MGI – Media and Games Invest

Q323 results

Building a major global adtech player

Software

MGI – Media and Games Invest (MGI) continues to steadily gain market share in a difficult trading environment. It is the leading mobile open web supply-side platform on both Android and iOS in North America, and second on Android and fifth on iOS in EMEA. Q323 organic net revenue was 1% up on Q322, with early benefits from the €10m annualised cost savings plan helping to lift the adjusted EBITDA margin to 29% (Q322: 26%). The fundamentals for MGI are positive, with its vertical integration giving an efficient market proposition and earlier acquisitions providing a sound basis for its connected TV offering. The withdrawal of personal identifiers on Google should give further impetus, which we feel is not yet reflected in the rating.

Year end	Revenue (€m)	Adjusted EBITDA* (€m)	PBT* (€m)	EPS* (c)	EV/EBITDA* (x)	P/E (x)
12/21	252.2	71.2	26.9	19.8	6.8	4.3
12/22	324.4	93.2	30.3	13.5	4.8	6.3
12/23e	303.0	93.2	20.8	9.5	4.8	9.0
12/24e	325.5	102.5	32.9	15.4	4.3	5.5

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Q3 results show revenues returning to growth

Net revenues were down 11%, which, adjusting for disposals and forex, turns to a small increase of 1%. Reported EBITDA was boosted by the release of earn-out liability for the AxesinMotion (which remains a sound acquisition but had missed targets in a tough macro environment), partially offset by restructuring-related sums, with a net gain of €40.6m. The improvement in adjusted EBITDA margin to 29% underpins our full-year assumptions, with potential upside given the trailing 12-month (TTM) figure of €95m, ahead of the flat like-for-like €93.2m guided at the interims. Good cash conversion in the quarter is likely to follow through in Q4, which should bring leverage below 3.0x (2.9x on our modelling). Our figures are unchanged on these results.

Fundamental market changes give large opportunity

The programmatic adtech market is highly inefficient, with many layers of complexity each scraping a slice of cost. MGI, through its Verve brand, has built a vertically integrated solution that is gaining traction and growing share. We believe that many advertisers, publishers and intermediaries are ill-prepared for the upcoming withdrawal of Google cookies and that this presents Verve with a major opportunity to accelerate its presence with its established AI-driven solutions.

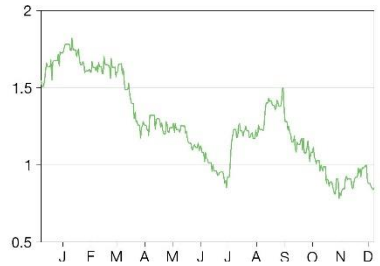
Valuation: Well below peers

Adtech shares have had mixed performances in 2023, with scale a clear benefit. MGI is now trading at a considerable discount to peers across pure adtech and relevant content categories. Parity of rating on EV/revenue and EV/EBITDA across FY23–24e would see the price climb to €3.45 (from €3.57 in June).

8 December 2023

Price	**€0.85**
Market cap	**€135m**
Net debt (€m) at 30 June 2023	307.7
Shares in issue	159.2m
Free float	70.1%
Code	M8G
Primary exchange	Nasdaq Stockholm First North Premier Growth
Secondary exchange	Deutsche Börse Scale, OTCQX

Share price performance



%	1m	3m	12m
Abs	(4.6)	(29.4)	(47.5)
Rel (local)	(13.1)	(33.3)	(55.0)
52-week high/low		€1.80	€0.78

Business description

MGI – Media and Games Invest is an advertising software platform with strong first-party games content. It mainly operates in North America and Europe. Organic growth has been supplemented with acquisitions, and the group has bought more than 35 companies and assets in the past six years.

Next events

FY23 results	29 February 2024

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MGI – Media and Games Invest is a research client of Edison Investment Research Limited

Investment summary

Company description: One-stop shop for programmatic advertising

MGI operates an ad-software platform that matches global advertiser demand with publisher ad inventory, with the added benefit of the first-party data from its own games portfolio and from the installed software development kit (SDK) base of 20k apps, allowing it to optimise transactions. This owned and operated inventory also allows MGI to roll out changes to the SDKs for testing MGI before going live with external publishers. MGI is best known for its capabilities in the mobile space but it also covers the full range of digital devices served by programmatic advertising, including connected TV. MGI has grown through acquisition and organically, with the pieces now in place to build further scale. Currently, revenues are 90% weighted to the supply (publisher) side, with ambitions to gain further penetration on the demand (advertiser) side. The group is already using AI and machine learning in its ad-targeting capabilities and is well placed to take advantage of industry changes around privacy. MGI is headquartered in Sweden, but the bulk of its revenues are generated in North America.

Valuation: Well below peers and DCF

Trading across the adtech sector has been very mixed this year, with weak underlying demand and substantial shifts in the landscape undermining confidence. The largest players in the space have continued to build share and this has been reflected in stronger share price performances. We have looked at MGI in the context of pure adtech players, adtech companies that combine with elements of content and gaming stocks. MGI's rating is at a notable discount to all three groups. Were MGI's shares to trade at parity across EV/revenue and EV/EBITDA averaged across FY23–24, the shares would be trading at €3.45, down from €3.57 when we last did this exercise in June. We have also sense checked this with a discounted cash flow (DCF) at varying weighted average cost of capital (WACC) and terminal growth rates. Using a WACC of 10% and terminal growth of 2%, we derive a value of €3.31.

Financials: Set for a better H223

Full year guidance was unchanged on the Q3 figures, although our view is that the risk for adjusted EBITDA is now on the upside. This is despite continued adverse trading conditions restricting revenue growth. With increased efficiency – partly from a €10m cost-savings initiative, partly from ongoing operational efficiencies such as platform integrations – we model adjusted EBITDA margins trending up across FY23–25. We model leverage returning to management's targeted range of 2.0–3.0x by the year-end, having topped out at 3.7x, and at 3.2x TTM at end Q323. Debt is primarily in the form of listed bonds, 90% of which reach maturity in FY26/27, at which point refinancing options may be more advantageous. Roughly 65% of the bonds are hedged.

Sensitivities: Centred on market

Management characterises the reductions in market pricing for advertising inventory at 20–30% down on the prior year. In this context, maintaining revenues at prior year levels (adjusted for currency and disposals) is a considerable achievement. Management indicated on the Q3 call at the end of November that there have been some early signs of improvement, and a stronger economic and consumer outlook should be quickly reflected in improving yields. The adtech ecosystem is highly complex and arguably does not act in the best interests of its end users, with multitudinous players and a lack of transparency. MGI has a goal of 'making advertising better', which should align it more closely with both demand- and sell-sides.

MGI's financial performance depends additionally on the interest rate environment, given the extent of debt on the balance sheet. As this burden eases (as modelled), M&A opportunities should resume a stronger role in the group's development.

