garden companies. Choosing a walled garden means that per definition you only have to deal with one counterparty, which in some regards makes the process simpler. Going with a large player such as Google is often a starting point for companies getting into programmatic advertising. Walled gardens also have large amounts of user data, which they can leverage for accurate ad targeting.

However, they’re by no means always the best option. Like the name ‘walled garden’ implies, the companies are not very transparent in how ads are bought and sold, but rather their platforms are known as ‘black boxes’.

Walled gardens | **Open Internet**

Market share in digital advertising (Statista)



Source: Statista, Share of walled gardens vs open internet in digital advertising revenue worldwide

Market overview – Digital advertisement (3/4)

On the open internet side, transparency is a way to differentiate yourself from the walled garden behemoths. For example, MGI's Hybid SDK is a piece of software that mobile app developers can integrate into their apps to sell ad inventory automatically. The SDK is an open-source solution that provides transparency for mobile app developers on how the SDK works, what user data it uses, and how to best integrate it with their applications. In other words, it's an open box as opposed to the black boxes of walled garden companies.

Open internet players are also often more flexible in incorporating things according to the customers wishes. For example, they're often more willing to work with independent measurement providers of the customers choosing.

Platforms are also chosen by trying out a handful of platforms and comparing the performance. An advertiser might sign up with a couple of different DSP providers and run trial ad campaigns on them. The budgets allocated to each platform can then be adjusted in accordance with the campaigns' performances. The DSP's that perform well will get more money allocated to them and the ones underperforming will be dropped all together.

Publishers can also do the same. They can try a couple of different SSPs and monitor the results. Let's take the Swedish news site Aftonbladet as an example. By visiting their website and inspecting the ads shown there, we find an ad from adns.com, which belongs to Xandr (a Microsoft-owned ad platform). Little further down we find another ad delivered to us through Google Ads. Using multiple providers enables the publishers to compare the performances between different SSPs. In some cases, using multiple SSPs also helps with fill rates i.e., making sure every available ad slot gets sold. This practice of trying out different platforms highlights why the retention rate is useful KPI.

Market trends

The main trends in digital advertising are as follows: identifiers and third-party cookies going away, a shift from traditional ads to digital ads, increasing shift to programmatic, consolidation, and growth in mobile and CTV.

Removal of third-party cookies and identifiers: Third-party cookies and identifiers have essential been the cornerstone of programmatic advertising. However, this has started to change. In April 2021, Apple instituted changes with their Identifiers for Advertisers (IDFA) tool, which made user-tracking an opt-in choice. This change made the targeting of iPhone users harder and dealt a tangible blow to the programmatic market. Facebook announced that Apple's changes would negatively affect their 2022 revenue by up to USD 10 billion. Another sector hard hit was mobile game developers who noticed that their user acquisition campaigns on iPhones deteriorated strongly, this is a significant problem as iPhone users are meaningfully more profitable than Android users.

In addition to Apple's changes to IDFA, Google is also expected to institute similar changes to their identifier for Android, Google Advertising ID (GAID). Google also announced that starting in 2024 third-party cookies will be phased out from the Google Chrome browser. This is a big deal as Google Chrome is the most common browser with a 64% market share globally. Firefox and Safari already previously removed third-party cookies from their browsers.

The removal of third-party cookies and the depreciation of identifiers means that the profiling and targeting of individual users will become harder and, in some cases, impossible. So far this has meant that advertising and user acquisition efforts have become less effective and subsequently, they have spent less on ads.

One way to counter this trend is the use of first-party data. Having first-party data allows companies to profile users the same way as using third-party cookies/identifiers. Getting first-party data generally requires the platforms to have their own content from which they can gather this data. MGI has access to a large amount of first-party data through their own games and SDKs and are able use this data to target individual users effectively.

Another solution is to use other targeting methods such as *contextual targeting* and *cohort targeting* that don't depend on identifiers and third-party cookies. Contextual targeting is where the context of the website/content will be used to serve ads, for example ads for cars and watches to go along with an article about golf.

For this to work in an automated world, the ad platforms need a way to automatically identify the correct context of sites and what ads are relevant to it. MGI has acquired two companies focused on contextual targeting: Beemray (2021) with their Moments.ai solution and Dataseat (2022), a DSP focused on mobile games. Dataseat was quite early with their contextual targeting solution and hence were ready when Apple announced their changes to IDFA.

Market overview – Digital advertisement (4/4)

Since then, Dataseat has seen strong growth as mobile game developers needed a new solution for user acquisition of iPhone users.

Cohort targeting is method where with the help of machine learning end users are divided into cohorts. Ads are then targeted at a cohort level rather than at an individual level. MGI uses the internally developed ATOM product for cohort targeting. Preliminary tests of ATOM on mobile have been promising with MGI stating that results show a double-digit improvement in ad spending with ATOM than without (in a IDFA constrained setting).

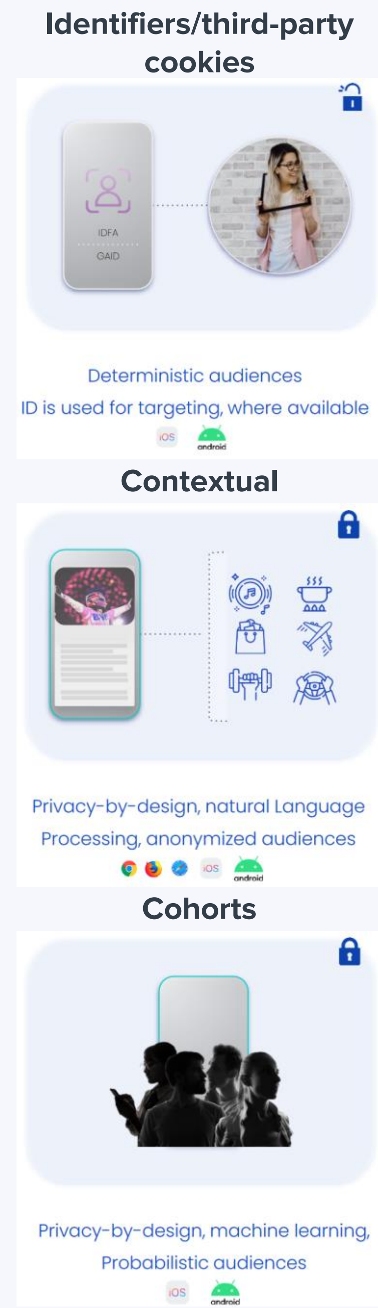
Other market participants are also working on other targeting solutions such as The Trade Desks Unified ID 2.0 that aims to replace third-party cookies with hashed and encrypted email-based identifiers. Other cookie-less solutions are for example Neustar's Fabrick ID and LiveRamp's ATS. With their first-party data and technological solutions, MGI feels confident that they are well-positioned going forward into this new world without third-party cookies and identifiers.

Shift from traditional ads to digital and programmatic ads: Essentially all future growth in ad spending is expected to come from digital ads. Traditional advertisements such as radio, television, and newspapers have flat or even negative growth rates as digital ads continue to capture market share.

Within the digital ad market, programmatic advertising has grown rapidly to become the leading form of digital ads. This trend is expected to continue. As MGI only deals with programmatic advertisements this trend is a clear positive for them going forward.

Consolidation: The current ad tech market has hundreds of companies. However, in a world without identifiers things will be much harder and smaller companies may struggle to survive, as investments for new solutions are expensive and first-party content becomes even more important. This has led to consolidation within the ad tech market with smaller companies merging and getting acquired. MGI alone has acquired six companies within the ad tech sector since 2020. David Philippson, CEO of Dataseat mentioned that one of reason they decided to sell the company to MGI was that they believe that to be successful going forward, ad software platforms need their own first-party content. By joining MGI Dataseat gains access to MGI's data provided by their first-party content.

Growth of programmatic ads on Mobile and CTV : The final trends relates to the growth of Mobile and CTV platforms within programmatic advertising. Mobile already represents about half of the total programmatic market. Mobile also grows faster than the overall programmatic market and is thus expected to increase its share even further. CTV differs from traditional TV by having its content consumed over the internet i.e., through streaming on TV apps such as Netflix and YouTube. Placing ads on CTV is a relatively new market, but a rapidly growing one at that. Recently both Netflix and Disney+ has announced that they will launch ad-supported tiers of their streaming services. In its core, programmatic advertising on CTV works much the same as on web or mobile. Using different methods, the end user is profiled, and the best fitting ad is shown to them. MGI strengthened their position on this platform through the acquisitions of Smaato and LKQD.



Source: MGI, Inderes

Market overview – Games market (1/2)

The size and growth of the global games market

The global games market has grown to become one of the largest digital entertainment industries. Newzoo estimates that the global games market will decrease by around 4% to USD 184 billion in 2022. This projected decrease is partially due to the huge boost gaming received in 2020-2021 as a result of the COVID pandemic. Newzoo expects the market to continue to grow at around 5% CAGR until 2025, driven in the big picture by growth in both the number of players and the amount of money spent on games.

Geographically, the biggest market is formed by Asia-Pacific that covers some 48% of the games market of which China represents about half. The second and third largest geographical areas are North America (26%) and Europe (18%). MGI's key target markets are North America and Europe.

MGI operates on PC, console, and mobile platforms

Divided by platform, Mobile devices (smartphones and tablets), which are one of MGI's focus areas going forward, account for just over half of the total global games market with a projected value of around USD 92 billion for 2022. Newzoo forecasts that the mobile games market will continue to grow at an annual rate of 4.3% between 2022 and 2025, making mobile gaming the fastest growing gaming segment.

The PC and console market is a USD 92 billion market and accounts for around half of the entire game market. Breaking it further down the console market is estimated at around USD 52 billion in 2022. The console market has grown strongly in recent years (CAGR 16-22: 8%) and the growth is expected to continue at around the same level in 2022-2025. The growth drivers are the next generation PlayStation and Xbox consoles and new versions of Nintendo Switch that have entered been released.

The size of the PC gaming market in 2022 is estimated at USD 38 billion. The market has grown at a stable rate (CAGR 16-22: 4%) and stable growth is also expected for the near future (CAGR 22-25: 2.2%). The distribution of PC games is virtually fully digital. The PC games marketplace Steam had around 132 million active monthly users in 2021 (2020: 120 million). Epic Games Store that has risen to challenge Steam in recent years had 62 million active monthly users in December 2021 (2020: 56 million). MGI also distributes their PC games through its own websites.

