

MGI - Media and Games Invest SE*5a;5b;7;11

Rating: Buy

Target price: € 5.40
(previously: € 5.75)

Current price: 1.66
06/03/23 / Xetra /
(17:35 pm)
Currency: EUR

Master data:

ISIN: SE0018538068
WKN: A3D3A1
Ticker symbol: M8G
Number of shares ³: 159.25
Market cap ³: 264.35
EnterpriseValue³: 538.36
³ in million / in EUR million

Free float: 56.1%

Transparency level:
Nasdaq First North Premier

Market segment:
Freiverkehr
(Open Market)

Accounting:
IFRS

FY-end: 31/12/

Designated Sponsors:
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Pareto Securities AB

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* List of possible conflicts of interest on page 8

Date (time) of completion:
07/03/2023 (10:57 am)

Date (time) first distribution:
08/03/2023 (10:30 am)

Validity of the target price: until
max. 31/12/2023

Company profile

Industry: Ad-Tech and mobile/online games

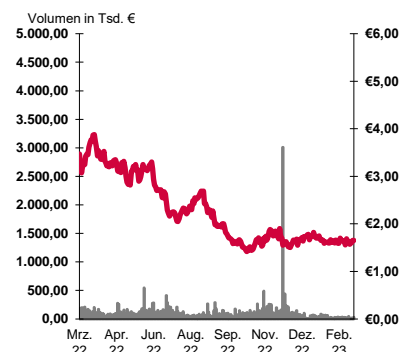
Focus: software application

Employees: >800

Founded: 2011

Registered office: Stockholm (Sweden)

Members of Executive Board: Remco Westermann (CEO), Paul Echt (CFO), Jens Knauber (COO), Sonja Lilienthal (CIO), Sameer Sondhi (CRO), Ionut Ciobotaru (CPO)



Media and Games Invest SE (MGI) operates a fast-growing, profitable advertising software platform that matches global advertiser demand with publisher advertising supply and uses first-party data from its own online games to improve advertising results. MGI operates primarily in North America and Europe. Through investments in organic growth and innovation, as well as targeted acquisitions, MGI has built a one-stop shop for programmatic advertising, enabling companies to buy and sell advertising space across all digital devices (mobile apps, web, connected TV and digital out of home) with the goal of making advertising better. MGI is registered as a Societas Europaea in Sweden (registration number 517100-0143) and its shares are listed on the Nasdaq First North Premier Growth Market in Stockholm and on the Scale segment of the Frankfurt Stock Exchange. The company has two secured bonds listed on Nasdaq Stockholm and on the Open Market of the Frankfurt Stock Exchange.

P&L in € million	31/12/2022* ¹	31/12/2023e	31/12/2024e	31/12/2025e
Revenues	324.44	340.12	402.55	471.39
Adj. EBITDA	93.20	95.94	121.10	141.94
EBITDA	84.75	89.44	115.80	136.14
Net result (after minorities)	-20.32* ²	6.83	23.95	32.97

*¹ according to preliminary figures *² negatively influenced by a one-time write-off of € 23.6 million

Key figures in EUR				
Earnings per share	-0.13	0.04	0.15	0.21
Dividend per share	0.00	0.00	0.00	0.00

Key figures				
EV/Revenues	1.66	1.58	1.34	1.14
EV/Adj. EBITDA	5.78	5.61	4.45	3.79
EV/EBITDA	6.35	6.02	4.65	3.95
P/E ratio (after minorities)	neg.	38.70	11.04	8.02
P/B ratio	0.82			

Financial dates

28/04/2023: Annual Report 2022
31/05/2023: Quarterly Report Q1 2023
30/06/2023: Annual General Meeting 2023
31/08/2023: Half-year report FY 2023

**last research from GBC:

Date: Publication / Target price in EUR / Rating

07/09/2022: RS / 5.75 / BUY

02/08/2022: RS / 5.75 / BUY

05/05/2022: RS / 9.40 / BUY

09/03/2022: RS / 9.20 / BUY

31/08/2021: RS / 8.50 / BUY

** The research studies listed above can be viewed at www.gbc-ag.de or requested from GBC AG, Halderstr. 27, D86150 Augsburg.