Company description: Global adtech solutions

MGI is emerging as a significant player in the adtech space, building on its leading position in mobile to offer a cross-platform, vertically integrated solution to both advertisers and publishers. It retains its exposure to games as a valuable source of high-quality, first-party data, but this is no longer separated out as a revenue stream or source of profit. MGI's operating subsidiaries provide technical solutions for app publishers to monetise and advertise their apps and generate revenues. This is achieved by matching the ad publishers' ad inventory with demand from advertising companies, targeting specific types of app users in particular geographies.

MGI's origins lie in the games segment, where gamigo was founded in 2000. It was purchased by CEO Remco Westermann out of Axel Springer in 2012 to form the core on which the gaming operation has been built. It was restructured over the next couple of years into a format that was better aligned to grow through M&A and achieve the critical mass needed to attract users and, crucially, the data that comes with them. A good variety of high-quality content is an essential element of driving user acquisition at a cost that will enable attractive returns.

Through delivering content attractive to users, MGI has built an extensive pool of first-party data. The value and utility of this resource has risen markedly as concerns over privacy have climbed the agenda both of regulators and of the public over the last few years. With the changes made to Apple's tracking to an opt-in basis and the forthcoming withdrawal by Google of third-party cookie usage (now set for 2024), the traditional model of monetisation through advertising has been fundamentally compromised.

Why maintain the games exposure?

MGI has over 5k casual and mobile games and an audience of over 1bn registered players accumulated over the years. It has assembled its own software development kits (SDKs), bringing together a group of tools that enable the programming of mobile applications, now being used within more than 20k direct publisher integrations. This has the following advantages:

- this degree of global scale is very attractive to publishers and to advertisers;
- it allows the company access to very large volumes of permissioned data; and
- Verve is able to test and improve its offering on a very fast turnround basis, considerably cheaper than having to use external resources.

Over recent periods, the group has withdrawn from massive multiplayer online games and sold its 7% stake in Enad Global 7 in Q422 (funds received in H123).

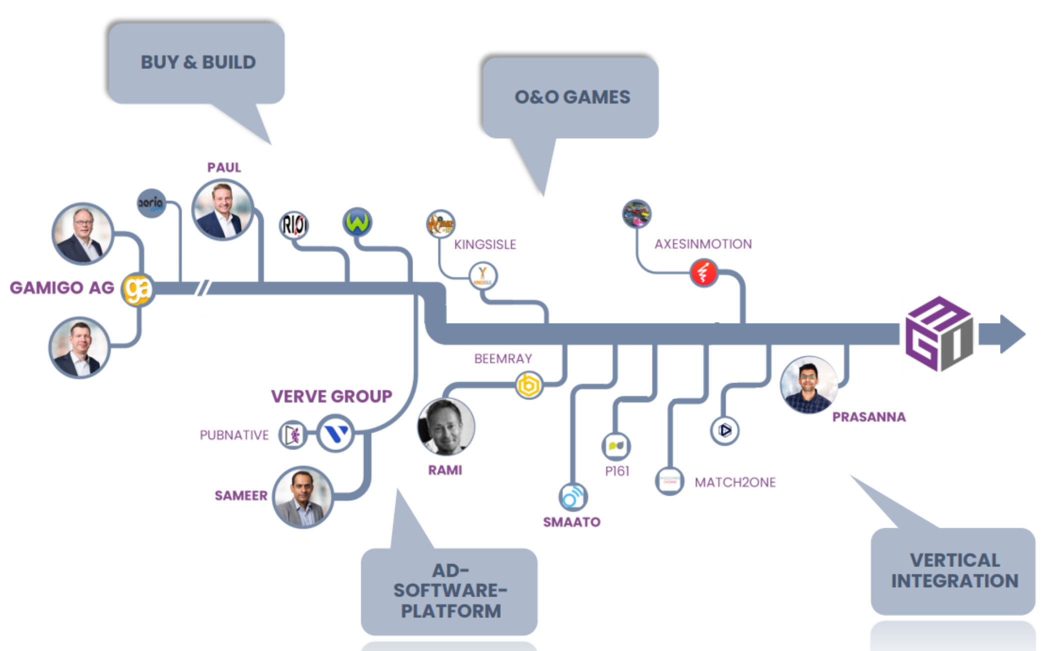
Major global adtech in mobile and connected TV

With its data lake built on predominantly casual gamers, and fewer legacy providers, the mobile adtech in-app space has provided fertile ground for MGI to build its presence. This has been achieved through a combination of organic growth and acquisition.

Exhibit 1 shows the graphic the company has compiled to illustrate how the various elements and key individuals have joined over time. It also shows how MGI has effectively moved beyond the acquisition phase, with vertical integration now the overriding objective.

Verve is now the key go-to-market brand (www.verve.com) for both the mobile and the connected TV (CTV) programmatic offerings. It describes itself as providing 'advertising innovation at scale by combining complementary technologies and a suite of products for both demand and supply. We empower marketers and publishers within the open internet by optimising the entire value chain across the omnichannel customer journey.' In this context, the open internet is used to describe the web outside of what are termed the walled gardens – these being the likes of Facebook, X etc – where data is garnered and retained within the site rather than made available for independent use.

Exhibit 1: Company 'genealogy' from 2000



Source: MGI. Note: Founders are Remco Westermann, CEO, and Jens Knauber, COO; Paul is Paul Echt, CFO; Sameer is Sameer Sondhi, chief revenue officer and in charge of Verve; Rami is Rami Alanka, general manager A&I and Prassana is Prasanna Prasad, chief technology officer of Verve.

What does Verve do?

The language around adtech is notorious for its use of obtuse terminology, which we attempt to demystify further in the section of this report describing the industry below.

At its core, Verve provides a platform on which publishers can sell the 'space' within their digital content that is suitable for advertisements – otherwise known as ad inventory. This is done faster than the eye can detect, on a programmatic (automated) basis that allows advertisers to bid for the most suitable spaces and for the successful bidder to populate it with their content.

Its supply-side (ie from the publishers' end) platform is now integrated into over 20k apps through in-house written SDKs. Combined with the inventory available from MGI's own games within gamigo, this gives a significant resource of inventory to the market, all on a privacy-first basis, ie with no personal identifiers used as part of the process. This is extremely important, given the rapid shifts happening currently in the digital advertising market.

From the opposite end, ie the advertisers and their agencies, Verve is working with more than 85 third-party demand-side platforms (DSPs) as well as its own internal DSPs. Verve operates a self-serve, cloud-based platform, enabling advertisers to create, manage and optimise data-driven digital advertising campaigns across all relevant formats and devices. Clients are primarily Fortune 500 companies or the major holding company agencies. As indicated on the Q3 results call, Verve is now building direct relationships with agencies and advertisers, as well as via the DSPs.