Over the past 10 years, mobile gaming has grown exponentially as smart phones have become common and mobile has become the most popular gaming platform. The increase in the popularity of mobile gaming hasn't taken away from PC and console gaming. Mobile gaming has instead brought about a completely new "casual gaming" genre, reaching a completely new gamer target group

Market trends

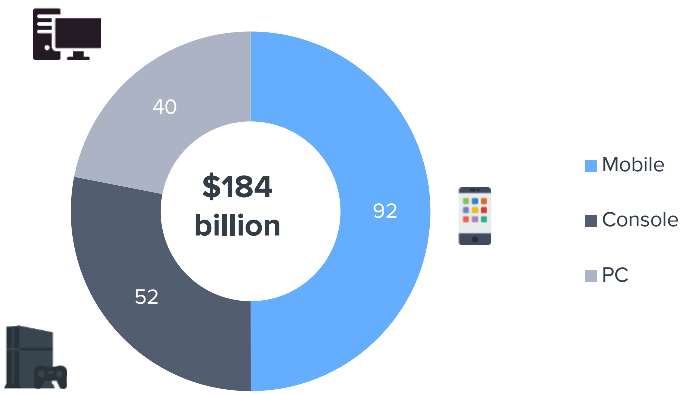
One of the current market trends in mobile gaming is the depreciation of Apple's IDFA. When it comes to mobile gaming, iPhone users are considered more valuable as on average they spend more money. With the depreciation of Apple's IDFA mobile games developers noticed that the efficiency of their user acquisition efforts had decreased significantly. This led them to spend less on UA on iPhones and to some extend focus their efforts on Android instead. The ad-tech market is working hard to introduce new ways of targeting users on iPhones to bring the efficiency of UA back up to previous levels.

Another trend has been the consolidation of games companies. Game development is a risky and costly endeavor with little guarantee of success. Smaller games studios with only one or two games under development often stake the entire company on the success of a single game. Should the game be a flop, the company might struggle to survive. To minimize this risk, game developers can take on publishers who finance the games in exchange for future royalties or join forces with other game studios. This is exactly what MGI did in its early stages. MGI was able to expand their game portfolio through acquisitions, which inherently diversified their revenue stream and lessened the dependency on any single game.

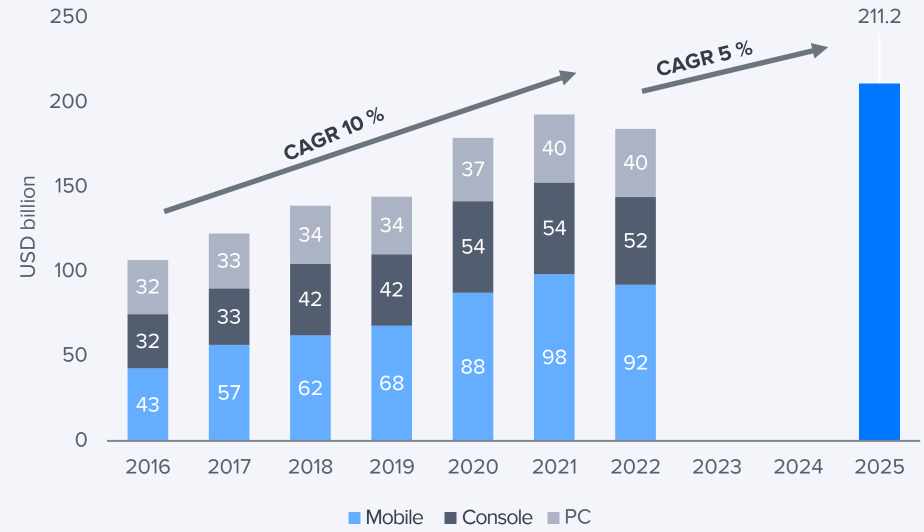
In later years, consolidation has kicked into a new gear with large M&A transactions on the games market. The largest one being Microsoft's pending USD 68.7 billion acquisition of Activision-Blizzard. Other recent ones include Take-Two Interactives acquisition of Zynga (USD 2.7 billion) and Sony's acquisition of Bungie (USD 3.6 billion). In this area, the trend of vertical integration between the console makers and the games companies is also visible. This is partially due to the rise of gaming subscription services such as PlayStation Plus (Sony) and Xbox Game Pass (Microsoft).

Market overview – Games market (2/2)

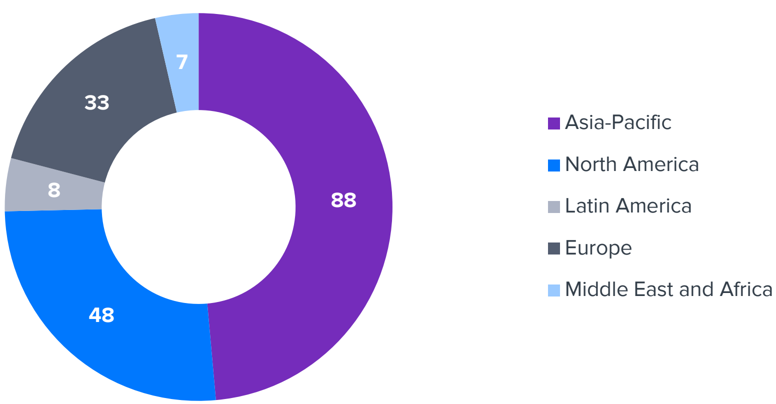
Games market by platform 2022



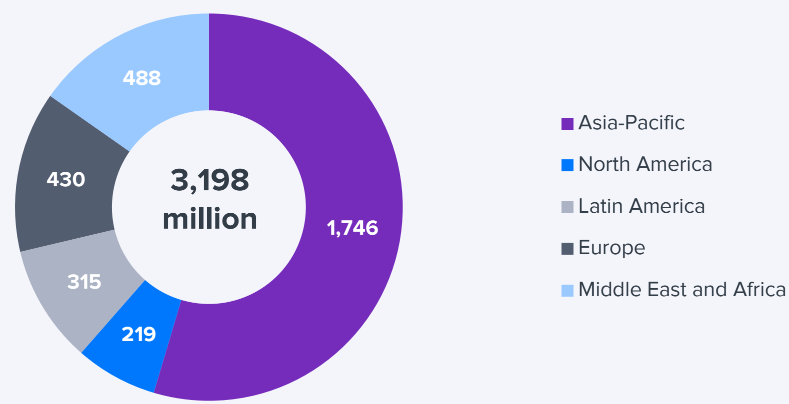
Games market development



Geographical breakdown of games market



Number of players (millions)



Source: Newzoo, Inderes

MGI's strategy and financial targets (1/2)

Strategy for the upcoming years

MGI's strategy is to become a significant player in the ad-tech industry as a full-stack omnichannel ad-platform with first-party content. To achieve this goal, MGI has since 2012 followed the strategy of "buy, integrate, build and improve".

With the increased leverage from the recent acquisitions and the more difficult capital markets, MGI will for now not focus on the buy part, but rather on the integrate, build and improve aspects of its strategy to deliver profitable organic growth. One of the company's priorities is also deleveraging.

MGI aims to further integrate the acquired companies with the goal to achieve technical integration, cost-efficiency, and costs savings. MGI will also continue to build and improve the business through internal development of the ad platform and games portfolio. MGI's goal is to become one of the top 5 ad software platforms worldwide.

Capitalizing on changes in the market

The company believes that the ongoing privacy changes in the ad-tech space will disrupt the current market status and open the door for new opportunities and innovations. Specifically, MGI thinks that using identifiers to create profiles of users will go away and companies must turn to other solutions.

The company believes that having first-party content and hence first-party data will become vital in the future. As the targeting of end user through identifiers will decrease, more data will be needed to effectively target the relevant end users. As MGI has a decent games portfolio combined with many developers using their software development kit (SDK), the company has access to a significant amount of first-party data. This data will enable the company to target users and more efficiently optimize their proprietary targeting algorithms.

The company is also focused on the faster growing platforms of mobile and connected TV (CTV). MGI is already one of the key players on the supply side of programmatic advertising for mobile.

The MGI flywheel

Within the ad software platform there is a network effect where the more advertisers the platform has the more publishers it attracts and vice versa. MGI has named this the flywheel effect where growth in one part of the business drives growth in the other. The flywheel is further accelerated by having own first-party content. First-party content not only provides data for the "Data Engine" but also acts as publisher that sells ad inventory. This provides a reliable supply of quality ad inventory and works to attract more advertisers. MGI likes to say that "data is the glue that keeps the flywheel together".

MGI's recent acquisitions highlight the flywheel effect well. AxesInMotion is a mobile game developer with over 800 million downloads. Most of their revenue comes from advertisements, which makes AxesInMotion a publishers in the ad tech space. Having quality publishers like AxesInMotion in your ecosystem helps attract advertisers to the platform, more advertisers in turn attracts more publishers. The other recent acquisition, Dataseat, is a mobile DSP focused on user acquisition for medium-to-large mobile game developers.

Dataseat brought along a number of existing customers (advertisers), whose ads might now end up on AxesInMotion's games. Also, the advertisers that came with the Dataseat acquisition help to attract new publishers to the platform, and thus the flywheel keeps spinning. Furthermore, both companies provide additional first-party data that MGI can use to further develop and improve their ad platform.

First-party content strategy

MGI's strategy for their first-party games content going forward is to grow through user acquisition and some internal game development. MGI's focus is on the casual and mobile games as the data gathered there better supports their ad software platform. MGI has traditionally not done a lot of new game development due to the costs and risks involved and has rather grown through M&A. However, with the acquisition of AxesInMotion, MGI now has an experienced in-house mobile game developer. Currently, AxesInMotion has at least two mobile games under development. In addition, MGI has one licensed game, Golf Champions, and one unnamed project set to be released in 2023.

Further growth within mobile games is expected to come from leveraging MGI's ad platform in regards of user acquisition and monetization via advertisements. A good example here is AxesInMotion who before the acquisition didn't conduct any user acquisition. MGI believes that with their internal expertise they can cost effectively conduct UA for AxesInMotion's games and drive incremental revenue going forward. In addition, MGI is confident that they can increase the CPM as they have good knowledge of their players which advertisers are willing to pay more for.

