Media and Games Invest

Focus on ad software platform

Initiation of forecasts

Media

Media and Games Invest (MGI) is grasping an opportunity to leverage its extensive first-party data resource, generated through its games content, to build out a full stack advertising software platform that can offer good returns to both advertisers and publishers. Changes to the advertising ecosystem to protect user privacy are prompting a strategic shift to first-party data, with added benefits of improved targeting and transparency. MGI has already assembled a strong offering on the supply side and is now expanding its offering on the demand side, through organic growth and targeted M&A, which should generate further scale and efficiency.

Year end	Revenue (€m)	Adjusted EBITDA* (€m)	PBT (€)	EPS (€)	EV/adjusted EBITDA* (x)	P/E (x)
12/20	140.2	35.8	21.2	0.16	15.9	12.6
12/21	252.2	71.2	33.0	0.17	8.0	12.4
12/22e	307.0	92.4	48.0	0.22	6.2	9.3
12/23e	370.0	103.0	52.8	0.24	5.5	8.7

Note: *Adjusted EBITDA is normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Scale delivers for publishers and advertisers

MGI has a growing record of (over) delivering on revenue and margin guidance and has an impressive FY16–21 revenue CAGR of 45%. Q122 revenues were up 27% (+18% organic) in typically the weakest quarter for the advertising sector, with an adjusted EBITDA margin of 27% (Q121: 26%). The benefits of scale are clear: more players generate more data, attracting more publishers. The breadth and depth of MGI's first-party data facilitates better targeting through contextual marketing solutions, which should in turn mean better click-through rates for advertisers, improving publishers' yields. Our forecasts reflect a degree of caution about the economic outlook and its potential impact on the advertising market.

Continuing M&A a key part of the strategy

MGI has been built through a combination of organic growth and M&A to expand the range of games (and audience) and to build the adtech capabilities. MGI has a strong supply-side platform (SSP) offering and is now working to replicate that advantage on the demand side (DSP). It recently purchased Dataseat (initial consideration 'high single-digit £m'), a mobile-focused DSP with innovative AI-driven contextual targeting, so avoiding the use of identifiers. Growing the in-house DSP usage should drive further efficiencies. Higher interest rates increase the cost of capital but should reduce competition to secure attractive assets.

Valuation: Well below adtech and gaming peers

The share price has fallen by roughly 50% year-to-date, while global adtech peers have fallen by 47% on average, reflecting the market rotation away from high-growth sectors. The quoted gaming companies have done a little better, falling by 16%. MGI's shares are valued below both sets of peers. If they were to trade at parity on average across FY21–23, the price would be €5.06, ahead of the level derived by a DCF (€3.92) and above the price at which they started the year.

14 July 2022

Price	**€2.06**
Market cap	**€328m**

Net debt (€m) at 31 March 2022	219.7
Shares in issue	159.2m
Free float	73.8%
Code	M8G
Primary exchange	Nasdaq Stockholm First North Premier Growth
Secondary exchanges	Deutsche Börse Scale, OTCQX

Share price performance

%	1m	3m	12m
Abs	(29.7)	(34.7)	(69.1)
Rel (local)	(26.0)	(27.9)	(61.8)
52-week high/low		€6.69	€2.58

Business description

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 is supplemented with acquisitions, and the group has bought over 35 companies and assets in the past six years.

Next events

Q2 results	31 August 2022
AGM	Q3 2022

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Investment summary

Company description: Software platform with games content

MGI is an advertising software platform, built both organically and through M&A, with a strong owned games content offering that delivers it large quantities of first-party data. Its platform is designed to be omnichannel and is currently heavily skewed to the supply side, where it helps publishers and its own games studios to monetise their ad inventory while keeping full control over it through integrating MGI's software development kit (SDK). The group is now prioritising building out its DSP offering to enable marketers to drive return on their ad spend and reach addressable audiences across all relevant ad formats, channels and devices in a privacy-compliant manner. MGI has a large portfolio of casual and mobile games appealing to a broad demographic, giving it extensive access to first-party data.

The group has a clear strategy for growth: consolidate the market through M&A; integrate the business and realise the synergies; and build and improve to deliver organic progress. The pace of expansion has been rapid, with more than 35 companies bought in the last six years, with the integration process honed along the way. Most purchases have been relatively small, but KingsIsle and Smaato, bought in FY21, were each bought for over €100m. The group has a pipeline of further targets, with a focus on mobile DSP and mobile games assets.

