

Media and Games Invest SE

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

Acquisition
 update

RATING
BUY

PRICE TARGET
€ 8.20

Return Potential 149.5%
 Risk Rating High

AXESINMOTION JOINS MGI MOTHERSHIP

MGI has signed a deal to take over AxesInMotion for €55m plus up to €110m in earn-outs depending on EBITDA performance hurdles. The Spain-based video game developer projects 2022 revenues of €9.2m and adjusted EBITDA of €6.0m (65% margin) with strong growth prospects going forward. The acquisition was financed with a €29m capital increase plus existing cash to keep leverage ratios at comfortable levels. MGI's business momentum remains good as evidenced by solid Q1 prelims and now the potential synergies from the AxesInMotion deal. Our target price increases to €8.2 (old: €7.9) and factors in updated forecasts as well as a higher WACC estimate to account for rising 10 year Bund yields. To underscore the value of the deal, we note that our price target would have increased to €8.6 on a like-for-like WACC basis. We remain Buy-rated on MGI.

AxesInMotion to rev up profitability and provide strategic synergies The €55m fixed purchase price equates to a 9.1x EBITDA multiple. Potential earn-outs baked into the deal are capped at €110m and dependent on EBITDA performance hurdles through 2024 (table 1 overleaf). We think these will ultimately come in a bit lower and have assumed €80m for now. We see the takeover as a good strategic fit that will strengthen MGI's Ad-Software-Platform with premium first party data stemming from AxesInMotion's >700m users. We thus believe the deal is immediately value-accretive for MGI shareholders. To help finance the transaction, MGI issued 9.569m new share for gross proceeds of SEK300m (€29m) at SEK 31.35 (€3.03) per share and secured various new long-only investors in the process.

Raising price target to €8.2 On a pro-forma basis, MGI reckons the game developer would have boosted MGI's 2021 topline and AEBITDA (adj. EBITDA) KPIs by some 3% and 7% respectively. AxesInMotion operates at a 65% AEBITDA margin vs MGI ~28%, and management hinted at revenue potential of €24m for the game developer over the mid-term. Recalibrated FBe (table 2 overleaf) now considers the . . . (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	24.0%	22.4%	34.8%	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.

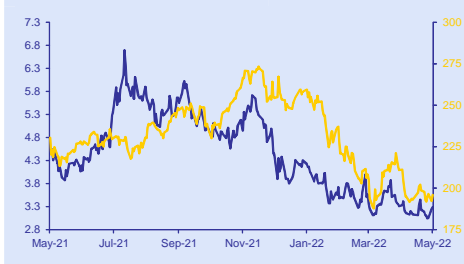
MARKET DATA

As of 03 May 2022

Closing Price	€ 3.29
Shares outstanding	159.25m
Market Capitalisation	€ 523.29m
52-week Range	€ 3.05 / 6.69
Avg. Volume (12 Months)	191,267

Multiples	2021	2022E	2023E
P/E	16.6	15.1	12.0
EV/Sales	2.9	2.3	1.9
EV/EBITDA	11.1	8.4	7.0
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Dec 2021

Liquid Assets	€ 180.15m
Current Assets	€ 283.60m
Intangible Assets	€ 605.75m
Total Assets	€ 934.10m
Current Liabilities	€ 243.43m
Shareholders' Equity	€ 307.49m

SHAREHOLDERS

Bodhivas GmbH	27.8%
Oaktree Capital Mngt	9.1%
Janus Henderson	4.0%
Free Float	59.1%



. . . AxesInMotion transaction, including the cap hike, and factors in higher revenue growth as well as increasing margins as synergies are unlocked. We have also increased our WACC estimate to 8.1% (old: 7.9%) to reflect rising Bund yields now running ahead of long-term averages.