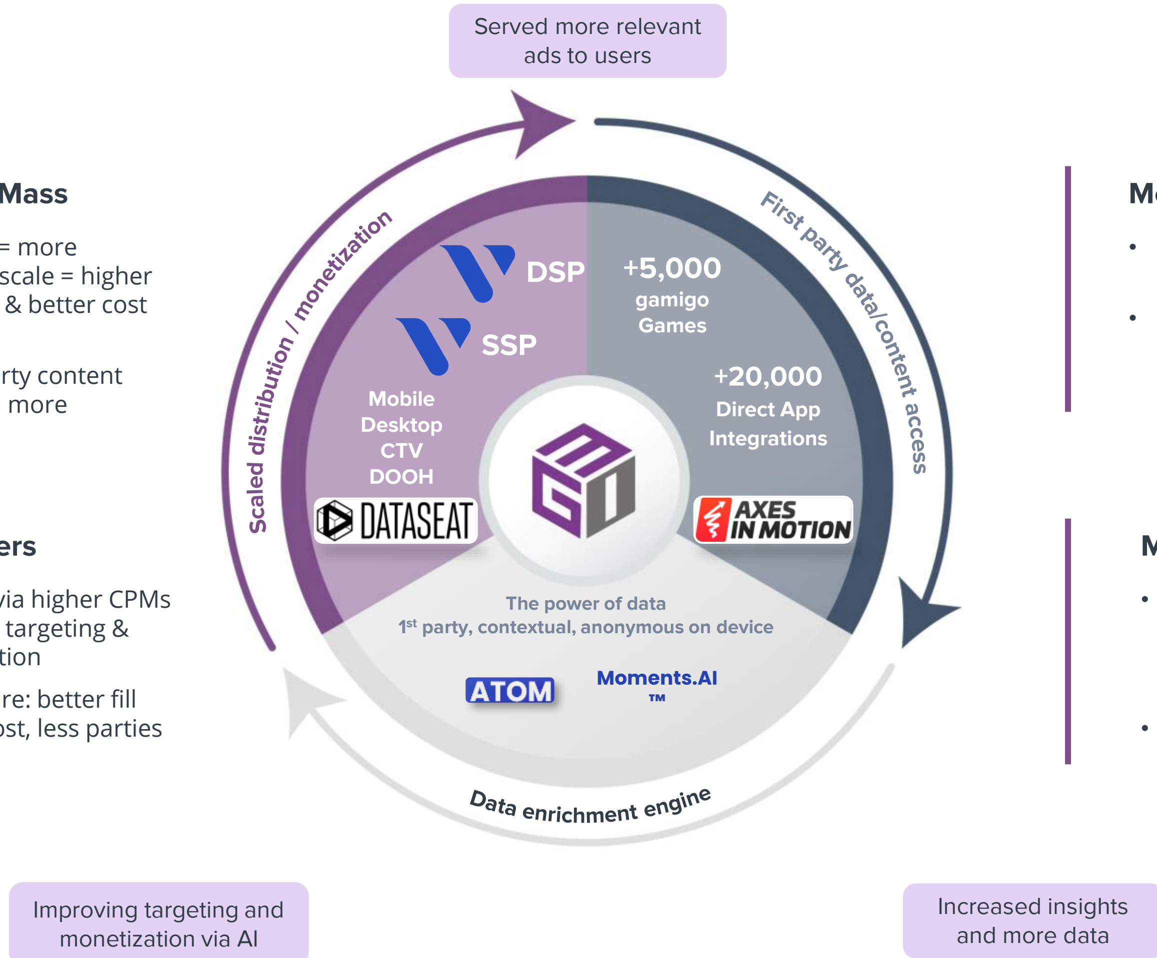
The MGI Flywheel

More Critical Mass

- More volume = more economies of scale = higher attractiveness & better cost efficiency
- Value of 1st party content increases with more advertisers

More Publishers

- Adding value via higher CPMs via audiences, targeting & yield optimization
- Larger rev share: better fill rates, lower cost, less parties in the chain



More Players

- Adding 350-400 games to the MGI platform
- Adding ca. 500 apps per year via direct publisher integration (SDK)

More Advertisers

- Access to MGI audiences (first party content) and contextual data leads to high click through rate (CTR)
- One-stop shop, omnichannel (Mobile, Desktop, DOOH, CTV)

Source: MGI

MGI's strategy and financial targets (2/2)

Financial targets

The company's financial targets over the medium-term are:

Growth: Revenue CAGR of 25-30%

Profitability: Adj. EBITDA margin of 25-30% (EBITDA adjusted for nonrecurring costs)

Profitability: Adj. EBIT margin 15-20% (EBIT adjusted for nonrecurring costs and PPA amortization)

Solidity: Pro forma leverage ratio of 2-3x.

When comparing the revenue target to the previous years, we can see that overall growth has easily exceeded the target due to in part to the number of acquisitions made by MGI. Organic growth in 2021, however, was an impressive 38%. Over the three first quarters of 2022 revenue growth was 35% while organic growth reached 19%. Going forward we asses the revenue growth target as quite ambitious considering the outlook of the current macro-environment and the expected growth rate of the overall programmatic ad market (11.6%).

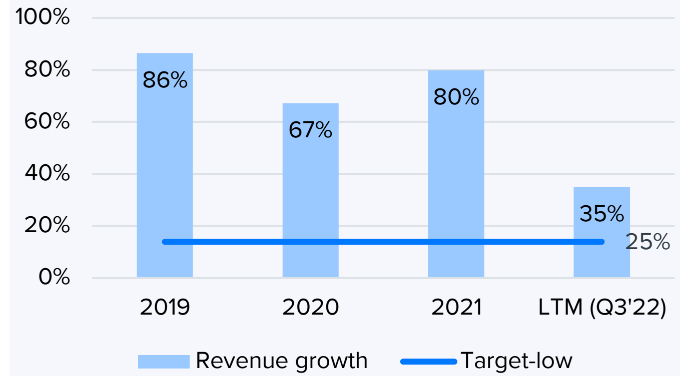
The adjusted EBITDA target is in line with the LTM margin of 27% and the 2021 margin of 28%. In 2019 and 2018 the margin was lower at 21% and 22% percent. In fairness to the company the financial targets were set in 2021. In addition, the company conducted two large acquisitions in 2021 that to an extent changed the cost and profitability profile of the company.

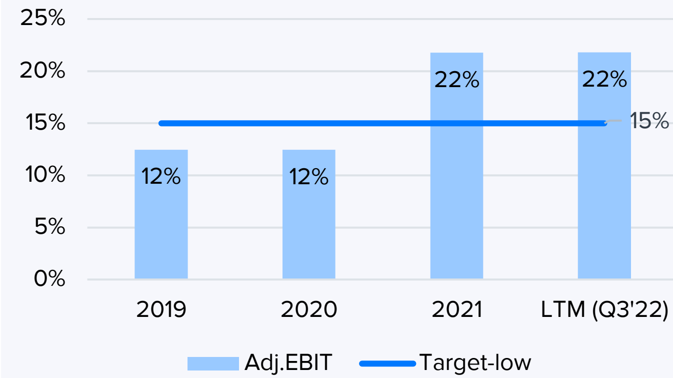
As for adjusted EBIT we see that that MGI was below the range in 2019 and 2020, while in 2021 and LTM (Q3) the company exceeded the upper bound of the target range. We see the adjusted EBIT target of 15-20% as a reasonable range for MGI going forward.

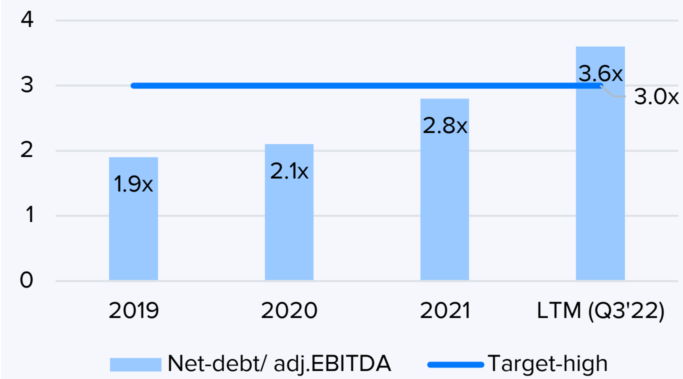
MGI's reported net-debt to adj. EBITDA ratio has been steadily increasing since 2019. After taking on more debt in 2022, the ratio stood at 3.6x at the end of Q3'22. This is above the company's target range of 2-3x. MGI has stated that one of the goals going forward is to get ratio back under 3x. This is to be done through a combination of growing adj. EBITDA and paying down debt.

The company's current guidance for the year 2022 is revenue growth of 25-29% and an implicit adjusted EBITDA margin of 26-29%. Over the past years MGI's management has been quite conservative with the guidance, having under promised and over delivered. Guidance was raised 3 times in 2021 (partially due to acquisitions) and twice in 2022.

Financial targets and performance (reported)







Source: MGI, Inderes

Development of MGI's strategy

2012 - 2016

Scaling games business through acquisitions and limited development

- Focus on achieving critical mass to be a profitable games company
- New game development is expensive and risky and therefore MGI focused on growth through acquisitions
- Revenue increases from EUR 10 million to EUR 39 million

2017 - H1 2022

Building the ad-software platform

- Focus shifting to building an ad software platform business
- Growth through vertical acquisitions to construct a full stack ad platform
- Continue growing first-party games content through acquisition such's as KingsIsle and AxesInMotion
- Revenues growing quickly: increasing from EUR 42 million in 2017 to EUR 252 million in 2021

2022-

Focus on continuing profitable organic growth

- Due to higher leverage and worsening capital markets company shift focus from M&A to organic growth
- Focus on integrating the acquired companies and capitalizing on the opportunity that the depreciation of identifiers will offer
- Focus on the faster growing platforms of mobile and CTV

Must Win Battles in the strategy

Implemented

- Building a full-stack ad-software platform while maintaining profitability
- Divesting/closing the noncore focus of influencer marketing
- Gaining critical mass on the gaming side

Near future, 1-2 years

- Successful integration of the acquired companies especially on the ad software side
- Maintaining profitability level in the worsening macro economic environment
- Using generated cash flow to pay down debt and shore up the balance sheet

The next 5 years

- Continuing to innovate on the ad platform side to stay competitive with changes in the market
- Maintaining revenue growth and expanding market share of the ad-platform with a strong focus on growing the DSP segment
- Developing and nurturing first-party games content through internal development and acquisitions

Source: Inderes

Financial position 1/2

Balance sheet and financial position

MGI's balance sheet total at the end of Q3'22 was EUR 1,104 million. Most of the assets consists of goodwill (612 MEUR) and other intangible assets (238 MEUR) mainly relate to intangibles from acquisitions and capitalized development costs. The remaining assets consisted mainly of cash and cash equivalents (118 MEUR) short-term receivables (97 MEUR), financial assets and other assets (21 MEUR) and fixed assets (8 MEUR). The financial assets consists mostly of a MEUR 11 investment in shares of Enad Global 7 group, a Swedish listed games company. This investment represents an 8.3% ownership of the company.

MGI’s net working capital (NWC) turned positive in 2020 and has grown to EUR 44 million as of Q3’22. This corresponded to about 14% of revenue. The company expects NWC to remain positive but believes they can decrease it as a share of revenue going forward.

Assets per segment is divided as follows: DSP 7.8% and SSP 92.2%. Overall, we think that MGI’s assets are relevant for the operations excluding perhaps the Enad Global 7 group investment. It’s hard to assess, but we don’t foresee any immediate risk for write-downs.

Capital structure

Due to the number of acquisitions made, MGI’s capital structure has changed considerably. The acquisitions have been funded mostly by debt and equity. As of Q3’22 MGI’s net gearing increased to 81% while the equity ratio stood at 34%.

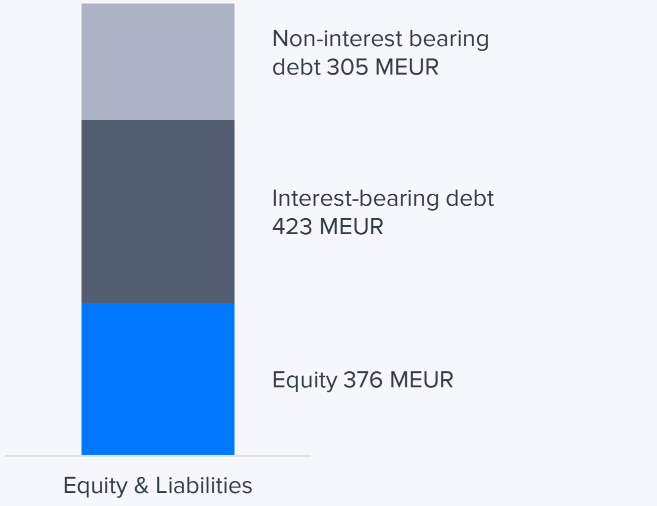
As of Q3’22 MGI has a total equity of EUR 376 million. MGI carried out a direct share issue of SEK 300 million (~EUR 27.7 million) during Q2’22, which increased the number of outstanding shares by 9.57 million. The company had EUR 507 million in long-term liabilities that consist mostly of issued bonds. MGI’s short-term liabilities amounted to EUR 221 million.