Financials: Rapid growth with good margins

MGI has an impressive revenue CAGR of 45% across FY16–21 and has delivered rising EBITDA margins, reaching 28% in FY21. Mid-term guidance for FY22–25 is for a revenue CAGR in a range of 25–30%, with an EBITDA margin also in the range of 25–30%. For the current year, guidance is for revenue growth of 17–25%, with an EBITDA margin of 28–30%. We have assumed a slightly more cautious growth outlook, given current sentiment around the advertising market, with revenue increasing by 22% in FY22e and by 21% in FY23e.

Leverage is guided to 2.0–3.0x and, following acquisitions in H122, is likely to be running at the high end of this range. Our modelling suggests that this eases through FY23e as the synergistic benefits and the advantages of scale start to come through more strongly. The balance sheet is primarily funded through bonds, rather than by bank debt, with the latest €175m bond issuance in May 2022 oversubscribed.

Valuation: Currently well below peers

MGI's share price has fallen back over the year-to-date by around 50%, more than the average fall in the price of adtech and ad software/content companies and the decline in gaming companies. The timing of the stock market rotation away from high-growth tech stocks and the deterioration of prospects for the consumer economies in major developed markets has coincided with MGI's re-positioning as an M&A-supported software platform rather than as a games developer and provider. In our view, its shares now trade at an unwarrantedly large discount to peers. If they were to trade at parity across earnings multiples, the share price would be €5.06, over the level at which it started the year, while our DCF suggests a price of €3.92 (9% WACC, 2% terminal growth).

Sensitivities: Market and M&A

Any M&A-predicated strategy can be derailed through pricing and timing issues. The group's historical success may not be replicated, particularly if the share price continues to limit the potential for using equity as part of deals. The group has had good success in raising funds through bond issuance; again this may not be repeatable, and the market rates may not be as attractive. MGI is stepping up its standards of corporate governance, relocating from Malta to Sweden and restructuring its board to comply with best practice.

Company description: Content drives data drives ad revenues

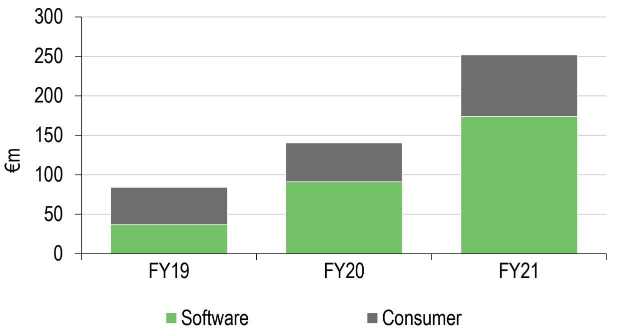
MGI's origins lie in the games segment, where gamigo was founded in 2000. It was purchased by CEO Remco Westermann out of Axel Springer in 2012 to form the core on which the gaming operation has been built. It was restructured over the next couple of years into a format that was better aligned to grow through M&A and achieve the critical mass needed to attract users and, critically, that 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, the traditional model of monetisation through advertising has been compromised.

MGI has over 5k casual and mobile games and over 800 million registered players accumulated over the years. It has assembled its own SDK, bringing together a group of tools that enable the programming of mobile applications, which is now being used within more than 5k direct publisher integrations, which bring together over two billion users globally. It is this degree of global scale that is proving very attractive to publishers and to advertisers.

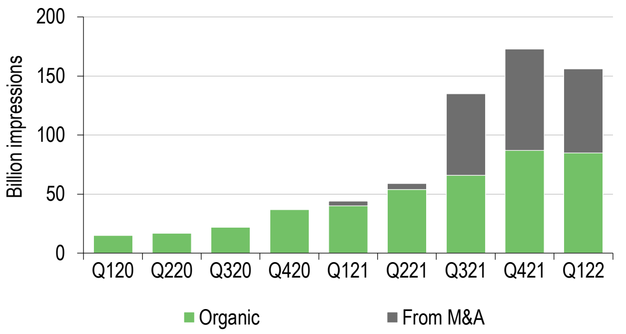
Shift of emphasis to software

Exhibit 1: Historical revenue split



Source: Media and Games Invest presentation

Exhibit 2: Increasing ad impressions



Source: Media and Games Invest presentation

Over the last three years, the group's revenue has transitioned more towards software, as demonstrated in Exhibit 1, above. 'Consumer' here relates specifically to subscriptions and in-game purchases, with revenues from in-game advertising captured within the ad software numbers. The quarterly progression in the number of ad impressions is also shown here, demonstrating the organic growth and the scale of the impact of the acquisitions to date. It should be noted that there is a natural seasonal bias within the sector to Q4 each year, with Q1 being the weakest reporting period.

