

Media and Games Invest SE

Malta / Entertainment
 Xetra & Nasdaq First North Premier
 Bloomberg: M8G GR
 ISIN: MT0000580101

Q1/22
 Update

RATING
BUY

PRICE TARGET
€ 8.20

Return Potential 166.2%
 Risk Rating High

OPERATIONS RUNNING JUST FINE

Q1 reporting confirmed preliminary numbers from 25 April. Sales climbed some 27% on an annualised basis to €66m; earnings grew at a stronger clip led by AEBITDA (+30% Y/Y). The performance was spurred by good organic growth (+18%). The start to 2022 is encouraging considering a spate of Q1 disappointments among the tech and media sectors, and a crash in tech shares. MGI is tracking well towards confirmed guidance after a Q1 outperformance in terms of growth ('22 Guidance: 17% to 25%), and operations are running just fine. Price pressure in the M&A markets has created a buyer's market, which could open the door to further external growth at favourable valuations. We remain Buy-rated on MGI with an €8.2 target price.

Good growth in seasonally soft quarter The first quarter was spurred by 18% organic sales growth (OSG), demonstrating MGI's ability to cope with headwinds, which are generally slowing digital advertising operators at present. Profitability remained high despite ongoing investment into staffing for future growth (AEBITDA margin 27% vs 26% Q1/21), and a 77% cash conversion ratio yielded €16.3m in net operating cash flow (+45% Y/Y). The number of software clients rose 26% Q/Q to 450 and includes a 15% sequential rise in software clients generating revenues >€100k p.a. This paves the way for further sales growth. Sales volumes with existing clients were also up, and management noted on the earnings call that ad pricing is still stable.

What else has changed? Price pressure in the M&A market has flipped the seller's market to a buyer's market. This shift allowed MGI to snap up AxesInMotion (AiM) in early May at roughly half the valuation it would have fetched a year ago. Management expect further price pressure, which should open the door to more corporate activity. Given this environment, we expect further deals similar to AiM in scope and deal structure using earn-outs as financing mechanisms. The company exited Q1 with . . . (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2018	2019	2020	2021	2022E	2023E
Revenue (€m)	32.62	83.89	140.22	252.17	310.67	371.25
Y/Y growth	n.a.	157.2%	67.1%	79.8%	23.2%	19.5%
EBITDA (€m)	8.65	15.54	26.55	65.04	85.24	102.94
EBITDA margin	26.5%	18.5%	18.9%	25.8%	27.4%	27.7%
Net income (€m)*	4.32	-0.32	6.58	28.02	34.00	43.48
EPS (diluted) (€)*	0.10	-0.01	0.04	0.20	0.22	0.27
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-7.17	3.13	-12.50	-230.79	-71.67	25.57
Net gearing	15.2%	22.4%	31.2%	63.7%	70.8%	65.0%
Liquid assets (€m)	4.45	32.98	46.25	180.16	94.94	94.50

* Adjusted for PPA-amortisation

RISKS

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

COMPANY PROFILE

Media and Games Invest SE is a fully integrated ad-tech company that combines organic growth with value-accretive and synergetic acquisitions. MGI's own advertising software platform helps advertisers efficiently acquire customers and publishers optimise ad-space monetisation, while its gaming portfolio boasts 100m players and gives the company access to first-party content and data.

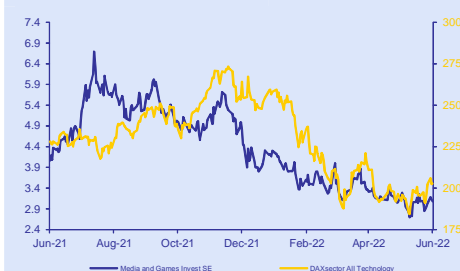
MARKET DATA

As of 01 Jun 2022

Closing Price	€ 3.08
Shares outstanding	159.25m
Market Capitalisation	€ 490.49m
52-week Range	€ 2.70 / 6.69
Avg. Volume (12 Months)	174,788