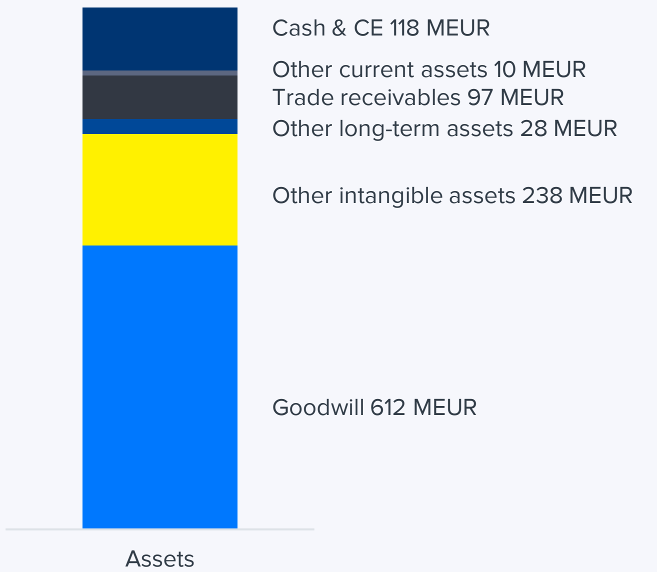
The company’s interest-bearing debt consists mostly of two senior secured floating rate callable bonds. The first one issued in November 2020 with follow up issues during 2021. During Q2’22, MGI issued the second bond for EUR 175 million at an interest rate of 6.25% + 3-month Euribor. The company also bought back bonds worth EUR 115 million at the same time. As of Q3’22, the company has EUR 391 million in outstanding bonds. Of the bonds, EUR 235 million expire in November 2024 and the remaining amount expiring in June 2026. MGI also has a EUR 30 million revolving credit facility with UniCredit Bank at an interest rate of 3.875% p.a.

Taking into account MGI’s cash position of EUR 118 million the company’s net debt comes out to EUR 307 million as of Q3’22 (2021: MEUR 196). The net debt to adjusted EBITDA ratio was 3.6x, which is above the company’s target of 2-3x. MGI interest coverage ratio calculated as adjusted EBITDA over cash interest payments over the LTM (Q3’22) was 4.0x this is a slight decrease from 2021 when the ratio stood at 4.7x.

In addition to the above detailed interest-bearing debts, MGI as of Q3’22 also has contingent considerations somewhere of approximately EUR 125-130 million. Contingent considerations are essentially additional payments agreed on during the acquisitions of companies that will be paid out only if certain performance targets are met.

Balance sheet 1,104 MEUR





Source: MGI, Inderes

Financial position 2/2

The contingent considerations on the balance sheet are related to the AxesInMotion and Dataseat acquisitions. As the payments are performance linked it's hard to estimate how much will ultimately get paid out. For the full amount to be paid out it would mean that the company's EBITDA would increase by approximately EUR 20 million per year. This implicitly means that if the EBITDA increase is not met according to the performance schedule a large part of the considerations will not be paid out. According to the company the contingent considerations cover the period of 2023-2025.

As of now we don't believe that MGI will further increase its indebtedness but rather the company has indicated that it will concentrate on deleveraging the balance sheet.

Return of equity and invested capital

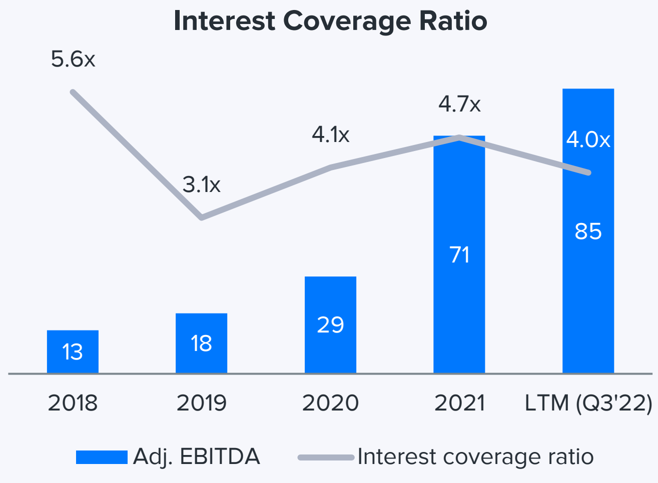
MGI's return on investment (ROI) and return on equity (ROE) has lingered at a sub-10% level for the past few years. In 2021, the company's ROI was 7.8% while ROE was 6.6%. The comparable figures for the previous years were lower with ROI averaging 3.1% and ROE 1.3%. The company's low figures are due to a rapidly expanding balance sheet after the numerous acquisitions in the past years. Looking at invested capital we see that it has grown from EUR 177 million in 2018 to EUR 680 million in Q3'22. At the same time, the earnings are burdened by increased amortizations of purchase price allocation and higher interest expenses. With MGI stating that M&A is no longer the focus we expect invested capital to grow at a more modest pace going forward. This combined with increasing earnings will eventually start to improve the ROI and ROE. One thing to note is that MGI's 2021 earnings benefited from a positive tax income of EUR 1.2 million.

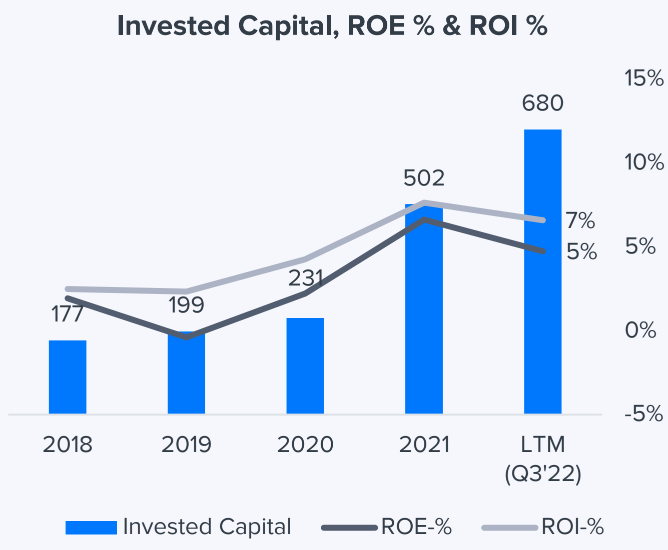
Cash flow

MGI's underlying operations produce a decent stream of cash flow. In 2021, MGI had EUR 65 million in operating cash flow. Investments into tangible assets were a modest EUR 5 million. Investments into intangible assets (excl. acquisitions) where considerably larger with investments of EUR 35 million in 2021. Deducting the investments from the operating cash flow, we get a free cash flow of EUR 25 million. Of the EUR 40 million in investments, MGI lists EUR 10 million as maintenance capex and the remaining EUR 30 million as expansion capex. Deducting only EUR 10 million would naturally give a substantially higher FCF.

The company expects investments going forward to amount to EUR 25-30 split between EUR 15-20 million in expansion capex and EUR 10 million in maintenance capex. If MGI can maintain this investment level while hitting their revenue growth target, the FCF would start increasing at a decent pace. When it comes to FCF, it's worth keeping in mind that a large part of the free cash flow produced by MGI is needed to service the interest payments (2022 full-year estimate EUR 30-32 million).

The company currently pays no dividends and doesn't carry out any share buybacks. Going forward the FCF will be used to pay interest expenses and what is left after that will be used to reinvest into the company and possibly also to pay down debt. In 2023.2025, FCF will also be needed to pay out the current contingent consideration, which we estimate to amount to about EUR 15 million per year.





Source: MGI, Inderes

Investment profile (1/2)

Profitable growth with a short track record

MGI's profile is one of a profitably growing platform company complemented by first-party games content. After putting acquisitions on hold the company aims to continue to deliver good organic revenue growth. As a platform company MGI also has a strong cash generation capability as future investments should be modest enough that a decent amount of free cash flow is produced. Currently, a large part of that FCF is going to service the interest payments and will in short term dampen the net earnings. However, if the company is able to maintain their profitability while revenues grow the increasing amounts of FCF can be used to pay down debt, which will free up further cash for future reinvestments, acquisitions, and dividends.

The current company structure is quite new and has a short track-record. In many ways, 2021 and 2022 YTD are the only time periods that gives us some indication of the company's potential profitability going forward. Here the main question is if the high organic growth rate and current profitability level are sustainable.

Positive value drivers and opportunities

We asses that MGI's main value drivers are:

Growth of the programmatic market: The market is expected to grow at a double-digit pace and the key focus area of MGI, mobile, is growing even faster.

Omnichannel ad platform: MGI's ad platform is omnichannel across desktop web, mobile web, in-app, and CTV. This means that advertisers can run campaigns on multiple devices at the same time using a single ad software platform. Competitors such as Applovin focuses only on mobile and CTV while competitors like PubMatic and Magnite are active on web and CTV, but not on mobile. See graphic on next page.

Proprietary targeting solutions: The company's contextual solution, moments.ai, and cohort solution ATOM provides MGI with alternative targeting methods for when identifiers and third-party cookies are gone.

Scalable cost structure: MGI's costs are mainly variable in nature, which should scale decently and help the company maintain its current profitability.

The main opportunity we see for MGI is with the ongoing changes regarding identifiers on the programmatic ad market. With identifiers going away, MGI hopes that the market will need to look at other targeting solutions like the ones provided by MGI. This could be a major opportunity if these solutions turn out to be a viable options in replacing identifiers and if competitors are slow to roll out comparable solutions. Dataseat that was acquired by MGI focuses on a contextual solution and has had good success so far in winning over medium-to-large mobile game developers. A strong signal that developers are happy with the performance.

Risks and threats

We see that the main risks and threats for MGI are as follows:

Navigating upcoming changes: With identifiers and third-party cookies going away the programmatic market is trying to figure out what to replace them with. Will it be a contextual solution or cohort solution as MGI believes or will it be some other solution like say Unified ID 2.0 that becomes the new market standard. If this where to happen and MGI is too slow to react they run the risk of falling behind their competitors. As advertisers and publishers often use several ad platforms the ad spending can quickly be decreased or increased depending on performance. There is also the possibility that identifiers don't go away this is not necessarily a bad thing for MGI, but it would perhaps remove the opportunity to rapidly capture market share from larger competitors.

Other market disruption: Disruption due to technological changes, regulation, or initiatives from large platform owners like for example Apples IDFA initiative, could threaten the value proposition of programmatic advertising. Especially if the disruption is large enough to severely impact overall ad spending in the long term.

Slowdown in ad spending: Overall ad spending is tied to the global macro economic climate and has softened over the last two quarters. When ad budgets start getting slashed it has a twofold impact on the programmatic market a drop in volume and a drop in CPM (costs per thousand ad impressions). MGI does have two things working in their favor in combating the cyclicality of ad spending. Firstly, MGI is active in the fastest submarkets of mobile and CTV. Secondly, MGI derives 69% of their revenues from North America, which traditionally has been a more resilient market than Europe and Asia.