Strategy to build on strengths in shifting market

MGI's development is illustrated in Exhibit 2, which shows how it has transitioned from the original games company to a vertically integrated adtech software platform. With this process complete, the group's strategy is currently focused on building on the position within the market now established. Management cites reports showing that it is the leading SSP on both Google Play and the Apple App Store in North America; in Europe it is second-placed on Google and third on Apple; in Asia Pacific it is second on both platforms; and in Latin America is it second on Google and sixth on the Apple App Store.

The ambition to build on this position is based on the following strategies.

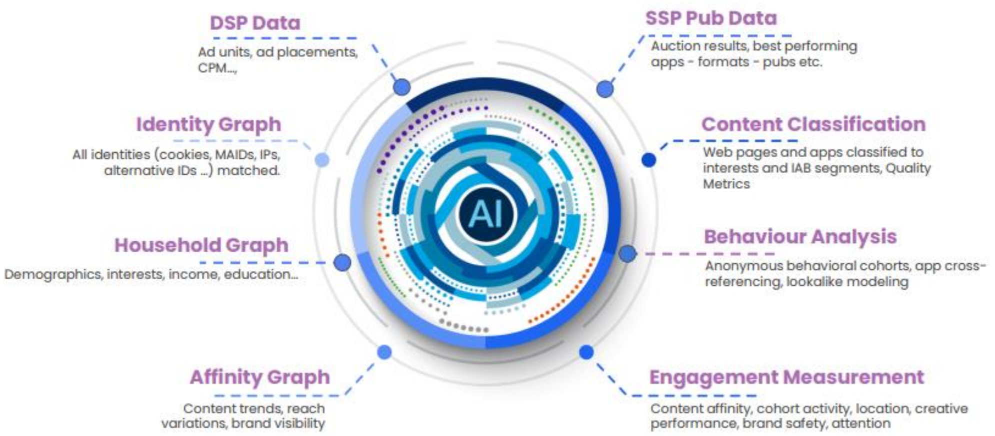
Targeting further gains in market share for in-app advertising

Gaining further ground is going to require a greater degree of sophistication, including upgrading the capabilities in video, increasing rendering capacity to keep pace or outpace the shift in the market. Enhancements to ATOM, the group's advertising targeting solution based on anonymised behavioural and contextual data, should help drive further penetration of the existing client base and support winning new business. This includes greater sophistication in the segmentation and adding additional signals, but also involves improving and standardising the integration into the wider ecosystem.

Verve has also been working on machine-learning optimisation to reduce cloud-computing and associated costs, ensuring that the suite is working well with the latest versions of the Apple adnetwork, SKAN 4.0 and facilitating developments within the Google privacy sandbox.

Driving further AI-driven data optimisation

Exhibit 2: Elements of data optimisation programme



Source: MGI – Media and Games Invest

MGI has been utilising machine learning and artificial intelligence for some years in developing its tech stack and the algorithms used. It has a distinct advantage in being able to train its Moments.AI on its own first-party data generated within the games operations and iterate quickly and efficiently. With the impending withdrawal of cookies within Google, being able to define and target audiences in real time is a strong commercial attribute. In a study carried out by an independent third party for Verve, a comparative was conducted to test targeting sports-related content in Germany against the leading market alternatives, looking at how content can be contextually targeted on the open web on the same day that it is published. This capability allows advertisers to showcase their ads alongside highly relevant new content, capitalising on its significant audience. The test, across a 24-hour period, showed 96% of impressions appearing on the same day, against 50% and 36% from the alternative providers. For highly relevant sports-related URLs/websites, the differential was far greater, at 86% compared with 5% and 4%.

Moments.AI covers all the over 700 standard IAB interest segments and the 11 brand safety segments established by the World Federation of Advertisers, known as GARM (the Global Alliance for Responsible Media).

Building a strong position in CTV

CTV has emerged rapidly as a key channel, particularly in the US, with considerable momentum as advertisers start to recognise its potential for immediate sales conversion. The nature of the medium means that the opportunities for meaningful targeting are abundant. Statista cites that 74% of TV households in the US have a smart TV in 2023, up from 58% in 2020. Management highlights research showing ad spend in the medium increasing at a CAGR of 25% over FY20–25 and 17% across FY22–25. Verve Group has been involved in this segment for some time, having acquired video-monetisation specialist Nexstar (founded in 2014 and formerly known as LKQD) in 2021.This is a fully integrated part of the Verve privacy-first omnichannel offering.

CTV already accounts for 14% of MGI's media volume (H123). The Q323 presentation highlighted that the group already reaches 60% of US households, adding value from the cross-platform approach, which includes cross-platform targeting. Inventory is supplied by partners such as Sling, Discovery+, LG, Rakuten TV, Paramount, Vizio, Friendly.TV, Hearst Television and Xumo, while, on the demand side, partners include the likes of McDonalds, Amazon, Samsung and Wells Fargo and clients of Magnite. The breakdown of media volume in group revenue is not disclosed but, if the market research is correct, a growth rate in CTV ad spend of 17% is well ahead of that projected for digital advertising spend of 7%, so we would anticipate CTV becoming a more meaningful element in MGI's mix.

The existing plans for expanding Verve's reach include new targeting types, such as language and livestream, and additional features, plus migration of the offering onto the Verve platform (itself a substantial undertaking). In the mid-term, Verve plans to add support for real-time bidding for ad pods in additional to individual ad slots (in CTV, the ads served are grouped together in 'pods'; pre-roll, mid-roll and end-roll). Real-time bidding, therefore, has an additional layer of complexity to juggle. Verve is also reworking its inventory management tools to increase efficiency, updating for changes to placement guidelines and putting together new deals on programmatic CTV.

Focus on further growing the demand-side

MGI boosted its presence on the demand-side/DSP with the purchase (by Verve) of Dataseat in July 2022 (price undisclosed but in the high-single digits of sterling millions initial consideration with an earn-out element based on performance to FY25). Dataseat gave the group a substantive step up in privacy-safe mobile capability, but the balance within MGI is still heavily weighted to the supply side, which generated 90% of group revenues in H123. The ambition is to improve this balance. Verve also has the DSP elements within the CTV referred to above and other smaller previous acquisitions.

The DSP landscape is ripe for consolidation, with the major customers pushing to deal with fewer counterparties.

Improve vertical integration across the tech stack

Any group put together through acquisition will inevitably have a number of legacy systems that are not always capable of integration. MGI has worked to prioritise those elements and stacks, which needed technical underpinning. Some stacks, such as those at Dataseat, are still under earn-out, limiting the degree of change that can be undertaken.

The acquisition of Smaato in July 2022 added a substantial mobile-first but multi-channel and brand-focused SSP. It still operates as a separate team to PubNative, an earlier mobile ad tech purchase, but the teams are working much more closely together so the degree of duplication is reducing.