Multiples	2021	2022E	2023E
P/E	15.6	14.1	11.3
EV/Sales	2.9	2.4	2.0
EV/EBITDA	11.4	8.7	7.2
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Mar 2022

Liquid Assets	€ 127.60m
Current Assets	€ 214.70m
Intangible Assets	€ 620.90m
Total Assets	€ 869.10m
Current Liabilities	€ 189.80m
Shareholders' Equity	€ 305.90m

SHAREHOLDERS

Bodhivas GmbH	26.0%
Oaktree Capital Mngt	13.0%
Janus Henderson	4.0%
Free Float	57.0%



. . . €128m in liquid assets and comfortable leverage KPI's, which improved slightly post-reporting despite the cash spent on AiM. This owes to the ~€29m garnered from the recent cap hike and the boost to EBITDA following the deal.

FIRST QUARTER HIGHLIGHTS

Table 1: First quarter vs prior year and FBe

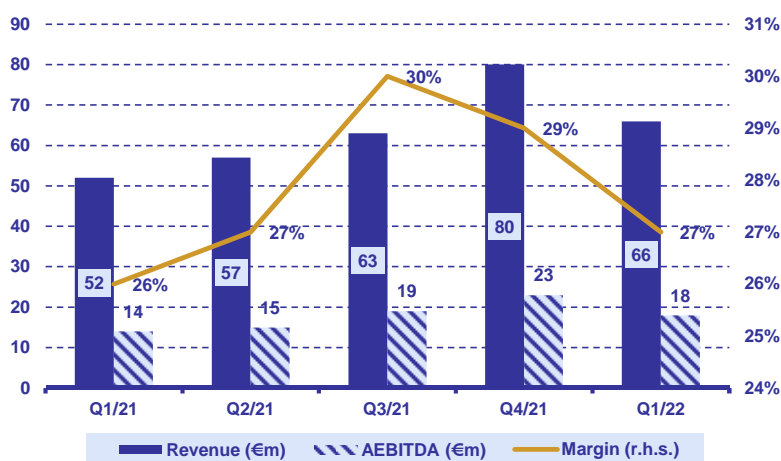
EURm	Q1/22	Q1/22E	Variance	Q1/21	Variance
Revenue	65.9	62.3	6%	51.9	27%
EBITDA	16.9	16.5	3%	12.1	40%
Margin (%)	26%	26%	-	23%	-
EBIT	13.6	12.8	6%	9.3	46%
Margin	21%	21%	-	18%	-
AEBITDA ¹	17.6	17.3	2%	13.5	30%
Margin	27%	28%	-	26%	-

¹ EBITDA adjusted for one-off expenses

Source: First Berlin Equity Research; Media and Games Invest

Operations running just fine The 27% annualised topline growth was spurred by 18% OSG within MGI's Demand and Supply segments and by acquisitions such as Smaato closed in Q1/21. The Q/Q decline in sales is traced to seasonality effects; not to flagging operations. Q4 is supercharged by Christmas and holiday sales, which normally account for a 20% to 30% sequential drop-off in turnover.

Figure 1: Quarterly sales and earnings development



Source: First Berlin Equity Research; Media and Games Invest

AEBITDA tallied €17.6m for the three month period (+30% Y/Y) and outpaced revenue growth, thanks to efficiency gains due to scale and synergy effects in combination with cost savings. On a non-adjusted basis, EBITDA, including one-off and ESOP costs, totalled €16.9m (+40%).



RESHUFFLED SEGMENT REPORTING

To better reflect the new corporate structure following the company's evolution towards an Ad Software Platform, MGI now groups its integrated activities into two new reporting segments as of 1 January 2022:

Demand Side Platform (DSP) segment contains the acquired DSPs including Platform161, LKQD, Match2One and Adspre Media, which were previously housed under the Media Segment.