MGI's SSP helps publishers and its own games studios to monetise their ad inventory/ad spaces while keeping full control over it. Publishers connect to the SSP by integrating MGI's SDKs into their content. Publishers sell their ad inventory to advertisers using real-time bidding techniques. The group's Verve data enrichment engine enables users of apps to segment audiences in a privacy-compliant manner and allow advertisers to bid for the most attractive audiences. Clients on the supply side are primarily publishers and app developers that allow direct integration with their apps, maximising automation and sales efficiency of ad inventory. The SSP segment also includes MGI's own games studios, which provide first-party data and in-game advertising spaces. Most SSP revenues are generated by usage-based platform fees based on a percentage of a client's total supply revenues.

MGI's DSP enables advertisers to drive user acquisition campaigns across the open internet. Through the group's self-service, cloud-based platform, advertisers can create, manage and optimise data-driven digital advertising campaigns across all relevant ad formats and channels (including for example display, native and video) and devices (mobile, desktop, digital out-of-home and connected TV). Clients on the demand side are primarily large brands from Fortune 500 companies as well as agencies such as WPP or Mediacom, which manage the budgets of large advertisers. MGI's DSP generates revenue by charging usage-based fees based on a percentage of a client's total spend on advertising.

MGI refers to its software platform under the brand of Verve, which covers the full stack from the DSP to data to the SSP, as illustrated in the exhibit below. The SSP dominates in the mix (93% of FY21 revenues), with the revenues being majority-derived from mobile at 57%, with desktop contributing 29%, connected TV 14% and digital out-of-home the small balance.

Exhibit 3: Verve's positioning in the adtech landscape

Source: Media and Games Invest presentation

The group has a large and growing number of substantial clients, defined as contributing over $100k of revenue. The number falling into this bracket was 479 in Q122, up 15% on Q421. 69% of these substantial clients are in the entertainment or games sectors.

Leaving identifiers behind

Third-party cookies and other mobile identifiers made life comparatively easy for advertisers to track and target the individuals that they wanted to reach. A growing understanding of the balance of the value in that relationship and with it a greater concern for privacy is fundamentally shifting the economics behind the web and access to content.

MGI has been developing methodologies to help bridge the requirements of users, publishers and advertisers:

- **ATOM:** ATOM is an anonymised and innovative advertising targeting solution. It can create audience segments on mobile devices without sending data into the cloud and uses both behavioural and contextual anonymised data to drive user acquisition without the use of an 'identifier for advertisers' (IDFA) or, in the future, cookies, while operating with a full privacy first approach. A patent application (non-provisional) for ATOM has been made to both the European Patent Office and the US Patent and Trademark Office.

To date, ATOM has been achieving 15% higher CPM (cost per mille, the standard industry measure for advertising pricing) and 28% higher click-through rates (CTR) than cookie-based advertising.

- **Moments-AI:** Moments-AI uses deep machine-learning algorithms to analyse potential advertising inventory for context and sentiment. In addition to the inherent value here, there is an important additional layer of brand safety, avoiding a brand's name appearing alongside adverse content. These mechanisms help interpreting contextual data and create reliable predictions on consumer interests and behaviour. With the crumbling of identifiers, contextual approaches are at the forefront of creating audience target groups. MGI invested in this area early on and in FY21 launched a software-as-a-service (SaaS) solution, Moments.AI, an innovative product based on the software code of the context specialist Beemray, acquired by MGI in 2021. Moments.AI is being actively marketed in North America.

  Management states that Moments.AI has been achieving CTR up to 200% higher, and with 50% higher viewability, than traditional methods.

- **Dataseat:** the newly acquired enterprise is a UK-based start-up mobile DSP for the games and non-games app advertisers. It uses AI to optimise for contextual signals, rather than rely on any identification from either individual profiling or device IDs, so is also very well placed given the continuing regulatory and strategic moves across the adtech industry to protect privacy.

- The other string to MGI's bow in addition to the segmentation and contextual offerings of data enrichment described above, is its own **extensive resource of first-party data**, which is critical to MGI's strategy to exploit the synergies between the group's games and media platforms. Verve is used to deliver cost-effective user acquisition for gamigo, delivering potential players at a lower price than gamigo could achieve through third-party ad partners, providing effective monetisation of its ad space. Additionally, by operating across the adtech value chain, Verve captures a greater proportion of advertising revenues for MGI. In particular, through accessing gamigo's first-party data and its unique advertising inventory, Verve is able to leverage its owned content to deliver materially higher margins for the group. By management's calculation, this allows Verve to deliver better monetisation, doubling the CPM for MGI-owned content over a third-party provider. When coupled with lower player acquisition costs for gamigo, this can lead to a tripling of the value retained within the group.