A full integration of the currently configured Verve Group would probably take three to five years, but the benefits should start to accrue along the way.

As well as the integration, there remains work to be done on optimisation. In particular, management is evaluating further investments in insight and measurement, as well as adding capabilities in audio. There are also gains to be made from moving to a hybrid delivery capability, from a purely cloud-based model.

Overview of progress

At the CMD in August, we filmed the following interview with CEO Remco Westermann, where he summarised the group's positioning and outlook.

Exhibit 3: ETV interview with CEO, Remco Westermann

Source: Edison Investment Research

Shifting sands of adtech

The programmatic advertising industry has developed in a manner that has baked in large-scale inefficiencies and lacks transparency, meaning that advertisers derive a relatively small proportion of value from their spend. Media specialist Ebiquity estimates that around 20% of digital adspend is wasted through inefficiency and fraud. In the context of a global digital adspend market estimated by Dentsu at $424.3bn for the current year, it is a considerable sum of money spent with no potential for earning a return.

The LUMA Partners consultancy provides useful graphics, known as LUMAscapes, which clearly show the complexity of the market. While the one produced covering the mobile advertising market may not be quite so crowded as that for display, the sheer numbers of participants imply a considerable degree of inefficiency.

Consolidation inevitable

Given the complexity and the crowded landscape, the market is obviously not operating to the best interests of its users, who would prefer to deal efficiently, with fewer counterparties.

With pressure being brought to bear by the demand side and the supply side, consolidation at some point is inevitable. While a core group of four or five would probably be optimal to avoid too much concentration, it is unlikely that even twice that level will be reached due to the amount of private-equity funding that has been invested. While this money has backed genuine innovation and technological creativity, many are not scalable and will eventually either fade away or become part of larger platforms at some stage. Verve has been doing exactly this – seeking out innovation that does more than add scale for its own sake.

Breaching the walled gardens

The 'walled gardens', such as Facebook, Amazon and Google account for around one-third of time spent on the internet but around two-thirds of the advertising spend. The patience of US regulators has been stretched (see the summary judgement of the US Department of Justice on abusive market practices at Google) and the EU has also been flexing its muscles.

In retail media, one of the fastest growing areas of ad spend, Amazon is leveraging its huge quantities of first-party data, which it uses to determine its most advantageous sales categories. However, the status quo is unlikely to shift straight away.

Increasing recognition of the limitations for competition of the walled gardens has been pushing more participants to see what can be done on the open web. As businesses on the open web scale, there is always the danger that they become their own walled gardens protecting and harnessing their own data. Organisations such as Disney and Walmart have enormous troves of first-party data that is only currently being used to a limited extent. The development of the CTV market is building similar large data lakes for the likes of Roku and Netflix.

With such a shifting landscape, being an efficient and transparent partner of scale is an attractive concept and it is this territory that Verve/MGI is seeking to occupy. It is also important to continue to innovate and be flexible to meet the needs of a demanding client base, which may include further acquisitions. However, any M&A strategy has to be discriminating, both in terms of the technology and in the prices paid. For MGI, activity is likely to pick up as debt falls back into the targeted range, or if the payback on a deal is such that leverage will move back in that range in the short-term.

Management well-versed in games sector and M&A

The senior management team is headed up by Remco Westermann, who has been CEO and chairman since 2018. He has extensive experience in the mobile and online entertainment industry. He founded Bob Mobile (which later became CLIQ Digital, a client of Edison Investment Research) and helped build the mobile media company Sonera Zed, managing its German subsidiary as CEO. Previously, Remco was a manager at leading companies such as Balance Point and a consultant at Rost & Co. In the dynamic, highly competitive and fast-growing games market, Remco has built up a leading and fast-growing online games company through a successful M&A strategy, following the acquisition and repositioning of gamigo in 2012. In 2018, MGI came about via a reverse merger when Westermann acquired a majority stake in the publicly listed Solidare Real Estate Holding and Remco was appointed CEO and executive director of the board. gamigo was acquired and integrated and all real estate assets were subsequently sold, with the business model changing to 'buy, integrate, build and improve' in the gaming and media sectors. He has an indirect holding in 26.9% of the equity and an option for 15 million shares running through to FY30 at €2.60 per share, so obviously well out of the money. This option was granted to enable an ESOP phantom share programme for employees of the MGI group. It is contractually secured that these 15 million options can only be used for such ESOP programmes at a strike price of €1.30. Bodhivas shall, in the case of profits, transfer such profits to the capital of MGI without retaining any profits for Bodhivas.

Paul Echt has been group CFO since 2018, prior to which he gained more than 10 years' experience in the tech and finance industry as a finance manager. He previously held positions at UniCredit Bank in Berlin, Munich and New York and Shopgate in San Francisco. Paul holds 45,320 shares in the company.

COO Jens Knauber joined in 2012 with more than 10 years' experience as a manager in the gaming industry, with over 300 published games. He held a series of leadership positions at Hamburg publisher dtp entertainment and has a strong background in games publishing with a wide global network in the gaming industry. He is responsible for gamigo.

Sensitivities

There are a number of factors that investors should bear in mind when investing in MGI:

- **Macro influences on demand and pricing**: Advertising volumes revenues are closely tied to the underlying economies and, in particular, the health of consumer markets. In periods of weak demand, the prices achieved for ad inventory will be under pressure and higher volumes will be needed to maintain revenues. This has been the case for MGI over recent reporting periods.
- **FY2 expectations of recovery**: Current FY2 expectations for both MGI and the wider industry are factoring in an element of recovery in underlying markets, which could be further delayed by geopolitical concerns impacting consumer confidence.
- **Changes to the market:** The advertising ecosystem is complex and dominated by a handful of very large players, such as Alphabet and Meta. MGI may be disadvantaged by moves made by these large players or by changes in the regulatory environment (albeit that these latter currently look to be playing in MGI's favour).
- **Ad fraud:** Bad actors are prevalent across the sector and MGI's operations are unlikely to be immune, with possible repercussions in terms of customer acquisition and volumes. Increasing vertical integration across the tech stack should mean fewer possible entry points.
- **Leverage:** Management has set guidance for net leverage at 2.0–3.0x. At the end of September this was 3.2x TTM, down from 3.6x TTM at end Q322. Management is guiding to the ratio dropping back into the target zone by the year end (which allies with our modelling), but the scope for acquisitive expansion is obviously curtailed currently.
- **Interest rates and stock market rating:** The elevated prevailing interest rates is self-evidently unfavourable for a group such as MGI, with bonds that carry a coupon at a margin over Euribor. The higher interest rate environment obviously increases the cost of capital but does have the advantage of reducing the amount of competition for attractive assets. However, the reduction in the group's stock market rating over recent periods reduces the utility of equity in negotiating earnings' enhancing transactions.
- **Key person exposure:** We believe that MGI's share price and potentially its operations could be affected by the loss of key management, particularly CEO Remco Westermann.
- **Corporate structure:** Remco Westermann (currently a board member and CEO) is the largest shareholder in MGI through his indirect holding in Bodhivas, which holds 27.1% of group equity

and €1.2m of bonds. He also holds an option for 15 million shares running through to FY30 at €2.60, solely for the purpose of meeting the requirements of the group's ESOP.