MGI's Demand Side Platform allows advertisers to drive user acquisition campaigns across the open internet. Advertisers can create, manage, and optimise data-driven digital advertising campaigns across all relevant ad formats, channels (including e.g. display, native and video) and devices (mobile, desktop, digital out-of-home and connected TV) using MGI's self-service, cloud-based platform.

Supply Side Platform (SSP) segment contains acquired SSPs including Smaato and Pubnative (previously allocated to the Media Segment) as well as the Games companies KingsIsle, WildTangent and TrionWorlds (previously housed under the Games Segment).

The company's Supply Side Platform helps publishers and their proprietary games studios monetise their ad inventory / ad spaces while maintaining full control. Publishers connect to the SSP by integrating MGI's SDKs (software development kit) into their content.

Table 2: Segment Q1 breakdown

EURm	Q1/22	Q1/21	Variance
Demand side platform			
Revenue	4.6	3.5	31%
EBITDA	0.1	0.3	-58%
Margin (%)	2%	7%	-
Supply side platform			
Revenue	61.3	48.4	27%
EBITDA	16.8	11.8	42%
Margin	27%	24%	-

Source: First Berlin Equity Research; Media and Games Invest

**Table 3: Financial highlights**

EURm	3M/22	2021	Variance
Cash	128	180	-29%
Liabilities (short- and long-term)	563	627	-10%
Net debt	220	199	11%
Intangible assets	621	606	3%
Total assets	869	934	-7%
Total equity	306	308	-1%
Equity ratio	35%	33%	-
Interest coverage ratio*	4.1x	4.7x	-
Net leverage ratio	2.9x	2.8x	-

* based on cash interest expenses

Source: First Berlin Equity Research; Media and Games Invest

Balance sheet still solid Including credit lines cash and equivalents tallied €169m as of the end of Q1 (YE21: €189m). The decline was occasioned by the initial earn-out payment in conjunction with the KingsIsle acquisition. Net debt totalled €220m as of the end of March, while the leverage ratio remained steady at 2.9x.

Table 4: Cash flow developments

EURm	Q1/22	Q1/21	Variance	2021
Net operating cash flow	16	11	44%	65
Investing cash flow	-33	-71	n.m.	-296
Financing cash flow	-36	65	n.m.	365
Net cash flow	-53	5	n.m.	134
Cash & cash equivalents	128	52	147%	180

Source: First Berlin Equity Research; Media and Games Invest



VALUATION MODEL

Table 5: Confirmed 2022 guidance

	Unit	Guidance				
		2020A	2021A	2022 (old)	2022 (new ¹)	2022 FBe
Revenue	€m	140	252	290 - 310	295 - 315	311
Grow th	%	67	80	15 - 23	17 - 25	23
AEBITDA	€m	29	71	80 - 90	83 - 93	89
Grow th	%	61	143	13 - 27	17 - 31	25

¹ includes AxesInMotion takeover

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

Stick to Buy rating and €8.2 target price After tech shares climbed to dizzying heights over the past few years, many are now coming down to earth having warned of slowing operations, and tech bubbles are starting to pop. Thus far, we see no such signs of flagging operations at MGI, although the share price has also been hit by broad market sell-off. Assuming MGI continues good operational momentum throughout the year, we think there is good potential for a rebound in the share price.

All figures in EUR '000	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
Revenue	310,669	371,249	436,553	505,556	562,387	590,507	608,222	624,948
NOPLAT	38,937	48,759	60,505	78,218	98,547	105,542	109,037	113,082
(+) depreciation & amortisation	31,165	35,224	39,599	42,422	39,030	40,914	42,101	43,222
Net operating cash flow	70,102	83,982	100,104	120,640	137,577	146,456	151,138	156,304
(-) Investments	-144,324	-57,970	-75,233	-77,772	-37,184	-36,181	-35,184	-34,685
(-) Working capital	-5,038	-7,085	-6,497	-6,900	-3,978	-8,587	-1,548	-1,432
Free cash flows (FCF)	-79,261	18,927	18,374	35,969	96,416	101,689	114,406	120,187
PV of FCFs	-75,769	16,737	15,030	27,216	67,485	65,840	68,521	66,586