Rapid slowdown in games revenue: In 2021, 60% of the MGI's EBITDA came from its games. We also know that most of this was from the MMO games. Several of MGI's MMO games have been around for a while and it's inevitable that some of these games will fall off at some point. MGI used to talk about 30 MMO games, but today that number is 10.

Investment profile (2/2)

Without new game development and acquisitions on hold there is the possibility that revenue from the MMO games could slow down quicker than expected. However, as growth is mostly expected to come from the ad software platform, the games contribution and importance to revenue will decrease over time. Therefore, this risk is perhaps mostly relevant for the upcoming 2-3 years

Competitive advantage

One of MGI's main competitive advantage is their own content. Very much like the large walled gardens, MGI is also a publisher in the ad-tech value chain. This gives them a couple of advantages over competitors who don't have their own content.

Owning your own content provides MGI with copious amounts first-party data. This data unlike third-party data won't go away due to changes in identifiers such as IDFA or cookies. This means that MGI can use their first party data to accurately target users with advertisements the same way as with identifiers. Through their games and SDKs MGI is connected to over 2 billion end consumer devices.

Another advantage of having your own content is that MGI can use it to develop and improve their non-identifier targeting solutions. Moreover, instead of relying on third-party publishers to trial their new solutions MGI can do it in-house and quickly get feedback on performance. MGI is also able to use the first-party data as a measuring stick against their contextual and cohort solutions. In many ways, MGI has built their ad software platform with a privacy-first approach hoping to capitalize on future changes.

MGI's commitment to transparency is also a competitive advantage. MGI's Hybid SDK is open-source meaning that the code is freely available to mobile developers to inspect and integrate into their aps, essentially enabling complete transparency. This is important when it comes to SDKs as it makes the integration easier for the developers and also allows the developers to see what data the SDK is gathering. MGI's SDK is currently the only open-source SDK on the market and is connected to over 20,000 mobile apps. This transparency has not gone unnoticed as MGI's Verve group has ranked number 1 in Pixalate's Mobile Seller Trust Index for three quarters in a row. The Seller Trust Index analyzes the top SSPs for programmatic in-app ad inventory quality. Pixalate is a fraud-protection, compliance and privacy platform for mobile advertising and connected TV (CTV).

	MGI	Magnite	theTradeDesk	PubMatic	AppLovin
Transparency/ Open Standards	✓	✓	✓	✓	
Open Source Projects	✓	✓	✓	✓	
DSP	✓		✓		✓
DMP	✓		✓		✓
SSP	✓	✓		✓	✓
Full Stack	✓				✓
Mobile	✓		✓	✓	✓
Web	✓	✓	✓	✓	
CTV/ OTT	✓	✓	✓	✓	✓

Source: MGI

Investment profile

1. **A profitably growing ad platform with first-party content, but a short track record**

2. **A strong and trusted player in the mobile programmatic ad market**

3. **Omnichannel platform across desktop web, mobile web, in-app, and CTV**

4. **Ready for a shakeup in the programmatic advertising market**

5. **Levered balance sheet, but good cash flow that should enable MGI to pay down debt in the future**

Potential

- Low valuation multiples with upside potential as the strategy progresses and growth continues
- Leveraging the first-party content and data in an identifier free world
- Increasing market share in the mobile programmatic ad market
- Establishing themselves as strong players in the fast-growing market of programmatic ads for CTV

Risks

- Failure to maintain and increase market share on the programmatic market
- Proprietary targeting solutions failing to replace identifiers and third-party cookies
- Decrease in programmatic ad spending due to market disruption or macro economic headwinds
- Leverage above financial target, but strong cash position
- Rapid slowdown in games revenue

Source: Inderes

Estimates (1/2)

Basis for the estimates

We estimate MGI's revenues over the short and medium term by looking at several factors including the organic growth rate over the previous years, growth of the programmatic market, and growth of total ad spending. We also look at MGI's financial targets and the company's competitors' growth levels. When it comes to the two segments, we expect the DSP segment to continue to grow significantly faster than the SSP segment.

The challenge in estimating the future revenues and profitability of MGI lies in the short track-record of the current structure of the company. How relevant is the growth and profitability levels of MGI in 2019 and 2020 compared today. The company has changed a lot through acquisitions and conducted two large ones in 2021 with Smaato and KingsIsle.

Overall, we expect that future revenue growth will primarily be derived from the ad software platform. We expect that MGI's games operations will produce a relatively stable stream of revenues. The current games, as all games, will experience steadily declining revenues as time passes. This decline is, however, slowed down to some degree due to the development of additional content to the games, licensing/publishing of new games, and some development on the mobile and casual games side.

As for the ad platform, we expect that MGI will further incorporate the acquired companies into a streamlined operation and continue to successfully acquire new customers on both the demand and supply side. The company will grow in line or slightly faster than the overall programmatic market due to MGI's focus on the faster growing platforms of mobile and CTV.

Estimates for 2022

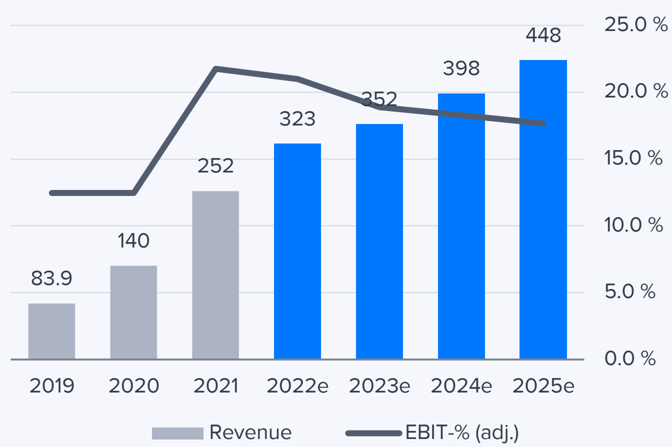
MGI's performance over the three first quarters continued as strong as in 2021. Revenue over these three quarters stands at EUR 232 million, which is an increase of 35%. Adjusted EBIT increased by 37% while the margin remained stable at 20.9%. Earnings per share remained flat at EUR 0.06. The increase in EBIT was largely offset by increased financial expenses following the bond issues in 2021 and 2022.

In conjunction with the release of Q3'22 results, MGI revised their revenue guidance slightly upwards while keeping the adjusted EBITDA guidance unchanged. Guidance for full year 2022 is now Revenue EUR 315 – 325 million (295 – 315 MEUR, previous) and adjusted EBITDA of EUR 83-93 million (83-93 MEUR).

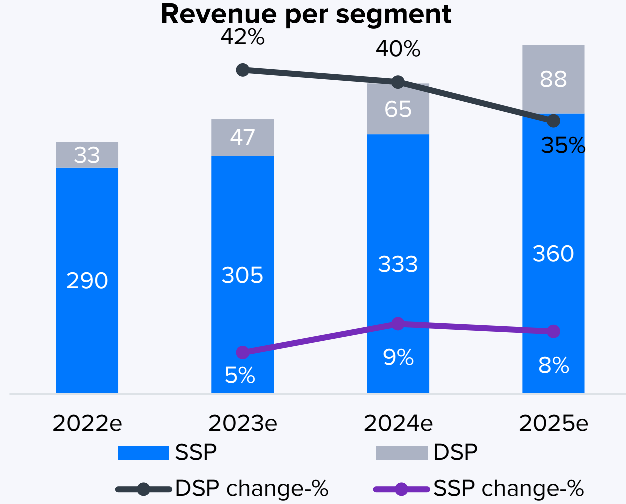
We estimate that 2022 full-year revenue will come in at EUR 323 million and adjusted EBITDA at EUR 85.5 million (26.5% margin). Correspondingly, we estimate that the adjusted EBIT will be EUR 67.8 million (21.0% margin). Thus, we project that Q4 revenues increase by 14% to EUR 91 million and that adjusted EBIT comes in at EUR 19 million (Adj. EBIT 21.1%).

The net result is weighted down by the interest payments and comes in at an estimated EUR 12.9 million (4.0% margin). If we ad back amortization of PPA and nonrecurring costs, we get and adjusted net result of EUR 30.9 million (9.6% margin). This translates to an adjusted EPS of EUR 0.19 (0.24 in 2021). The adjusted EPS is lower than in 2021 due to a positive tax impact of EUR 1.2 million in 2021.

Revenue and EBIT-% development



Revenue per segment



Source: Inderes

Estimates (2/2)

Estimates for 2023 - 2025

For the upcoming year of 2023, we estimate that MGI's revenues will grow by 9%. This is of course significantly below the company's target level of 25-30% and the organic growth level of 23% achieved in Q3'22. We believe that MGI's revenues will slow due to economic instability in the global economy with the expectations that several countries will enter a recession. This will and to some extent already has led to a slowdown in advertising spending. eMarketer revised down their near-term worldwide digital ad spending projections on Nov 22 and now projects growth of 8.6% in 2022 (15.6% previously). eMarketer also revised down its 2024 estimate of digital ad spending by 8%. However, as MGI primarily operates in the faster growing submarket of programmatic advertising on mobile we believe that even if digital ad spending growth slows in 2023, MGI will still be able to achieve high single-digit revenue growth. MGI's 2023 revenues are also supported by some inorganic growth from the AxesInMotion and Dataseat acquisitions.

In 2024 and 2025, we expect the macroeconomic situation to improve and for ad spending to pick back up. We also believe that MGI will continue to win over new clients. Based on these assumption, we estimate that the MGI's revenues will grow by 13% in 2024 and 12% in 2025.

When it comes to profitability, we estimate that adjusted EBIT for 2023-2025 will decreases slightly to 18.9% in 2023, 18.3% in 2024, and 17.7% in 2025. We assume that the cost structure stays relatively the same going forward with a slight increase in personnel expenses. We also project a slight decline in Other operating income and Other own work capitalized as a share of revenue. Other operating income has increased significantly in 2022 and reached 7.5% of revenue over the first three quarters (3% in 2021). We expect the Other operating income to decrease slightly to 6%. In addition, we are not estimating any nonrecurring costs for 2023-2025 (2020e EUR 4.4 million). The adjusted earnings per share for 2023-2025 we estimate to come in at 0.18, 0.21, and 0.25, respectively.

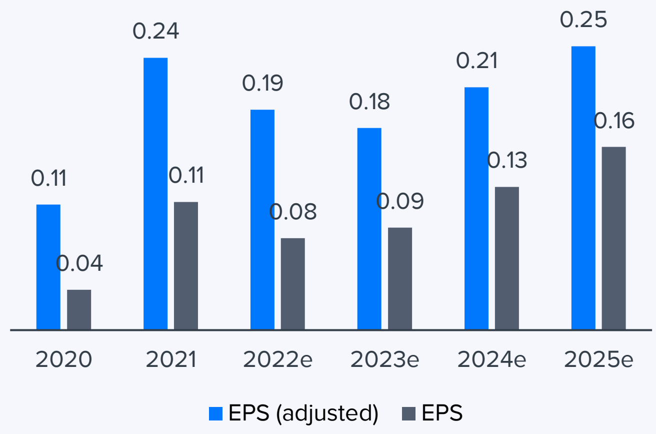
Over the medium term, especially in 2023, the free cash flow (FCF) will be burdened by contingent consideration payments. We estimate these payments to be EUR 15 million per year in 2023-2025. Thus, we project that FCF will be EUR 22 million in 2023 and will increase to about roughly EUR 30 million in 2024 and 2025.