Valuation

We have looked at MGI's valuation firstly in comparison with a wide peer set (there being no one directly comparable immediate group) and then sense checked this approach with a DCF.

Valuation compared with various peer sets

We evaluate MGI compared to three sets of peers: (relatively) pure adtech, ad software combined with content (games or other) and (relatively) pure gaming. Although this leads to a cumbersome peer table, it allows us to see the slightly different dynamics. With a slight improvement in sentiment in the adtech sector after difficult trading in FY22, current year EV/EBITDA ratings here have edged ahead of the ad software companies. The gaming companies are now the lowest ranking of the three subsectors.

Exhibit 4: Peer group performance and ratings

	Price	ytd perf	Market cap	Net debt	EV/sales (x)			EV/EBITDA (x)			P/E (x)		
Company	**(local ccy)**	**(%)**	**(€m)**	**(€m)**	**FY0**	**FY1e**	**FY2e**	**FY0**	**FY1e**	**FY2e**	**FY0**	**FY1e**	**FY2e**
Ad-tech													
The Trade Desk	70.5	57	31,735	(1,352)	20.6	17.2	14.3	49.9	43.6	36.4	67.0	55.5	49.9
Pubmatic	16.7	30	779	(162)	2.5	2.6	2.3	6.7	9.2	7.9	30.0	766.2	
Viant Technology	6.3	57	364	(193)	0.9	0.8	0.7	-	6.7	5.6	-	-	-
Magnite	8.1	(24)	1,023	374	2.9	2.8	2.6	8.3	9.1	8.2	10.9	15.3	11.4
AcuityAds Holdings	1.5	(29)	52	(52)	-	-	-	-	-	-	-	-	-
DoubleVerify Holdings	33.2	51	5,184	(248)	11.5	9.4	7.6	37.7	29.6	24.6	129.6	95.5	73.3
Integral Ad Science Hold	14.6	66	2,116	127	5.9	5.1	4.4	19.5	15.2	13.1	380.6	430.5	51.1
LiveRamp Holdings	33.2	41	1,996	(459)	3.2	2.8	2.6	36.0	24.6	16.3	65.8	45.4	25.3
Digital Turbine	4.7	(69)	433	309	0.6	1.2	1.4	4.0	4.9	7.6	2.8	4.0	7.6
Tremor	143.5	(46)	242	(84)	0.5	0.5	0.5	1.2	2.1	1.8	3.0	8.4	4.5
Criteo	24.9	(4)	1,292	(349)	1.1	1.0	1.0	4.0	3.6	3.5	9.6	9.4	9.4
YOC	12.1	(9)	42	(1)	1.7	1.3	1.1	11.5	10.1	7.8	17.7	16.7	12.1
Median		**13**			**2.5**	**2.6**	**2.3**	**9.9**	**9.2**	**7.9**	**23.9**	**31.1**	**12.1**
Ad-software and content													
AppLovin	37.5	256	11,561	2,094	5.2	4.6	3.9	13.8	10.2	8.2	-	43.0	23.0
IronSource	29.5	3	10,302	1,047	8.8	5.8	5.2	-	32.5	19.9	-	-	-
Azerion	2.2	(60)	263	178	1.0	0.8	0.7	8.0	6.6	5.7	-	18.0	13.2
Future	851	(33)	1,162	560	1.8	1.9	1.8	5.1	5.3	5.2	5.4	6.1	6.1
Median		**(15)**			**3.5**	**3.2**	**2.9**	**8.0**	**8.4**	**6.9**	**5.4**	**18.0**	**13.2**
Gaming													
Embracer Group	23.0	(51)	2,600	1,518	2.7	1.2	1.1	6.4	5.2	4.4	-	5.8	6.0
Stillfront Group	11.7	(33)	536	345	1.4	1.5	1.4	4.0	4.0	3.8	4.5	5.7	4.7
Paradox Interactive	210.0	(1)	1,966	(54)	10.8	9.1	8.0	15.8	14.2	11.4	30.9	39.5	27.1
Modern Times Group	84.7	(5)	936	(356)	1.2	1.2	1.0	5.1	4.7	4.5	14.8	13.9	12.7
Rovio Entertainment	9.2	52	708	(106)	1.9	1.9	1.8	11.1	10.4	9.5	21.2	-	18.1
Team17	165.0	(63)	281	(54)	1.5	1.3	1.3	4.3	5.0	4.0	6.8	8.7	7.0
Median		**(17)**			**1.7**	**1.4**	**1.4**	**5.8**	**5.1**	**4.5**	**14.8**	**8.7**	**9.9**
Total average		**(6)**			**2.6**	**2.4**	**2.2**	**7.9**	**7.6**	**6.4**	**14.7**	**19.2**	**11.7**
MGI - Media & Games Invest	0.9	(48)	142	199	1.4	1.5	1.4	5.3	3.7	4.6	6.2	8.7	5.4
Premium/(discount) to ad-tech		(61)			(45%)	(42%)	(41%)	(47%)	(60%)	(42%)	(74%)	(72%)	(55%)
Premium/(discount) to ad-software and content		(34)			(61%)	(54%)	(52%)	(34%)	(56%)	(33%)	14%	(51%)	(59%)
Premium/(discount) to gaming		(32)			(18%)	6%	2%	(8%)	(28%)	4%	(58%)	1%	(45%)
Premium/(discount) to total		(42)			(46%)	(38%)	(37%)	(33%)	(52%)	(28%)	(58%)	(55%)	(54%)

Source: Refinitiv, Edison Investment Research. Note: Prices as at 1 December 2023.

MGI's shares are trading at a discount across EV/sales, EV/EBITDA and P/E for FY22, FY23e and FY24e. With P/E more variable (due to tax regimes, etc), were the shares to trade at EV/sales and EV/EBITDA parity to the averages of these peers across FY23 and FY24, MGI's share price would be €3.45. When this exercise was last carried out in June, the resultant parity level was €3.50. Overall, the performance of the 'pure' adtech businesses has improved over Q323. The Trade Desk, far and away the largest player in the adtech sector, has particularly benefitted from both its scale and its exposure to the faster growing segments of CTV and retail media.

Stocks which combine adtech and content have seen weaker share price performances year-to-date, except for Applovin, where the benefits of scale and early adoption of AI have boosted financial performance. Of the three groups, the gaming stocks are the lowest rated by the markets.