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FY 2022 closed with positive operating performance; Strong new customer acquisition enabled high growth; Positioning as a fully integrated ad tech platform should ensure further dynamic growth; Price target slightly lowered; Buy rating confirmed

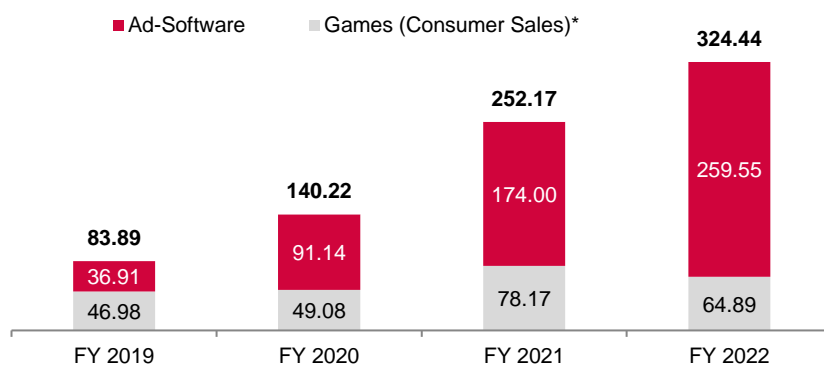
Group key figures (in € million)	FY 2020	FY 2021	FY 2022*1
Revenues	140.22	252.17	324.44
Adj. EBITDA	29.10	71.10	93.20
EBITDA	26.55	65.04	84.75
Net result (after minorities)	3.06	16.06	-20.32**2

Sources: Media and Games Invest SE; *1 according to preliminary figures; **2 negatively influenced by one-time depreciation effects in the amount of € 23.6 million

Turnover and earnings development 2022

On 28 February 2023, Media and Games Invest SE published its preliminary business figures for the past financial year 2022. According to these figures, the technology group with its advertising software platform (so-called Ad-Tech platform) continued its dynamic growth course in the past financial year with an increase in turnover of 28.7% to € 324.44 million (previous year: € 252.17 million). Despite difficult general conditions and the market situation (budget cuts, declining CPM, etc.), the company succeeded in maintaining its growth rate and gaining market share. The significant increase in turnover was based on both organic and inorganic turnover effects (18.0% organic growth & 11.0% inorganic growth).

Development and composition of Group turnover (in € million)



Sources: Media and Games Invest SE; GBC AG *Subscription and in-game item revenues

The significant increase in Group revenues was primarily driven by the continued growth in digital advertising revenues (ad software revenues) of the Group. In the past financial year, ad software revenues increased significantly by 49.2% to € 259.55 million (previous year: € 174.00 million) and thus accounted for around 80.0% of Group revenues.

The strong acquisition of new customers proved to be a significant growth driver of this digital advertising business. In the past financial year, 133 new software customers were added to the customer portfolio, which currently consists of 551 customers (end of 2021: 418). In addition, the ad tech business also benefited from the clearly positive effects of M&A measures (e.g. AxesInMotion, DataSeat, etc.).

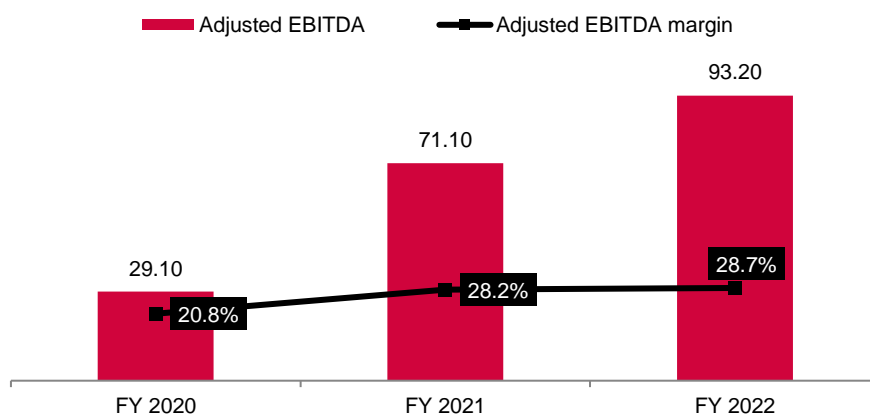
Parallel to the positive development of turnover, significant increases were also achieved at the operating result level. Compared to the previous year, EBITDA increased significantly by 30.3% to € 84.75 million (previous year: € 65.04 million). EBITDA, adjusted for one-

off effects (e.g. special and restructuring costs from M&A transactions), also increased significantly by 31.1% to € 93.20 million (previous year: € 71.10 million).

As a result, the adjusted EBITDA margin increased slightly to 28.7% (previous year: 28.2%). At the net level, a negative consolidated result of € -20.41 million (previous year: € 16.06 million) had to be accepted due to a one-time depreciation effect (one-time PPA depreciation on intangible assets) and higher tax and interest charges. This one-off depreciation effect resulted from an adjustment of the corporate strategy and a related withdrawal from business activities with small MMO games. Adjusted for the non-recurring and regular PPA amortisation of € 41.49 million, the adjusted group result was € 21.09 million.

The most recent corporate guidance issued by MGI management was thus achieved at the upper end of the target range. Our turnover estimate (turnover: € 307.22 million) and adjusted EBITDA forecast (adjusted EBITDA: € 91.72 million) were exceeded. However, due to the PPA amortisation, which we did not anticipate in this amount, the net result was significantly below our expectations.