Long-term estimates

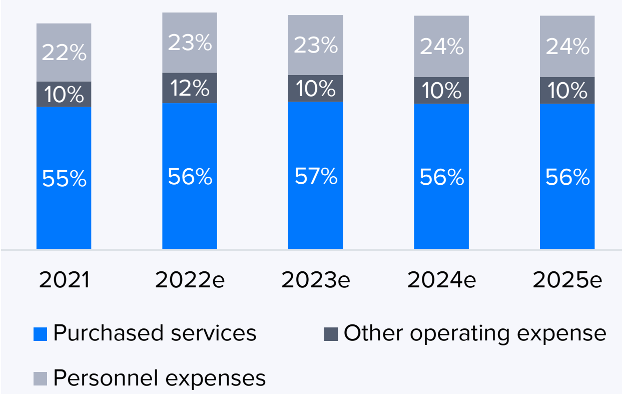
Over the long-term, we expect the main drivers to be the growth of the programmatic market and the deleveraging of the company. After 2025, we estimate that the organic revenue growth starts to taper off until reaching our terminal growth rate of 2% in 2031. The average annual growth rate for 2026-2031 is 7%. As for profitability, we expect the adjusted EBIT to continue to decrease slowly after 2025 to around 15-16%, which is the low end of the company's target range of an adjusted EBIT of 15-20%.

Over the long-term, we estimate that MGI's investments will be in the range of EUR 42-47 million per year. At this level MGI's free cash flow generation is quite good especially as the company pays out the remaining contingent consideration. We assume that MGI will use this FCF to pay down debt and consequently the net income margin will rise as the financial expenses decrease in line with the decreasing debts.

Earnings per share



Costs as share of revenue



Income statement

Income statement	2020	Q1'21	Q2'21	Q3'21	Q4'21	2021	Q1'22	Q2'22	Q3'22	Q4'22e	2022e	2023e	2024e	2025e
Revenue	**140**	**51.9**	**57.1**	**62.9**	**80.2**	**252**	**65.9**	**78.1**	**87.6**	**91.4**	**323**	**352**	**398**	**448**
EBITDA	**26.5**	**12.1**	**14.5**	**17.5**	**20.9**	**65.0**	**16.9**	**20.0**	**21.4**	**22.9**	**81.1**	**87.3**	**96.7**	**106.5**
Depreciation	-15.5	-6.7	-6.7	-7.6	-7.2	-28.2	-7.1	-8.1	-8.1	-8.2	-31.5	-34.8	-38.0	-41.7
EBIT (excl. NRI)	**17.5**	**9.4**	**11.2**	**14.9**	**19.4**	**54.9**	**13.6**	**16.4**	**18.5**	**19.3**	**67.8**	**66.5**	**72.7**	**79.0**
EBIT	**11.0**	**5.4**	**7.8**	**10.0**	**13.7**	**36.8**	**9.8**	**12.0**	**13.3**	**14.7**	**49.7**	**52.5**	**58.7**	**64.8**
Share of profits in assoc. compan.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net financial items	-7.1	-2.1	-4.6	-6.4	-8.8	-21.9	-6.6	-7.7	-8.8	-8.7	-31.9	-33.2	-31.9	-30.4
PTP	**3.9**	**3.3**	**3.2**	**3.6**	**4.8**	**14.9**	**3.1**	**4.2**	**4.4**	**6.0**	**17.8**	**19.3**	**26.9**	**34.4**
Taxes	-1.2	-1.0	0.1	-0.5	2.6	1.2	-0.6	-1.2	-1.3	-1.8	-4.9	-4.8	-6.7	-8.6
Minority interest	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.1	0.0	0.0	0.0
Net earnings	**3.1**	**2.3**	**3.4**	**3.0**	**7.4**	**16.1**	**2.5**	**3.0**	**3.2**	**4.2**	**12.9**	**14.4**	**20.2**	**25.8**
EPS (adj.)	**0.11**	**0.04**	**0.05**	**0.06**	**0.09**	**0.24**	**0.04**	**0.05**	**0.05**	**0.06**	**0.19**	**0.18**	**0.21**	**0.25**
EPS (rep.)	**0.04**	**0.02**	**0.02**	**0.02**	**0.05**	**0.11**	**0.02**	**0.02**	**0.02**	**0.03**	**0.08**	**0.09**	**0.13**	**0.16**

Key figures	2020	Q1'21	Q2'21	Q3'21	Q4'21	2021	Q1'22	Q2'22	Q3'22	Q4'22e	2022e	2023e	2024e	2025e
Revenue growth-%	67.1 %	95.6 %	90.2 %	79.9 %	64.7 %	79.8 %	26.8 %	36.7 %	39.3 %	14.0 %	28.1 %	9.0 %	13.1 %	12.4 %
Adjusted EBIT growth-%	67.0 %	346.2 %	278.7 %	505.2 %	95.0 %	214.1 %	45.3 %	46.9 %	23.9 %	-0.8 %	23.5 %	-1.9 %	9.4 %	8.6 %
EBITDA-%	18.9 %	23.3 %	25.5 %	27.8 %	26.1 %	25.8 %	25.6 %	25.7 %	24.4 %	25.0 %	25.1 %	24.8 %	24.3 %	23.8 %
Adjusted EBIT-%	12.5 %	18.0 %	19.6 %	23.7 %	24.2 %	21.8 %	20.7 %	21.0 %	21.1 %	21.1 %	21.0 %	18.9 %	18.3 %	17.7 %
Net earnings-%	2.2 %	4.4 %	5.9 %	4.8 %	9.2 %	6.4 %	3.9 %	3.9 %	3.6 %	4.6 %	4.0 %	4.1 %	5.1 %	5.8 %

Source: Inderes

Valuation and recommendation (1/3)

Investment view

We initiate our coverage of MGI with a Buy recommendation and a price target of SEK 23. As the low interest rate environment that has been beneficial to growth companies like MGI has come to an end, MGI's share price has been under considerable pressure (YTD -64%). During the last few years MGI has also shifted its profile from a pure games company to now being primarily an ad software company. We think that due to a combination of higher interest rates, MGI's shifting profile, increased leverage, and the markets unfamiliarity with the ad software space has led to the low valuation. At the current market valuation, we believe that return/risk profile is attractive. To achieve our target price of SEK 23 no miracles are needed. If MGI can maintain decent revenue growth and roughly the same profitability level, there is good upside potential.

Our valuation is based on a view that MGI will continue to grow revenues going forward at a healthy pace, but below the company's target level of 25-30%. We assume that the company's profitability will decrease slightly from the 2021 and 2022 level due to higher amortization of intangible assets, lower Other operating income, and lower Other own work capitalized. We have decided to err on the conservative side due to the company's lack of a track record in its current structure. Essentially, we want to see continued success of MGI as proof that their equity story and financial targets are attenable in the medium to long-term.

With the relatively large annual amortization of PPA (EUR 14 million), we believe it's appropriate to consider the adjusted EBIT and adjusted earnings figures as in these figures the noncash expense and other nonrecurring costs are added back. MGI is currently moving its domicile from Malta to Sweden and according to the company this has led to higher nonrecurring costs in 2022. It is also pertinent to keep in mind that, due to the large amount of debt in relation to market value, MGI's enterprise value (EV) is more than twice the market cap and it is therefore important to look at EV-based multiples.

Valuation multiples

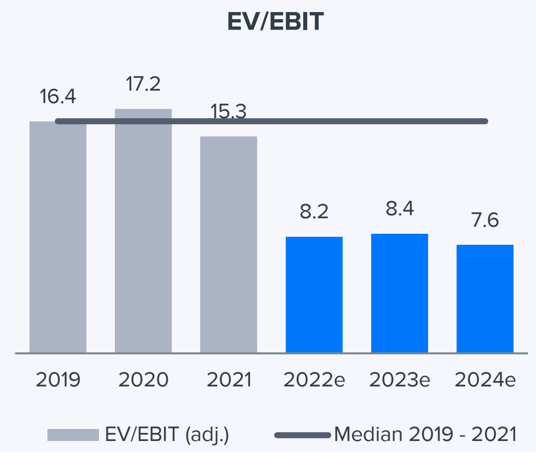
With our estimates for 2023 MGI has an EV/EBIT (adj.) multiple of 8.4x and P/E (adj.) of 8.7x. This is a considerably lower level than what MGI has traded at during the previous years. The EV/Sales multiple for 2023 is 1.6x, which is not necessarily low, but compared to where software companies usually trade it's a modest level.

The P/E figure of 17.1x in 2023 looks high, but it is due to the unadjusted earnings being weighed down by amortization of PPA (purchase price allocation) of EUR 14 million per year. Adding the amortization back increases the 2023 earnings from EUR 14 million to EUR 28 million.

We believe the current multiples are on the lower side and see that a potential upshift is warranted considering the growth potential of the company. The multiples used here are based on estimates of a slightly declining profitability level and revenue growth below the company's target. Assuming MGI is successful in executing its strategy in the medium term, there would be further upside potential in the stock, both in terms of higher earnings estimates and valuation multiples.

Valuation	2022e	2023e	2024e
Share price (€)	1.55	1.55	1.55
Number of shares, millions	159.2	159.2	159.2
Market cap (€)	247	247	247
EV (€)	558	562	556
P/E (adj.)	8.0	8.7	7.2
P/E	19.1	17.1	12.3
P/FCF	neg.	11.4	8.5
P/B	0.7	0.6	0.6
P/S	0.8	0.7	0.6
EV/Sales	1.7	1.6	1.4
EV/EBITDA	6.9	6.4	5.8
EV/EBIT (adj.)	8.2	8.4	7.6
Payout ratio (%)	0.0 %	0.0 %	0.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %

Source: Inderes



Valuation and recommendation (2/3)

Peer group

We have assembled a peer group of listed ad software companies. The peer companies differ in terms of focus within the ad software market, size, stage of development, growth and profitability profile. Thus, no company is 100% match to MGI. However, we think that even if the companies are not necessarily focused on the same parts of the ad tech value chain their revenue drivers and cost structures are quite similar. Thus, this peer group should give an indicative valuation range for a company like MGI.

MGI's peer groups' median EV/EBIT multiples for the years 2022-2023 are 18x and 16x, the corresponding EV/Sales multiples are 2.0x and 1.9x. MGI is valued with EBIT multiples of 55-48% and sales-based multiple of around 15-14% below the peer group median. In our view the peer companies' valuations are on the high side in relations to the current stock market environment and we do not believe MGI should be valued at these levels. However, With MGI being valued significantly below these multiples just by getting slightly closer to peer group median there is good upside in the stock. We believe this is warranted if MGI stays the course and shows the market its potential while accruing a track record.