DCF points to higher valuation

We have also looked at a DCF calculated on varying WACC and terminal growth rates. We previously chose an illustrative WACC of 9% and have now revised this to 10%, given the underlying interest rate and macro environment. This now more closely reflects MGI's actual forecast cost of debt at 10.7%. At a 2% terminal growth rate, the valuation indicated is €3.31. The reduction from the figure of €3.91 that we cited in June reflects the lower forecasts and this higher WACC.

Exhibit 5: DCF (€/share) at varying WACC and terminal growth rates

		Terminal growth rate				
		0.00%	**1.00%**	**2.00%**	**3.00%**	**4.00%**
WACC	**12.5%**	1.67	1.79	1.95	2.14	2.37
	12.00%	1.84	1.99	2.16	2.38	2.65
	11.50%	2.03	2.20	2.40	2.65	2.97
	11.00%	2.24	2.43	2.67	2.96	3.34
	10.50%	2.47	2.69	2.97	3.32	3.77
	10.00%	2.73	2.99	**3.31**	3.72	4.28
	9.50%	3.01	3.31	3.70	4.20	4.88
	9.00%	3.33	3.69	4.14	4.75	5.60
	8.50%	3.69	4.11	4.66	5.41	6.48
	8.00%	4.10	4.60	5.26	6.20	7.60

Source: Edison Investment Research

Financials

Following the interim results, we adjusted our modelling to reflect management's revised guidance. This is that FY23 revenue will come in around the same level as prior year (when adjusted for disposals and currency), an 11% reduction on the previously published number, while adjusted EBITDA was guided to come in at the same published level as FY22, implying an improvement in underlying adjusted EBITDA margin.

Ad impressions starting to rebuild

Looking at the quarterly figures in greater detail, the early signs of rebuild in ad impressions are encouraging. The industry pattern is generally sequential quarterly growth across the year, with a greater weighting to Q4, which benefits from Thanksgiving, Black Friday and Christmas, all of which attract higher levels of ad spend.

Exhibit 6: Key quarterly statistics

€m	Q122	Q222	Q322	Q422	Q123	Q223	Q323
Ad impressions (bn)	156	161	172	181	166	181	186
Software clients >€100k revenue	479	513	546	551	557	559	559
Revenue	65.9	78.1	87.6	92.9	68.8	76.2	78.3
y-o-y revenue growth (%)	27%	37%	39%	16%	4%	-2%	-11%
q-o-q revenue growth (%)	-18%	19%	12%	6%	-26%	11%	3%
EBITDA	16.9	20.0	21.4	26.5	17.4	20.04	63.7
Adjusted EBITDA	17.6	21.1	23.0	31.5	19.1	21.3	23.1
Adjusted EBITDA margin (%)	27%	27%	26%	34%	28%	28%	29%

Source: Company

With Q1–3 FY23 revenues of €223.3m already booked, a full-year estimate of €303m clearly looks achievable, given the inherent weighting of advertising budgets to the final quarter of the calendar year. This is despite continuing softness in industry pricing, which demands that higher volumes must be achieved to generate the same revenues. TTM adjusted EBITDA of €95m indicates that the current forecast for the full year of €93.2m ought to be more readily achievable given the operational gearing effect of higher H2 seasonal volumes.

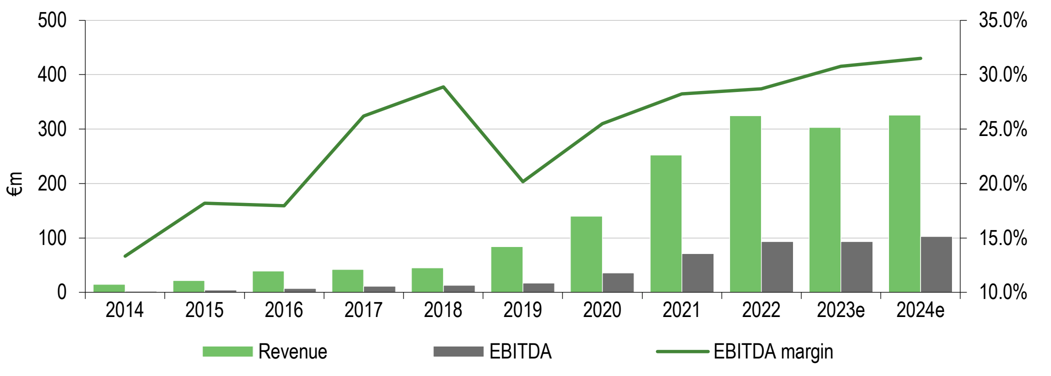
Exhibit 7: Summary historical and forecast financials

€m	2020	2021	2022	2023e	2024e
Revenue	140.2	252.2	324.4	303.0	325.5
Operating expenses (excluding D&A, share-based payments and one-off costs)	(104.5)	(187.1)	(239.7)	(180.2)	(228.1)
Adj. EBITDA	35.8	71.2	93.2	93.2	102.5
EBITDA	35.8	65.0	84.8	122.8	97.4
D&A	(7.4)	(16.3)	(43.3)	(15.5)	(15.8)
Normalised operating profit	28.4	48.8	41.5	107.3	81.6
Amortisation from acquired intangibles	(8.1)	(12.0)	(14.9)	(13.4)	(13.4)
Exceptional items	(7.0)	(4.7)	(27.1)	(6.5)	(3.5)
Share-based payments	(2.2)	(1.5)	(1.6)	(1.6)	(1.6)
Reported operating profit	11.0	30.6	(2.1)	85.8	63.1
Pre-tax profit	3.9	14.9	(11.4)	(0.7)	14.4
Net income	3.1	16.1	(20.3)	0.3	10.7
Free cash flow	6.1	25.0	88.2	40.4	52.1
Net debt/(cash)	57.7	198.6	273.9	267.5	247.6
Net debt to adjusted EBITDA	1.6	2.8	2.9	2.9	2.4
Revenue growth (%)	67.1	79.8	28.7	-6.6	7.4
Adj. EBITDA margin (%)	25.5	28.2	28.7	30.8	31.5
Normalised operating margin (%)	20.2	19.3	12.8	35.4	25.1
Reported operating margin (%)	7.9	12.1	(0.6)	28.3	19.4
PBT margin	2.8	5.9	(3.5)	(0.2)	4.4
Net income margin	2.2	6.4	(6.3)	0.1	3.3

Source: Company accounts, Edison Investment Research

With the increasing degree of automation, greater proportion of CTV revenues in the mix and larger volumes put through the platform, the trend in margin should be positive. Along with the programme to remove €10m of operating costs through efficiency gains such as de-duplication, and progress in platform integrations, we are comfortable modelling forward margins in excess of 30%.