All figures in thousands	WACC	Terminal EBIT margin							
		19.2%	21.2%	23.2%	25.2%	27.2%	29.2%	31.2%	
PV of FCFs in explicit period	315,293	6.6%	8.91	10.07	11.23	12.39	13.55	14.71	15.87
PV of FCFs in terminal period	1,164,038	7.1%	7.72	8.71	9.71	10.70	11.69	12.69	13.68
Enterprise value (EV)	1,479,331	7.6%	6.76	7.62	8.48	9.35	10.21	11.07	11.93
(+) Net cash / (-) net debt (pro-forma)	-166,753	8.1%	5.97	6.73	7.48	8.24	8.99	9.74	10.50
(-) Non-controlling interests	-888	8.6%	5.32	5.98	6.65	7.31	7.98	8.64	9.31
Shareholder value	1,311,690	9.1%	4.76	5.35	5.94	6.53	7.12	7.71	8.30
Fair value per share (€)	8.20	9.6%	4.28	4.81	5.33	5.86	6.39	6.92	7.45

	WACC	Terminal growth rate							
		1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	
Cost of equity	10.5%	6.6%	9.26	10.10	11.12	12.39	14.01	16.15	19.12
Pre-tax cost of debt	5.0%	7.1%	8.23	8.90	9.71	10.70	11.93	13.49	15.56
Tax rate	28.0%	7.6%	7.36	7.91	8.56	9.35	10.30	11.48	12.99
After-tax cost of debt	3.6%	8.1%	6.61	7.07	7.61	8.24	8.99	9.91	11.05
Share of equity capital	65.0%	8.6%	5.97	6.35	6.80	7.31	7.92	8.65	9.54
Share of debt capital	35.0%	9.1%	5.40	5.73	6.10	6.53	7.03	7.62	8.32
WACC	8.1%	9.6%	4.91	5.19	5.50	5.86	6.28	6.76	7.33

¹Please note our model runs through 2030 and we have only shown the abbreviated version for formatting purposes