Verve's success at positioning itself as a specialist games adtech platform can be judged by the clients it is attracting and retaining, with the likes of AppLovin and IronSource now clients, together with games publishers such as Zynga (Take-Two), King.com (EA), Loop Games and ILoveLOL.

Games: Remains an important element due to first-party data

MGI's games business was built around its games platform, gamigo, and includes c 10 massively multiplayer online games (MMOs) as well as over 5,000 casual games, across the role-playing game (RPG), fantasy and strategy genres with over 100 million registered players. Titles include Trove, Aura Kingdom, Desert Operations, Grand Fantasia, Fiesta Online, as well as Pirate101 and Wizard101, acquired through the KingsIsle transaction in January 2021. Games are typically licensed worldwide or exclusively for specific regions or territories. Gamigo delivers a monthly average revenue per paying user (ARPU) of €61.

MGI's core MMOs are all established games operating a games-as-a-service model, with games supported with regular content to maintain active communities, encourage user retention and add new players. This model extends the games' lifespan over multiple years and keeps players engaged and entertained.

MGI's casual games are mostly single-player games, playable on multiple platforms and devices (PC, mobile, console), with all the games on a portal typically accessed by way of a monthly subscription. MGI's casual games portfolio also includes Facebook titles as well as mobile titles. For all casual titles (in contrast to premium titles paid for upfront), a portion of MGI's revenues come from advertising and promotional videos.

MGI's games platform, gamigo is PC-led, but intent on growing its mobile capability.

Exhibit 4: Games by type and monetisation model

Platform		PC	Console	Mobile
Type of Engagement	Core	✓	✓	■
	Mid Core	✓	■	■
	Casual	✓	■	✓
	Hyper Casual	×	×	■
	Virtual Reality	×	×	×
Monetization Strategy	Free 2 Play	✓	✓	✓
	Buy 2 Play	✓	×	×
	Advertisement-based	✓	n/a	✓
	Subscription-based	✓	n/a	×
Own IP vs. Licensed	Own IP	✓	✓	✓
	Licensed	✓	✓	✓

Legend: ✓ Already part of gamigo / MGI value proposition ■ Currently unticked box (looking for targets) × Not relevant for gamigo / MGI

Source: Media and Games Invest

MGI regularly launches new games, with 370 games launched in FY21. This means that, on average, MGI published 30+ casual games every month in FY21, with major releases weighted towards Q4, to drive engagement and monetisation in the high advertising season.

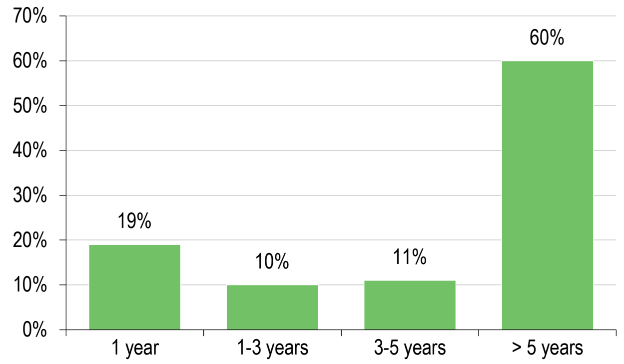
MGI driven by ad-funded free-to-play business model

Free-to-play MMOs account for the largest share of MGI's revenues. Free-to-play means users can play for free (with low-level ad-funding), but also have the option of purchasing in-game items at a range of prices. The business model requires funding to develop the game and related content, working in close collaboration with the playing community. In addition to regular events and competitions, new items (eg costumes, skins, weapons) and content (new functions, levels and opponents) are released on a regular basis to enhance the game and maintain a fresh playing experience for the committed community.