Development of EBITDA and adjusted EBITDA (in € million)



Sources: Media and Games Invest SE; GBC AG

Forecasts and evaluation

in € m	FY 2023e	FY 2023e (old)	FY 2024e (new)	FY 2024e (old)	FY 2025e
Turnover	340.12	345.11	402.55	402.55	471.39
Adj. EBITDA	95.94	100.25	121.10	121.10	141.94
EBITDA	89.44	96.05	115.80	115.80	136.14
EBIT	52.34	60.75	75.00	75.00	90.29
Net result (after minorities)	6.83	27.33	23.95	36.57	32.97

Source: GBC AG estimates

With the publication of the preliminary figures, MGI has confirmed the previously published medium-term guidance (revenue CAGR: 25.0% - 30.0%; Adj. EBITDA margin: 25.0% - 30.0%). In addition, the technology company plans to announce a concrete company forecast for the current financial year 2023 with the publication of the Q1 business figures or hereafter.

Based on the current company performance, we have slightly reduced our revenue and EBITDA estimates for the current 2023 financial year from a conservative perspective and now expect revenue of € 340.12 million (previously: € 345.11 million) and EBITDA of € 89.44 million (previously: € 96.05 million). For the coming financial year 2024, we are leaving our previous operating estimates unchanged. In addition, we have included the 2025 financial year in our detailed estimates for the first time.

Against the background that we expect significantly higher interest and tax expenses in the future than was previously the case, we have significantly lowered our net forecasts for the 2023 and 2024 financial years.

Overall, we continue to see MGI well-positioned to further expand its market position with its leading ad tech platform with proprietary games content, innovative contextual customer solutions and multi-channel platform approach. Even in a difficult advertising market, this technology group should succeed in continuing its successful course with its promising focus on digital programmatic advertising. In doing so, the company should be able to benefit in particular from the increased customer demand for efficient (digital) advertising solutions.

Within the framework of our DCF valuation model, we have slightly reduced our target price to € 5.40 (previously: € 5.75 per share) due to our adjusted estimates and the increased cost of capital. The resulting lowering of the target price was offset by the first-time inclusion of FY 2025 in our detailed estimation period and the associated higher starting point for the subsequent estimation periods. In view of the current price level, we continue to give the share a "Buy" rating and see significant upside potential.

Evaluation

Model assumptions

We have valued Media and Games Invest SE using a three-stage DCF model. Starting with the concrete estimates for the years 2023 to 2025 in phase 1, the forecast is made from 2026 to 2030 in the second phase by applying value drivers. We expect revenue to increase by 5.0% (previously: 5.0%). We have assumed an EBITDA target margin of 28.9% (previously: 31.1%). We have included the tax rate at 30.0% in phase 2. In the third phase, a residual value is also determined after the end of the forecast horizon using the perpetual annuity. In the terminal value, we assume a growth rate of 2.0%.

Determination of the cost of capital

The weighted average cost of capital (WACC) of Media and Games Invest SE is calculated from the cost of equity and the cost of debt. To determine the cost of equity, the fair market premium, the company-specific beta and the risk-free interest rate must be determined.

The risk-free interest rate is derived from current yield curves for risk-free bonds in accordance with the recommendations of the Fachausschuss für Unternehmensbewertungen und Betriebswirtschaft (FAUB) of the IDW. The basis for this is the zero bond interest rates published by the Deutsche Bundesbank according to the Svensson method. The average yields of the previous three months are used to smooth short-term market fluctuations. The currently used value for the risk-free interest rate is 1.50% (previously: 1.25%).

We set the historical market premium of 5.5% as a reasonable expectation of a market premium. This is supported by historical analyses of equity market returns. The market premium reflects the percentage by which the equity market is expected to yield better than low-risk government bonds.

According to the GBC estimation method, a beta of 1.36 (previously: 1.36) is currently determined.

Using the assumptions made, we calculate a cost of equity of 8.96% (previously: 8.71%) (beta multiplied by risk premium plus risk-free interest rate). Since we assume a sustainable weighting of the cost of equity of 80.0% (previously: 80.0%), the weighted average cost of capital (WACC) is 8.21% (previously: 7.95%).

Valuation result

Our fair value per share at the end of the 2023 financial year corresponds to a target price of € 5.40 per share (previously: € 5.75 per share). Our price target reduction results from our adjusted estimates and the increased cost of capital.