In the adjacent calculations, we illustrated the potential of MGI's stock over the next 12 months, if valuation multiples would increase to the same level as MGI's competitors Magnite and PubMatic. Applying Magnite's EV/EBIT multiple (the lower of the two) on our next year's estimates for MGI's adjusted EBIT gives us a per share value of SEK 34. With PubMatic's EV/sales multiple (the lower of the two), MGI's per share value is SEK 23. The average value of these two methods would be SEK 29. We do note that we think these multiples are on the high side and to an extend believes this illustrates a best-case scenario regarding a upshift in multiples.

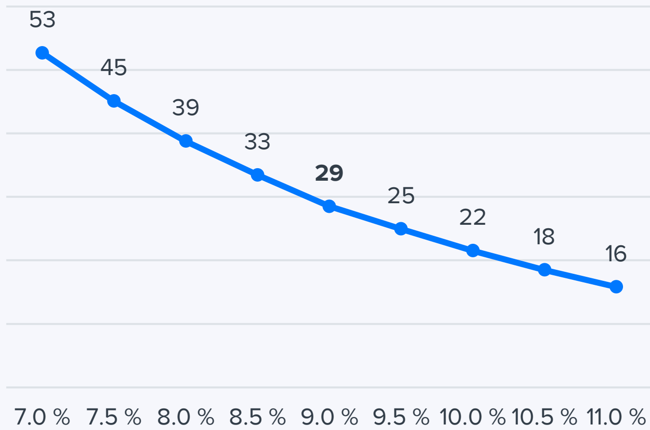
DCF model

In our opinion, the suitability of a discounted cash flow model in the valuation of MGI is reasonable as it reflects the company's long-term value creation. It also considers the impact of the investments and cash expenses related to the contingent considerations. On the other hand, the suitability is somewhat lowered by the large share of the cash flow (78%) is attributed to the term period signifying that most of the value generated is happening later.

According to our DCF model, the equity value of MGI's is EUR 2.6 per share or SEK 29. This is 72% higher than the current stock price of SEK 16.9. In comparison to the current share price MGI's valuation seems quite low, as the assumptions we use in the model are to a degree quite conservative particularly when compared to the company's revenue growth target.

For the DCF valuation we have used a weighted average cost of capital (WACC) of 9.0% while the cost of equity is higher at 9.7%. We have illustrated in the adjacent graph the sensitivity of the DCF model to changes in the WACC. The assumptions used in the base case is the estimates described in the estimates section. In a big picture view, we can summaries that the model expects MGI to grow low double digits in the medium term and mid single digits in the long-term. In turn, we assume that profitability will decrease slightly over time until stabilizing at the low end of the company's target range. For the model's terminal assumptions, we have set growth at 2% and the EBIT margin at 13.0%.

DCF value sensitivity



	Peer level (Adj. EBIT)
Adj.EBIT/EBIT 2023e	66.5
X valuation multiple	12.3x
EV	**815**
-Net debt 2023e	315
Value of equity	**500**
Per share (EUR)	*3.1*
Per share (SEK)	34
Revenue 2023e	352.0
X valuation multiple	1.9x
EV	**651**
-Net debt 2023e	315
Value of equity	**336**
Per share (EUR)	*2.1*
Per share (SEK)	*23*
Average (EUR)	***2.6***
Average (SEK)	***29***

Valuation and recommendation (3/3)

Scenario analysis

We would categorize our base revenue estimates as good, but not great. MGI's does have potential for great revenue growth. If the company can leverage its first-party content and targeting solutions to capture significant market share going forward, we could see revenue growth being closer to the target range of 25-30% CAGR. There is of course always the risk that things don't work out as planned and that due to for example some new regulations or technological developments MGI's revenue growth slows down markedly.

Naturally, the exact development of the future operations is always hard to pin down. To support the valuation, we have created a three scenarios to illustrate the expected return of the stock based on different assumptions of the company's revenue and profitability level by 2025.

In our base estimates, we expect MGI's 2025 revenue to grow to EUR 448 million. The adjusted EBIT margin is expected to be about 18% for an adjusted EBIT of EUR 79 million. Assuming an EV/EBIT multiple of 11x the company's EV would be EUR 869 million. Deducting the estimated net debt, we get an equity value of EUR 567 million or SEK 39 per share. This would equate to a 32% annual return. Overall, we think these estimates are quite reasonable with the adj. EBIT margin being lower than in 2021 and 2022e and more in-line with the company's target of 15-20%. The EV/EBIT multiple used is also at the lower end of the peer group.

In the downside scenario, we expect the revenue to come in at about 15% lower and amount to EUR 380 million. This corresponds to a revenue growth of roughly 5.5% per year between 2022-2025. In this scenario, we also lowered the adjusted EBIT margin to 14% and used an EV/EBIT multiple of 9x. With these assumptions we get an equity value of EUR 157 million or SEK 11 per share. This corresponds to a negative 14% yearly return. This scenario entails that revenue growth slows markedly and profitability decreases significantly from the current level while the low multiples of today persist.

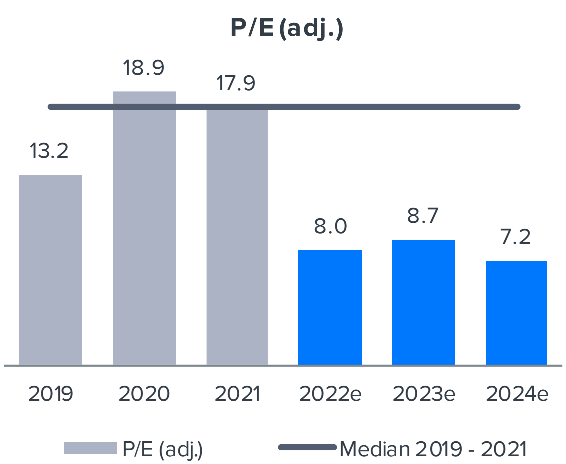
In the upside scenario, we assume that 2025 revenues are 5% higher at EUR 470 million and that the adjusted EBIT margin is the same as in the base case. We assume a slightly higher EV/EBIT multiple of 12x. With these assumption the company's equity value increases to EUR 995 million or SEK 48 per share. This scenario highlights the potential upside if the company manages a great growth level (13% per year) and a upshift in multiples more in line with the peer group.

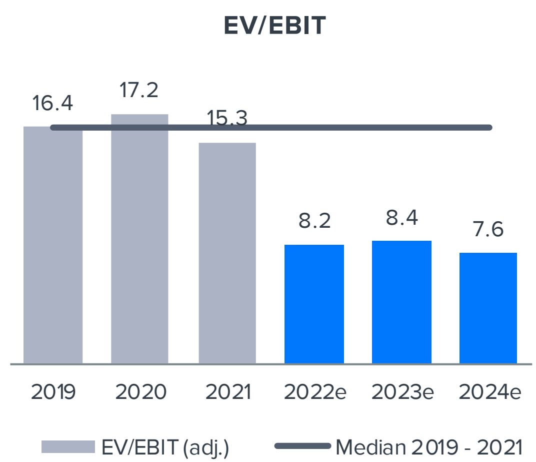
Scenarios by 2025	**Downside**	**Base estimates**	**Upside**
Revenue 2025	380	448	470
Adj.EBIT %	14 %	18 %	18 %
Operating profit (adj.)	53.3	79.0	83.0
x pricing multiple (EV/Adj.EBIT)	9x	11x	12x
EV	**479**	**869**	**995**
- Net debt (2025e)	322	302	299
Equity value	**157**	**567**	**696**
Per share (EUR)	*1.0*	*3.6*	*4.4*
Per share (SEK)	*10.8*	*38.9*	*47.8*
Potential	*-36 %*	*130 %*	*182 %*
Annual return	*-14 %*	*32 %*	*41 %*

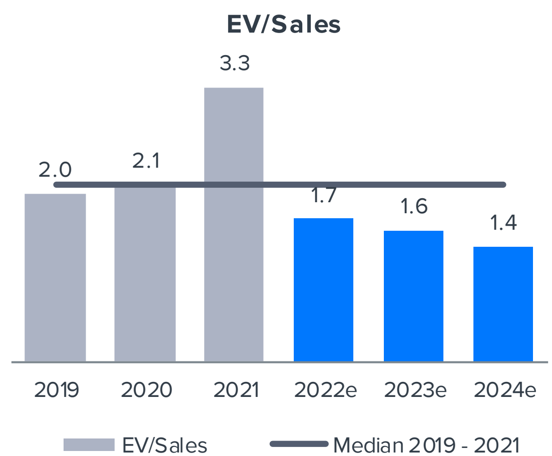
Valuation table

Valuation	2019	2020	2021	2022e	2023e	2024e	2025e
Share price (€)	1.12	2.10	4.30	**1.55**	**1.55**	**1.55**	**1.55**
Number of shares, millions	60.4	85.5	141.7	**159.2**	**159.2**	**159.2**	**159.2**
Market cap (€)	78	246	644	**247**	**247**	**247**	**247**
EV (€)	171	301	840	**558**	**562**	**556**	**548**
P/E (adj.)	13.2	18.9	17.9	**8.0**	**8.7**	**7.2**	**6.2**
P/E	neg.	58.7	37.9	**19.1**	**17.1**	**12.3**	**9.6**
P/FCF	neg.	neg.	neg.	**neg.**	**11.4**	**8.5**	**7.9**
P/B	0.8	1.4	2.1	**0.7**	**0.6**	**0.6**	**0.6**
P/S	0.9	1.8	2.6	**0.8**	**0.7**	**0.6**	**0.6**
EV/Sales	2.0	2.1	3.3	**1.7**	**1.6**	**1.4**	**1.2**
EV/EBITDA	11.0	11.3	12.9	**6.9**	**6.4**	**5.8**	**5.1**
EV/EBIT (adj.)	16.4	17.2	15.3	**8.2**	**8.4**	**7.6**	**6.9**
Payout ratio (%)	0.0 %	0.0 %	0.0 %	**0.0 %**	**0.0 %**	**0.0 %**	**0.0 %**
Dividend yield-%	0.0 %	0.0 %	0.0 %	**0.0 %**	**0.0 %**	**0.0 %**	**0.0 %**