INCOME STATEMENT

All figures in EUR '000	2019	2020	2021	2022E	2023E	2024E
Revenues	83,893	140,220	252,166	310,669	371,249	436,553
Capitalised work	10,187	15,994	22,851	25,972	27,769	30,308
Total output	94,080	156,214	275,017	336,640	399,018	466,861
Cost of goods sold	-45,803	-77,620	-137,968	-157,509	-186,738	-218,277
Gross profit	48,277	78,594	137,049	179,131	212,280	248,585
Personnel expenses	-27,359	-39,573	-55,978	-75,925	-87,414	-99,003
Other OpEx	-10,012	-18,745	-24,655	-27,883	-32,040	-36,269
Other operating income	4,636	6,272	8,626	9,920	10,118	10,321
EBITDA	15,542	26,549	65,042	85,244	102,944	123,633
Depreciation & amortisation	-10,543	-15,508	-28,238	-31,165	-35,224	-39,599
Operating income (EBIT)	4,999	11,041	36,804	54,079	67,720	84,034
Net financial result	-5,758	-7,139	-21,919	-21,655	-21,007	-20,947
Pre-tax income (EBT)	-759	3,901	14,885	32,424	46,713	63,087
Income taxes	2,012	-1,194	1,169	-8,754	-13,547	-20,503
Net income	1,253	2,707	16,054	23,670	33,167	42,584
Discontinued operations	0	0	0	0	0	0
Consolidated profit	1,253	2,707	16,054	23,670	33,167	42,584
Minority interests	-1,577	352	7	-24	-33	-43
Net income to owners	-324	3,059	16,060	23,646	33,133	42,541
Diluted EPS (in €)	-0.01	0.03	0.11	0.15	0.21	0.27
AEBITDA (excl: one-offs)	18,110	29,090	71,100	88,544	104,944	123,633
AEBIT (excl: PPA amort. & one-offs)	4,999	14,916	54,826	67,729	80,070	94,384
Ratios						
Gross margin on output	51.3%	50.3%	49.8%	53.2%	53.2%	56.9%
EBITDA margin on revenues	18.5%	18.9%	25.8%	27.4%	27.7%	28.3%
EBIT margin on revenues	6.0%	7.9%	14.6%	17.4%	18.2%	19.2%
Net margin on revenues	-0.4%	2.2%	6.4%	7.6%	8.9%	9.7%
AEBITDA margin on revenues	21.6%	20.7%	28.2%	28.5%	28.3%	28.3%
Tax rate	n.a.	30.6%	n.a.	27.0%	29.0%	32.5%
Expenses as % of revenues						
Personnel expenses	32.6%	28.2%	22.2%	24.4%	23.5%	22.7%
Other OpEx	11.9%	13.4%	9.8%	9.0%	8.6%	8.3%
Depreciation & amortisation	12.6%	11.1%	11.2%	10.0%	9.5%	9.1%
Y-Y Growth						
Revenues	157.2%	67.1%	79.8%	23.2%	19.5%	17.6%
EBITDA	79.8%	70.8%	145.0%	31.1%	20.8%	
Operating income	114.7%	120.9%	233.4%	46.9%	25.2%	24.1%
Net income/ loss	n.m.	n.m.	425.0%	47.2%	40.1%	28.4%



BALANCE SHEET

All figures in EUR '000	2019	2020	2021	2022E	2023E	2024E
Assets						
Current assets, total	55,856	92,375	283,599	214,099	231,813	253,401
Cash and equivalents	32,984	46,254	180,157	94,938	94,502	97,916
Trade receivables	22,872	46,121	103,442	119,161	137,311	155,485
Non-current assets, total	256,593	293,467	650,495	785,454	783,274	779,586
Property, plant & equipment	3,521	1,742	4,681	5,302	5,674	5,892
Intangible assets	233,208	272,829	605,746	739,716	736,791	732,507
Deferred taxes	11,215	15,737	11,545	11,776	12,011	12,252
Long-term loans to investees	6,410	1,207	1,154	1,154	1,154	1,154
Other non-current assets	2,239	1,952	27,369	27,506	27,643	27,782
Total assets	312,449	385,842	934,094	999,553	1,015,087	1,032,987
Shareholders' equity & debt						
Current liabilities, total	54,544	78,205	243,434	250,717	237,611	210,733
Trade payables	20,274	30,037	53,754	64,434	75,500	87,176
Financial debt	6,772	6,087	32,027	6,087	6,087	6,087
Provisions	12,585	17,257	54,036	54,847	55,669	56,504
Other current liabilities	14,913	24,824	103,617	125,350	100,355	60,965
Long term liabilities, total	89,347	130,792	383,168	388,632	384,106	386,301
Long-term debt	8,369	11,671	16,034	21,034	16,034	11,671
Bonds	63,988	95,355	343,925	343,925	343,925	350,000
Other LT liabilities	0	0	0	0	0	0
Deferred tax liabilities	16,990	23,766	23,209	23,673	24,147	24,630
Shareholders' equity	168,558	176,845	307,492	360,204	393,370	435,954
Total consolidated equity and debt	312,449	385,842	934,094	999,553	1,015,087	1,032,987
Ratios						
Current ratio (x)	1.0	1.2	1.2	0.9	1.0	1.2
Net debt	37,776	55,188	195,795	255,074	255,510	258,171
ICR (x)	3.1	4.1	3.1	4.1	5.0	5.9
Net gearing	22%	31%	64%	71%	65%	59%
Net debt / EBITDA (x)	2.4	2.1	3.0	3.0	2.5	2.1
Equity ratio	54%	46%	33%	36%	39%	42%
Return on equity (ROE)	0.7%	1.5%	5.2%	6.6%	8.4%	9.8%
Capital employed (CE)	257,905	307,637	690,660	748,836	777,476	822,254
Return on capital employed (ROCE)	2%	4%	5%	7%	9%	10%