DCF model

Media and Games Invest SE - Discounted Cashflow (DCF) model

Value driver used in the DCF model's estimate phase:

consistency - Phase		final - Phase	
Revenue growth	5.0%	Perpetual growth rate	2.0%
EBITDA-margin	28.9%	Perpetual EBITA margin	21.3%
Depreciation on fixed assets	27.2%	Effective tax rate in terminal value	30.0%
Working capital to sales	5.0%		

Three-phase DCF model:

Phase in mEUR	estimate			consistency					final value
	FY 23e	FY 24e	FY 25e	FY 26e	FY 27e	FY 28e	GJ 29e	GJ 30e	
Revenue (RE)	340.12	402.55	471.39	494.96	519.71	545.69	572.98	601.63	
Revenue change	4.8%	18.4%	17.1%	5.0%	5.0%	5.0%	5.0%	5.0%	2.0%
Revenue to fixed assets	1.73	2.20	2.80	3.19	3.57	3.92	4.25	4.56	
EBITDA	89.44	115.80	136.14	142.94	150.09	157.60	165.48	173.75	
EBITDA margin	26.3%	28.8%	28.9%	28.9%	28.9%	28.9%	28.9%	28.9%	
EBITA	52.34	75.00	90.29	97.09	107.93	118.00	127.65	137.11	
EBITA margin	15.4%	18.6%	19.2%	19.6%	20.8%	21.6%	22.3%	22.8%	21.3%
Taxes on EBITA	-19.89	-22.50	-27.09	-29.13	-32.38	-35.40	-38.29	-41.13	
Tax rate	38.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
EBI (NOPLAT)	32.45	52.50	63.20	67.97	75.55	82.60	89.35	95.98	
Return on capital	15.4%	25.6%	31.8%	35.4%	42.0%	48.1%	53.7%	58.7%	56.5%
Working capital (WC)	9.15	15.99	23.57	24.75	25.99	27.28	28.65	30.08	
WC to sales	2.7%	4.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	
Investment in WC	-7.12	-6.84	-7.58	-1.18	-1.24	-1.30	-1.36	-1.43	
Operating fixed assets (OFA)	196.17	182.87	168.62	155.07	145.60	139.11	134.73	132.00	
Depreciation on OFA	-37.10	-40.80	-45.85	-45.85	-42.17	-39.59	-37.83	-36.64	
Depreciation to OFA	18.9%	22.3%	27.2%	27.2%	27.2%	27.2%	27.2%	27.2%	
CAPEX	-24.20	-27.50	-31.60	-32.30	-32.70	-33.10	-33.45	-33.90	
Capital employed	205.32	198.86	192.19	179.81	171.59	166.39	163.38	162.08	
EBITDA	89.44	115.80	136.14	142.94	150.09	157.60	165.48	173.75	
Taxes on EBITA	-19.89	-22.50	-27.09	-29.13	-32.38	-35.40	-38.29	-41.13	
Total Investment	-52.32	-69.34	-80.18	-33.48	-33.94	-34.40	-34.81	-35.33	
Investment in OFA	-24.20	-27.50	-31.60	-32.30	-32.70	-33.10	-33.45	-33.90	
Investment in WC	-7.12	-6.84	-7.58	-1.18	-1.24	-1.30	-1.36	-1.43	
Investment in goodwill	-21.00	-35.00	-41.00	0.00	0.00	0.00	0.00	0.00	
Free cashflows	17.23	23.96	28.87	80.34	83.78	87.80	92.37	97.28	1420.17

Value operating business (due date)	1161.18	1232.60
Net present value explicit free cashflows	343.95	348.24
Net present value of terminal value	817.23	884.36
Net debt	297.94	314.62
Value of equity	863.24	917.98
Minority interests	-3.50	-3.72
Value of share capital	859.74	914.26
Outstanding shares in m	159.25	159.25
Fair value per share in €	5.40	5.74

Cost of Capital:

Risk-free rate	1.5%
Market risk premium	5.5%
Beta	1.36
Cost of equity	9.0%
Target weight	80.0%
Cost of debt	6.5%
Target weight	20.0%
Taxshield	19.8%
WACC	8.2%

Return on Capital	WACC				
	7.6%	7.9%	8.2%	8.5%	8.8%
56.0%	6.12	5.71	5.35	5.02	4.73
56.2%	6.15	5.74	5.38	5.05	4.75
56.5%	6.17	5.76	5.40	5.07	4.77
56.7%	6.20	5.79	5.42	5.09	4.79
57.0%	6.23	5.82	5.45	5.11	4.81

APPENDIX

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The respective recommendations / classifications / ratings are associated with the following expectations:

BUY	The expected return, based on the determined price target, including dividend payment within the corresponding time horizon is $\geq + 10\%$.
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HOLD	The expected return, based on the determined price target, including dividend payment within the corresponding time horizon is > - 10 % and < + 10 %.
SELL	The expected return, based on the determined price target, including dividend payment within the corresponding time horizon is <= - 10 %.

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The analysts responsible for this analysis are:

Marcel Goldmann, M.Sc., Financial Analyst

Cosmin Filker, Dipl. Betriebswirt (FH), Deputy Chief Analyst

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