TRANSACTION OVERVIEW

About AxesInMotion The Spanish free-to-play mobile gaming developer was founded in 2014 and counts three mobile racing games among its IP. The company generated normalised €7.9 in sales in 2021 spurred by 36% OSG (organic sales growth), while AEBITDA topped €5.1m. Management reckon medium term synergies would have added a further 20% of AEBITDA on a 2021 pro forma basis. The employee headcount is 30, and the two founders are expected to remain on board to harness the game developer's potential.

The mobile game, ECDS (Extreme Car Driving Simulator), is the company's flagship title and main revenue driver, thanks to roughly 480m downloads since release. Its other racing games are also on a good business trajectory. All titles are strongly monetised by ad revenues.

Figure 1: Racing games portfolio



Source: First Berlin Equity Research; Media and Games Invest

AxesInMotion accelerates MGI flywheel The deal adds new mobile games to the MGI portfolio and bolsters the first party data with >700m downloads, which in turn makes the Ad-Software-Platform more attractive to advertisers and indirectly to publishers for flywheel effects (see note of 3 March 2022). We expect AxesInMotion to greatly benefit from MGI's advertising technology, user acquisition expertise, and monetisation of ad space. In turn, the trove of first party game content will be particularly valuable to MGI in the post-identifier world.



MGI will pay out €50m of the total consideration at closing with another €5m within 12 months of this date. Earn-out payments are capped at €110m as shown below. Taking these into consideration the EBITDA multiple could compress to as low as 6.8x.

Table 1: Purchase price breakdown

	€m	EV /EBITDA
Payment at closing	50	8.3x
Deferred cash consideration	5	-
Total fixed consideration	55	9.1x
Earn-out schedule		
(1) Earn-out on 2022 EBITDA over €7m multiplied by 5x	20	6.8x
(2) Earn-out on 2023 EBITDA over €8m multiplied by 5x	35	7.3x
(3) Earn-out on 2024 EBITDA over €9m multiplied by 5x	55	8.3x
Total consideration	165	8.3x

Source: First Berlin Equity Research; Media and Games Invest

UPPING FORECASTS ON AXESINMOTION DEAL

Recalibrated FBe now takes into account: (1) synergy-charged growth and profitability for AxesInMotion forecasting revenues to top €24m in 2024; (2) a 65% AEBITDA margin contribution; and (3) the increased MGI share count to 159m (old: 150m) following the capital raise.

Table 2: Updates to FBe and target price

	old	new	revision	upside	dividend yield	total return
Price target (€)	7.9	8.2	3.8%	153.7%	0.0%	153.7%
	2022E			2023E		
All figures in € '000	old	new	revision	old	new	revision
Revenue	302,599	310,669	2.7%	357,067	371,249	4.0%
EBITDA	82,145	85,244	3.8%	97,624	102,944	5.4%
Margin (%)	27.1%	27.4%	-	27.3%	27.7%	-
AEBITDA	84,645	88,544	4.6%	99,624	104,944	5.3%
Margin (%)	28.0%	28.5%	-	27.9%	28.3%	-
* adjusted for one-offs						

Source: First Berlin Equity Research estimates

Table 3: Updated guidance vs FBe

		Guidance				
	Unit	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



VALUATION

Upping target price to €8.2 In our view, the lacklustre stock performance this year fails to reflect good operational momentum at MGI. The markets have largely shrugged at positive news flow including: (1) strong Q4/21 results; (2) a good start to 2022 with Q1 prelims; and now (3) the AxesInMotion deal. We think operational momentum will reignite investor interest in MGI once overall market jitters settle down.

Aside from updated forecasts, we have adjusted our WACC estimate to 8.1% (old: 7.9%) to account for rising 10 year German Bund yields, which offsets some of the upside from the deal. To underscore the clean value of the AxesInMotion deal, we note that our target price would have climbed to €8.6 per share on a like-for-like WACC-basis. We reiterate our Buy rating.