Exhibit 8: Long-term revenue and margin trend



Source: Company accounts, Edison Investment Research

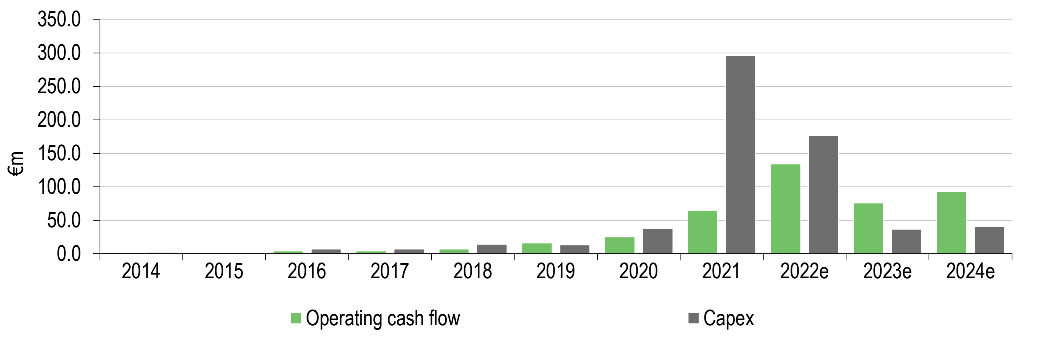
Cash flow supports investments

The interim numbers showed an absorption of working capital of €11.3m related to higher levels of receivables due to larger payments from publishers following strong Q123 trading – primarily a timing issue. This is expected to flatten out over H2, with less lumpy trading patterns, and our modelling for the full year shows the working capital absorption settling at €3.2m. The more substantive pressure on operating cashflow is the increase in interest cost, which totalled €23.2m in H123, up from €14.4m in H122.

The short-term focus is on improving the free cash flow and reducing the leverage and the indicated €10m cost-saving programme will contribute here, as will the lower levels of capital expenditure.

The longer-term record on cash generation clearly shows the emphasis on building the business through capex, both internal/maintenance capex and through acquisition (see Exhibit 10 below).

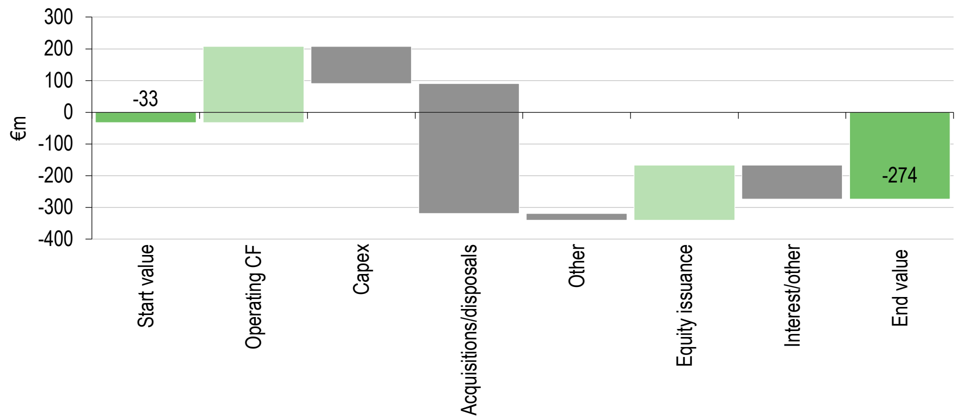
Exhibit 9: Long-term cash generation and capex



Source: Company accounts, Edison Investment Research

It is also informative to look at the cumulative picture over FY19 through FY22 (see Exhibit 11), as this splits out the maintenance and the acquisitional spend as MGI has put the various elements of its tech stack into place as the company has transitioned away from its earlier gaming-focused proposition.

Exhibit 10: Cumulative cash flow across FY19–FY22



Source: Company accounts, Edison Investment Research

Balance sheet supported by bond issuance

- MGI's debt is primarily in the form of quoted bonds, rather than bank debt. In November 2020, MGI issued a €80m senior secured floating-rate callable bond, followed by a €40m tap issue in March 2021. The group subsequently placed a €150m bond issue under its existing senior secured floating-rate callable bond in June 2021, priced at 102% of par. As part of this, existing bondholders agreed to increase the bond framework to €350m. MGI placed another subsequent bond issue of €80m in September 2021, priced at 103% of par.
- The interest rate consists of a nominal interest rate of 5.75% pa plus three months Euribor, with quarterly payments. The bond runs to November 2024, with early repayment options in November 2023 and May 2024.
- In April 2022, MGI completed the book building of a directed share issue of 9,569,378 new ordinary A shares, at a price of SEK31.35, which was oversubscribed. The investors comprised a number of Swedish and international institutional investors, including Oaktree Capital Management, the company's largest institutional shareholder. This raised SEK300m and rebalanced the balance sheet following the acquisition of AxesInMotion.
- In June 2022, MGI placed €175m of new senior secured bonds at 98.00% of par, with a floating rate coupon of Euribor plus 6.25% and repurchased €115m of existing senior secured bonds. This offering generated strong demand from primarily institutional investors based in the Nordics, continental Europe, North America and Asia, ultimately allowing the bonds to be priced at 98.00% of par. The bond has a maximum term to June 2026, with early repayment opportunities in December 2024, June 2025 and December 2025. These bonds currently trade at a mid-price of €0.9725.
- In March 2023, €176.2m of the bonds maturing in 2024 were bought back, leaving €34m of the 2024 remaining in the market. These currently trade at a mid-price of €0.9988.
- Also in March 2023, MGI placed €225m of a maximum €300m of senior secured floating-rate callable bonds due March 2027. The coupon is three months Euribor plus 7.25% and the bonds were placed at par and are currently trading at €0.9700.

Across the portfolio, 90% of the bonds now mature in 2026 and 2027, giving plenty of room for manoeuvre on refinancing options in what may be a more favourable interest rate environment. Approximately 65% of the group's bond interest rates are hedged.

Reduced earn-out liabilities

Alongside the Q323 results, MGI released €62.8m of the earnout of the AxesInMotion acquisition, bought in April 2022, €9.4m as a 'normal' adjustment and a further €53.3m as a fair-value adjustment. This is the result of AxesInMotion not reaching the EBITDA targets set at the time of purchase. This should not necessarily be interpreted that the acquisition has not been successful, more that the short-term performance has been held back by weak markets. There remains another €14.9m of earnout liability for it remaining on the MGI balance sheet dependent on EBITDA performance in FY24.

Debt back inside leverage target range

As at end-September, MGI was carrying €305.4m of net interest-bearing debt, being cash and cash equivalents of €110.4m and debt of €415.8m. Our modelling indicates a year-end net debt figure of €267.5m (predicated on an improving working capital performance in Q4). This is 2.9x our adjusted EBITDA estimate for the year, so would achieve a retraction back into the target range of 2.0–3.0x, which management has guided to be the case.