Source: Inderes





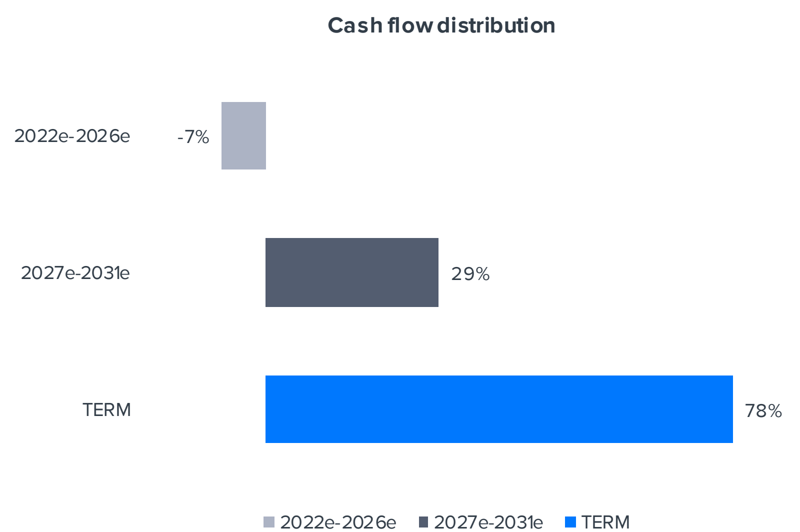


DCF calculation

DCF model	2021	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	TERM
Revenue growth-%	79.8 %	28.1 %	9.0 %	13.1 %	12.4 %	10.0 %	9.0 %	8.0 %	6.0 %	5.0 %	2.0 %	2.0 %
EBIT-%	14.6 %	15.4 %	14.9 %	14.7 %	14.5 %	14.0 %	13.5 %	13.5 %	13.5 %	13.0 %	13.0 %	13.0 %
EBIT (operating profit)	**36.8**	**49.7**	**52.5**	**58.7**	**64.8**	**68.9**	**72.4**	**78.2**	**82.9**	**83.9**	**85.5**	
+ Depreciation	28.2	31.5	34.8	38.0	41.7	43.7	47.3	50.1	52.5	54.4	56.0	
- Paid taxes	1.5	-0.4	-4.8	-6.7	-8.6	-10.3	-12.0	-14.4	-16.6	-17.9	-18.9	
- Tax, financial expenses	1.7	-8.9	-8.3	-8.0	-7.6	-6.9	-6.1	-5.2	-4.1	-3.0	-2.5	
+ Tax, financial income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Change in working capital	82.0	-32.7	-1.7	-0.8	-2.7	-2.5	-2.4	-2.4	-1.9	-1.7	-0.7	
Operating cash flow	**150**	**39.2**	**72.4**	**81.3**	**87.6**	**92.9**	**99.2**	**106**	**113**	**116**	**119**	
+ Change in other long-term liabilities	4.4	75.3	-15.0	-15.0	-15.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-389.4	-264.2	-35.7	-37.1	-41.3	-42.3	-43.3	-44.4	-45.5	-46.6	-46.9	
Free operating cash flow	**-234.8**	**-149.7**	**21.7**	**29.2**	**31.3**	**50.6**	**55.8**	**62.1**	**67.3**	**69.0**	**72.5**	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	-234.8	-149.7	21.7	29.2	31.3	50.6	55.8	62.1	67.3	69.0	72.5	1049
Discounted FCFF		**-149.0**	**19.9**	**24.4**	**24.0**	**35.7**	**36.1**	**36.7**	**36.6**	**34.4**	**33.1**	**479**
Sum of FCFF present value		611	760	740	716	692	656	620	583	547	512	479

Enterprise value DCF	**611**
- Interesting bearing debt	-376.0
+ Cash and cash equivalents	180
-Minorities	0.9
-Dividend/capital return	0.0
Equity value DCF	**416**
Equity value DCF per share	**2.6**
Equity value DCF per share (SEK)	**28.5**

Wacc	
Tax-% (WACC)	21.0 %
Target debt ratio (D/(D+E)	15.0 %
Cost of debt	6.8 %
Equity Beta	1.20
Market risk premium	4.75 %
Liquidity premium	1.50 %
Risk free interest rate	2.5 %
Cost of equity	**9.7 %**
Weighted average cost of capital (WACC)	**9.0 %**



Peer group valuation

Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		P/B
Company	MEUR	MEUR	2022e	2023e	2022e	2023e	2022e	2023e	2022e	2023e	2022e
Applovin Corp	3653	5817	187.2	18.1	5.8	5.6	2.2	2.2		27.2	2.0
Magnite Inc	1405	1853	12.6	12.3	10.9	10.6	3.8	3.5	15.3	14.3	1.9
Trade Desk Inc	22204	20950	36.6	33.3	33.9	31.5	14.0	11.6	46.5	43.5	12.9
PubMatic Inc	673	500	12.3	14.3	5.3	5.4	2.0	1.9	24.9	27.7	2.0
Viant Technology Inc	198	204				16.2	1.1	1.1			0.9
DoubleVerify Holdings Inc	3823	3596	61.5	44.2	27.3	21.8	8.4	6.8	90.2	64.0	4.5
Criteo SA	1529	1235	8.1	7.1	5.2	4.6	1.4	1.3	10.4	10.4	1.4
Tremor International Ltd	544	210	3.8	2.8	1.6	1.3	0.7	0.5	6.9	5.0	
Liveramp Holdings Inc	1405	944	24.2	21.6	21.1	15.0	1.9	1.7	43.7	28.7	1.4
MGI (Inderes)	**247**	**558**	**8.2**	**8.4**	**6.9**	**6.4**	**1.7**	**1.6**	**8.0**	**8.7**	**0.7**
Average			**43.3**	**19.2**	**13.9**	**12.4**	**3.9**	**3.4**	**34.0**	**27.6**	**3.4**
Median			**18.4**	**16.2**	**8.3**	**10.6**	**2.0**	**1.9**	**24.9**	**27.4**	**1.9**
Diff-% to median			***-55 %***	***-48 %***	***-18 %***	***-39 %***	***-15 %***	***-14 %***	***-68 %***	***-68 %***	***-66 %***

Source: Refinitiv / Inderes

Balance sheet

Assets	2020	2021	2022e	2023e	2024e
Non-current assets	**293**	**650**	**880**	**881**	**880**
Goodwill	164	412	612	612	612
Intangible assets	109	194	240	241	240
Tangible assets	1.7	4.7	7.2	7.4	7.6
Associated companies	1.1	1.2	1.0	1.0	1.0
Other investments	0.0	0.0	0.0	0.0	0.0
Other non-current assets	2.1	27.4	10.9	10.9	10.9
Deferred tax assets	15.7	11.5	8.8	8.8	8.8
Current assets	**92.4**	**284**	**236**	**245**	**235**
Inventories	0.0	0.0	0.0	0.0	0.0
Other current assets	9.1	5.9	9.7	9.7	9.7
Receivables	37.0	97.5	116	128	145
Cash and equivalents	46.3	180	110	107	80
Balance sheet total	**386**	**934**	**1116**	**1126**	**1115**

Source: Inderes

Liabilities & equity	2020	2021	2022e	2023e	2024e
Equity	**177**	**307**	**377**	**391**	**411**
Share capital	117	150	159	159	159
Retained earnings	5.6	21.7	34.6	49.1	69.2
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0	0.0
Other equity	54.1	136	184	184	184
Minorities	0.1	0.1	-1.3	-1.3	-1.3
Non-current liabilities	**131**	**383**	**506**	**491**	**443**
Deferred tax liabilities	23.8	23.2	25.0	25.0	25.0
Provisions	0.0	0.0	0.0	0.0	0.0
Long term debt	95.4	344	390	390	357
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	11.7	16.0	91.4	76.4	61.4
Current liabilities	**78.2**	**243**	**233**	**244**	**261**
Short term debt	6.1	32.0	32.0	32.0	33.1
Payables & other non-financial	50.4	77.1	96.9	107	123
Other current liabilities	21.7	134	104	104	104
Balance sheet total	**386**	**934**	**1116**	**1126**	**1115**

Summary

Income statement	2019	2020	2021	2022e	2023e
Revenue	83.9	140.2	252.2	**323.0**	**352.0**
EBITDA	15.5	26.5	65.0	**81.1**	**87.3**
EBIT	5.0	11.0	36.8	**49.7**	**52.5**
PTP	-0.8	3.9	14.9	**17.8**	**19.3**
Net Income	-0.3	3.1	16.1	**12.9**	**14.4**
Extraordinary items	-5.5	-6.4	-18.1	**-18.1**	**-14.0**

Balance sheet	2019	2020	2021	2022e	2023e
Balance sheet total	312.4	385.8	934.1	**1116.1**	**1126.0**
Equity capital	168.6	176.8	307.5	**376.5**	**391.0**
Goodwill	147.3	164.0	412.0	**612.3**	**612.3**
Net debt	36.4	55.2	195.8	**312.1**	**315.3**

Cash flow	2019	2020	2021	2022e	2023e
EBITDA	15.5	26.5	65.0	**81.1**	**87.3**
Change in working capital	17.3	-0.3	82.0	**-32.7**	**-1.7**
Operating cash flow	31.4	25.1	150.2	**39.2**	**72.4**
CAPEX	-41.2	-53.2	-389.4	**-264.2**	**-35.7**
Free cash flow	-15.5	-24.8	-234.8	**-149.7**	**21.7**

Valuation multiples	2019	2020	2021	2022e	2023e
EV/S	2.0	2.1	3.3	**1.7**	**1.6**
EV/EBITDA (adj.)	11.0	11.3	12.9	**6.9**	**6.4**
EV/EBIT (adj.)	16.4	17.2	15.3	**8.2**	**8.4**
P/E (adj.)	13.2	18.9	17.9	**8.0**	**8.7**
P/B	0.8	1.4	2.1	**0.7**	**0.6**
Dividend-%	0.0 %	0.0 %	0.0 %	**0.0 %**	**0.0 %**

Source: Inderes

Per share data	2019	2020	2021	2022e	2023e
EPS (reported)	-0.01	0.04	0.11	**0.08**	**0.09**
EPS (adj.)	0.09	0.11	0.24	**0.19**	**0.18**
OCF / share	0.52	0.29	1.06	**0.25**	**0.45**
FCF / share	-0.26	-0.29	-1.66	**-0.94**	**0.14**
Book value / share	1.62	2.07	2.17	**2.37**	**2.46**
Dividend / share	0.00	0.00	0.00	**0.00**	**0.00**

Growth and profitability	2019	2020	2021	2022e	2023e
Revenue growth-%	157 %	67 %	80 %	**28 %**	**9 %**
EBITDA growth-%	80 %	71 %	145 %	**25 %**	**8 %**
EBIT (adj.) growth-%	99 %	67 %	214 %	**23 %**	**-2 %**
EPS (adj.) growth-%	1 %	31 %	117 %	**-19 %**	**-8 %**
EBITDA-%	18.5 %	18.9 %	25.8 %	**25.1 %**	**24.8 %**
EBIT (adj.)-%	12.5 %	12.5 %	21.8 %	**21.0 %**	**18.9 %**
EBIT-%	6.0 %	7.9 %	14.6 %	**15.4 %**	**14.9 %**
ROE-%	-0.4 %	2.2 %	6.6 %	**3.8 %**	**3.7 %**
ROI-%	2.4 %	4.3 %	7.7 %	**6.7 %**	**6.5 %**
Equity ratio	53.9 %	45.8 %	32.9 %	**33.7 %**	**34.7 %**
Gearing	21.6 %	31.2 %	63.7 %	**82.9 %**	**80.7 %**

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Buy The 12-month risk-adjusted expected shareholder return of the share is very attractive

Accumulate The 12-month risk-adjusted expected shareholder return of the share is attractive

Reduce The 12-month risk-adjusted expected shareholder return of the share is weak

Sell The 12-month risk-adjusted expected shareholder return of the share is very weak

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Recommendation history (>12 mo)

Date	Recommendation	Target price	Share price
12.12.2022	Buy	23 SEK	16.9 SEK

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