Table 4: Discounted cash flow model

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	-75,295	16,635	14,941	27,061	67,111	65,486	68,165	66,253

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	313,697	6.6%	8.91	10.07	11.23	12.39	13.55	14.72	15.88
PV of FCFs in terminal period	1,162,459	7.1%	7.71	8.70	9.70	10.69	11.69	12.68	13.67
Enterprise value (EV)	1,476,155	7.6%	6.75	7.61	8.47	9.33	10.19	11.05	11.91
(+) Net cash / (-) net debt (pro-forma)	-166,753	8.1%	5.96	6.71	7.46	8.22	8.97	9.72	10.48
(-) Non-controlling interests	-886	8.6%	5.30	5.96	6.63	7.29	7.95	8.62	9.28
Shareholder value	1,308,516	9.1%	4.74	5.33	5.92	6.51	7.09	7.68	8.27
Fair value per share (€)	8.20	9.6%	4.25	4.78	5.31	5.83	6.36	6.89	7.41

	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%	9.25	10.09	11.11	12.39	14.02	16.19	19.18
Pre-tax cost of debt	5.0%	7.1%	8.21	8.89	9.70	10.69	11.92	13.50	15.58
Tax rate	28.0%	7.6%	7.34	7.89	8.55	9.33	10.29	11.47	12.99
After-tax cost of debt	3.6%	8.1%	6.59	7.05	7.58	8.22	8.97	9.89	11.04
Share of equity capital	65.0%	8.6%	5.94	6.33	6.77	7.29	7.90	8.63	9.52
Share of debt capital	35.0%	9.1%	5.38	5.70	6.08	6.51	7.00	7.59	8.30
WACC	8.1%	9.6%	4.88	5.16	5.47	5.83	6.25	6.73	7.30

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

Source: First Berlin Equity Research estimates



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	-20,773
Pre-tax income (EBT)	-759	3,901	14,885	32,424	46,713	63,261
Income taxes	2,012	-1,194	1,169	-8,754	-13,547	-20,560
Net income	1,253	2,707	16,054	23,670	33,167	42,701
Discontinued operations	0	0	0	0	0	0
Consolidated profit	1,253	2,707	16,054	23,670	33,167	42,701
Minority interests	-1,577	352	7	-24	-33	-43
Net income to owners	-324	3,059	16,060	23,646	33,133	42,659
Diluted EPS (in €)	-0.01	0.03	0.11	0.15	0.21	0.27
AEBITDA (excl: one-offs)	15,542	26,549	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%	9.8%
AEBITDA margin on revenues	18.5%	18.9%	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%	28.7%



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	247,444
Cash and equivalents	32,984	46,254	180,157	94,938	94,502	91,959
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	1,027,030
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	380,226
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	343,925
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	436,072
Total consolidated equity and debt	312,449	385,842	934,094	999,553	1,015,087	1,027,030
Ratios						
Current ratio (x)	1.0	1.2	1.2	0.9	1.0	1.2
Net debt	37,776	61,599	195,795	255,074	255,510	258,053
ICR (x)	2.7	3.7	2.8	3.9	4.9	6.0
Net gearing	22%	35%	64%	71%	65%	59%
Net debt / EBITDA (x)	2.4	2.3	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	816,297
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	42,701
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	20,773
Tax result	-822	1,194	1,939	8,754	13,547	20,560
Operating cash flow	10,751	29,745	68,996	85,244	102,944	123,633
Tax expense	0	0	-425	-8,754	-13,547	-20,560
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	97,964
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	22,593
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	0
Interest paid	-5,345	-6,018	-22,059	-21,655	-21,007	-20,773
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	-25,136
Net cash flows	28,537	13,269	133,903	-85,218	-437	-2,542
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	91,959
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.	-11.6%
FCF / share	-74.6%	n.m.	n.m.	n.m.	n.m.	-11.6%

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PRICE TARGET DATES

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

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

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

ASSET RECOMMENDATION

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

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

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

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

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

RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	7 November 2019	€1.23	Buy	€2.10
2...15	↓	↓	↓	↓
16	16 July 2021	€5.93	Buy	€8.00
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	Today	€3.29	Buy	€8.20

INVESTMENT HORIZON

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UPDATES

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Legally required information regarding

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

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

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