Our modelling points to a further fall to €247.6m of net debt for end FY24, being 2.4x our adjusted EBITDA forecast.

Exhibit 11: Financial summary

€000s	2020	2021	2022	2023e	2024e
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT					
Revenue	140,220	252,166	324,444	303,000	325,515
Operating costs excl. D&A	(104,469)	(187,124)	(239,691)	(180,206)	(228,098)
Adj. EBITDA	35,751	71,216	93,153	93,180	102,529
EBITDA	35,751	65,042	84,753	122,794	97,417
Operating profit (before amort. and excepts.)	28,380	48,768	68,288	69,566	81,578
Amortisation of acquired intangibles	(8,137)	(11,964)	(14,853)	(13,368)	(13,368)
Exceptionals	(6,993)	(4,708)	(27,100)	(6,500)	(3,500)
Share-based payments	(2,209)	(1,466)	(1,613)	(1,613)	(1,613)
Reported operating profit	20,243	36,804	26,618	48,086	63,098
Net Interest	(7,140)	(21,919)	(37,983)	(48,793)	(48,684)
Joint ventures & associates (post tax)	0	0	0	0	0
Exceptionals	0	1	0	0	0
Profit Before Tax (norm)	21,240	26,850	30,304	20,773	32,895
Profit Before Tax (reported)	13,104	14,887	(11,365)	(707)	14,414
Reported tax	(1,194)	1,169	(9,064)	0	(4,882)
Profit After Tax (norm)	15,281	28,018	21,194	14,114	23,393
Profit After Tax (reported)	2,707	16,055	(20,429)	(707)	9,533
Minority interests	(352)	(7)	(88)	(1,000)	(1,200)
Discontinued operations	0	0	0	0	0
Net income (normalised)	15,633	28,019	21,056	15,114	24,593
Net income (reported)	3,058	16,061	(20,341)	293	10,733
Average Number of Shares Outstanding (m)	85.5	141.7	156.2	159.2	159.2
EPS - basic normalised (c)	18.29	19.77	13.48	9.49	15.44
EPS - normalised fully diluted (c)	16.35	19.77	12.07	8.52	13.86
EPS - basic reported (c)	3.58	11.33	(13.02)	0.18	6.74
Dividend (c)	0.00	0.00	0.00	0.00	0.00
Revenue growth (%)	167.1	179.8	28.7	(6.6)	7.4
Adjusted EBITDA Margin (%)	25.5	28.2	28.7	30.8	31.5
Normalised Operating Margin (%)	20.2	19.3	21.0	23.0	25.1
BALANCE SHEET					
Fixed Assets	293,466	650,495	823,637	831,854	845,426
Intangible Assets	272,829	605,746	791,284	798,641	811,353
Tangible Assets	1,742	4,681	5,522	6,382	7,242
Investments & other	18,895	40,068	26,831	26,831	26,831
Current Assets	92,376	283,598	221,022	215,223	239,226
Stocks	0	0	0	0	0
Debtors	37,009	97,497	65,085	54,789	58,860
Cash & cash equivalents	46,254	180,156	149,992	154,489	174,421
Other	9,113	5,945	5,945	5,945	5,945
Current Liabilities	78,205	243,433	219,471	212,433	215,251
Creditors	30,037	53,754	68,711	55,226	58,044
Short term borrowings	6,089	32,020	31,903	39,644	39,644
Other financial liabilities	30,155	137,611	97,515	97,515	97,515
Other non-financial liabilities	11,924	20,048	21,342	20,048	20,048
Long Term Liabilities	130,792	383,168	503,443	436,794	436,794
Long term borrowings	97,855	343,925	389,386	382,386	382,386
Other long term liabilities	32,937	39,243	114,057	54,408	54,408
Net Assets	176,846	307,493	321,745	397,849	432,607
Minority interests	(60)	(59)	1,211	1,211	1,211
Shareholders' equity	176,786	307,434	322,956	399,060	433,818
CASH FLOW					
Operating Cash Flow	2,707	16,055	(20,429)	(707)	9,533
Depreciation & amortisation	15,508	28,238	58,135	28,904	29,206
Working capital	(4,543)	(5,714)	55,284	(3,189)	(1,253)
Exceptional & other	4,072	1,167	(2,755)	1,613	1,613
Tax	112	1,514	6,002	0	0
Net finance cost	7,347	23,583	37,983	48,793	48,684
Net operating cash flow	25,203	64,843	134,220	75,414	87,782
Capex	(19,098)	(39,844)	(46,007)	(34,992)	(35,649)
Acquisitions/disposals	(18,609)	(255,790)	(138,000)	(1,641)	(5,000)
Equity financing	26,876	109,338	27,900	0	0
Dividends	0	0	0	0	0
Other	(31,304)	(24,920)	(53,413)	(32,422)	(26,861)
Net Cash Flow	(16,932)	(146,373)	(75,300)	6,359	20,272
Opening net debt/(cash)	36,976	57,690	198,600	273,900	267,541
FX	0	0	0	0	0
Other non-cash movements	(3,782)	5,463	0	0	(340)
Closing net debt/(cash)	57,690	198,600	273,900	267,541	247,609

Source: Company accounts, Edison Investment Research

Contact details	Revenue by geography
Media and Games Invest Stureplan 6 11435, Stockholm Sweden www.mgi-se.com	Not disclosed but Edison estimates over 70% of revenues are generated in North America.

Management team	
Board member & CEO: Remco Westermann	**CFO: Paul Echt**
Remco has extensive experience in the mobile and online entertainment industry. He founded Bob Mobile (later CLIQ Digital) and helped build mobile media company Sonera Zed, managing its German subsidiary as CEO. Previously, he was a manager at leading companies such as Balance Point and a consultant at Rost & Co. In 2018, he acquired a majority stake in MGI and reset its business model to 'buy, integrate, build and improve' in the gaming and media sectors.	Paul Echt has been group CFO since 2018, prior to which he gained more than 10 years' experience in the tech and finance industry as a finance manager. He previously held positions at UniCredit Bank in Berlin, Munich and New York and Shopgate in San Francisco.
COO: Jens Knauber	
Jens Knauber joined in 2018 with more than 10 years' experience as a manager in the gaming industry, with over 300 published games. He held a series of leadership positions at Hamburg publisher dtp entertainment and has a strong background in games publishing with a wide global network in the gaming industry. He is responsible for gamigo.	

Principal shareholders	(%)
Bodhivas*	27.1
Oaktree Capital Management	17.7
Sterling Active Fund	5.1

*CEO Remco Westermann holds 90% of the shares in Sarasvati, which holds 100% of Bodhivas.

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