CASH FLOW STATEMENT

All figures in EUR '000	2019	2020	2021	2022E	2023E	2024E
Net income	1,253	2,707	16,054	23,670	33,167	42,584
Depreciation and amortisation	10,543	15,508	28,238	31,165	35,224	39,599
Results from sale of subsidiaries	0	0	0	0	0	0
Other non-cash adjustments	-5,752	4,072	1,165	0	0	0
Net interest expense	5,529	6,264	21,600	21,655	21,007	20,947
Tax result	-822	1,194	1,939	8,754	13,547	20,503
Operating cash flow	10,751	29,745	68,996	85,244	102,944	123,633
Tax expense	0	0	-425	-8,754	-13,547	-20,503
Change in working capital	5,365	-4,543	-4,634	-3,694	-5,719	-5,109
Net operating cash flow	16,116	25,202	63,937	72,796	83,678	98,021
Payments for intangible assets	-12,606	-17,380	-34,561	-29,514	-31,556	-34,441
Acquisition of subsidiaries	-6,214	-22,930	-244,349	-113,568	-25,300	-39,700
CapEx	0	0	-5,283	-1,243	-1,114	-1,091
Deposits / payments for other assets	5,750	2,603	-11,441	-137	-138	-138
Interest income	83	0	905	0	0	0
Cash flow from investing	-12,987	-37,707	-294,729	-144,461	-58,107	-75,371
Free cash flow (FCF)	3,129	-12,505	-230,792	-71,665	25,570	22,650
Equity inflow , net	8,845	26,876	109,338	29,042	0	0
Debt inflow , net	-12,011	-1,420	33,230	-20,940	-5,000	-4,363
Corporate debt inflow , net	38,699	27,678	247,047	0	0	6,075
Interest paid	-5,345	-6,018	-22,059	-21,655	-21,007	-20,947
Payments for non-controlling interests	-5,000	-17,480	0	0	0	0
Other adjustments	220	-3,862	-2,861	0	0	0
Cash flow from financing	25,408	25,774	364,695	-13,553	-26,007	-19,235
Net cash flows	28,537	13,269	133,903	-85,218	-437	3,415
Fx adjustments	0	0	0	0	0	0
Cash, start of the year	4,447	32,984	46,254	180,157	94,938	94,502
Cash, end of the year	32,984	46,253	180,157	94,938	94,502	97,916
FCFps (in €)	0.05	-0.15	-1.63	-0.46	0.16	0.14
Y-Y Growth						
Operating cash flow	132.2%	56.4%	153.7%	13.9%	14.9%	17.1%
Free cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	-11.4%
FCF / share	-74.6%	n.m.	n.m.	n.m.	n.m.	-11.4%

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Ggf. Inhaltlich Verantwortlicher gem. § 6 MDStV

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The production of this recommendation was completed on 2 June 2022 at 13:43

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

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

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

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

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RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	7 November 2019	€1.23	Buy	€2.10
2...16	↓	↓	↓	↓
17	23 August 2021	€5.30	Buy	€8.00
18	5 October 2021	€4.82	Buy	€8.00
19	27 October 2021	€4.80	Buy	€8.00
20	18 November 2021	€5.35	Buy	€8.20
21	10 February 2022	€3.73	Buy	€8.20
22	3 March 2022	€3.56	Buy	€7.90
23	25 April 2022	€3.23	Buy	€7.90
24	4 May 2022	€3.29	Buy	€8.20
25	Today	€3.08	Buy	€8.20

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

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