Predictable, long-lived recurring revenues

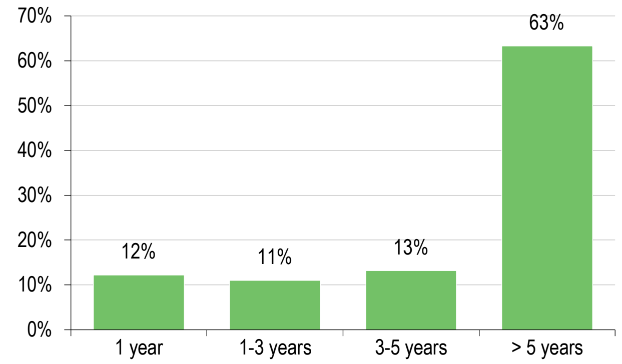
With appropriate support, users can remain loyal to the game for many years, playing for free or investing money in the game over the player lifetime. For established games, over 50% of revenues can be generated by players who have been active for more than five years. For paying users, monthly investment of €50–80 is not uncommon and over the full lifetime of a game (sometimes 10 years or more), superfans may choose to invest thousands or even tens of thousands of euros to maintain their playing experience. To highlight this longevity, set out below are the player age groupings for certain of MGI's games portfolio.

Exhibit 5: Overall spending by player lifetime – Last Chaos North America



Source: Media and Games Invest

Exhibit 6: Overall spending by player lifetime – Fiesta Online Europe



Source: Media and Games Invest

Demographics, user acquisition and retention

MGI's core demographic are male and female gamers aged 20–34, playing for an average of 10–15 hours per week. On a cost per hour basis, as gamers can spend multiple hours per week over several years, MGI's games offer a very cost-effective form of community-based entertainment, typically under €1 per hour, even to higher spenders.

Exhibit 7: User acquisition and retention metrics for MMO portfolio

- Average customer acquisition cost (CAC): €1.00–1.50
- Payback period for customer acquisition: c 90–120 days
- Average conversion rate (registration to paying user) after 30 days: 7–10%
- Monthly ARPU after 180 days: €50–80
- Stickiness (DAU/MAU*): c 30–40%

Source: Media and Games Invest. Note: *Stickiness calculation divides daily average users by monthly average users.

A risk-balanced approach avoiding original IP development

Launching new games on the market is a major risk for games companies, since there are already many games with a long-term loyal player base, as well as large numbers of new games launched every month. To manage this risk, MGI prefers to acquire mature game licences by taking over companies with established titles, rather than developing original IP.

The group is now also launching games based on existing licences (fractured, fantasy town etc).

AxesInMotion: Extending into mobile and development

In Q222, MGI announced the acquisition of AxesInMotion, a Spanish free-to-play mobile games developer of racing games for €55m in cash up-front, plus a potential earn-out of up to €110m over three years. This represents the group's first major acquisition in the mobile games space and also a change in risk profile as, rather than buying an established title, the group is investing in a studio with proven development capabilities ahead of the launch of future titles in an established niche.

AxesInMotion is a 30-person studio, based in Seville. Its key titles are Extreme Car Driving Simulator, Mega Ramps and Extreme SUV Driving Simulator, with two new titles planned. Its games have been downloaded more than 700m times since 2014, generating FY21 revenues of €7.9m and adjusted EBITDA of €5.1m (64% margin). For FY22, management expects revenues of €9.2m with adjusted EBITDA of €6.0m (65% margin). The company has delivered a three-year revenue CAGR FY18–21 of 36%. In total, 33% of revenues derive from the US, with 87% from in-game advertising.

As well as building out MGI's mobile games development capability in the racing genre, the acquisition of AxesInMotion will also benefit MGI's adtech business, increasing its first-party audience data to support the group's ad-targeting capability (independent of identifiers and third-party data). Management's expected mid-term synergies include 100% revenue retention, better ad-monetisation, more efficient user acquisition, as well as the benefit to Verve of increased first-party data. Based on these medium-term synergy assumptions, management has calculated that the acquisition could deliver mid-term revenues of €24m, with €17m of EBITDA (71% margin).

Four pillars of growth strategy

Management identifies four pillars of its strategy:

- **The market opportunity:** this is effectively making the most of the structural changes that are happening within the industry, driven by the changing privacy environment and consumer preferences, as well as advances in technology. The digital ad market continues to expand apace, as does the global player base across demographics, as described above. There is also the underpinning from the shift towards using credible first-party data.
- **Platform growth:** more volume across the platform produces greater economies of scale. Meanwhile the number of clients keeps increasing, attracting greater numbers of advertisers, with the group in a strong position to capture a higher proportion of spend, given the higher CTRs and CPMs, etc.
- **M&A growth:** MGI's management is clear about its commitment to ongoing focused M&A to keep scaling the business. Adtech and mobile content are obviously the key areas.

Exhibit 8: Key short-term M&A targets

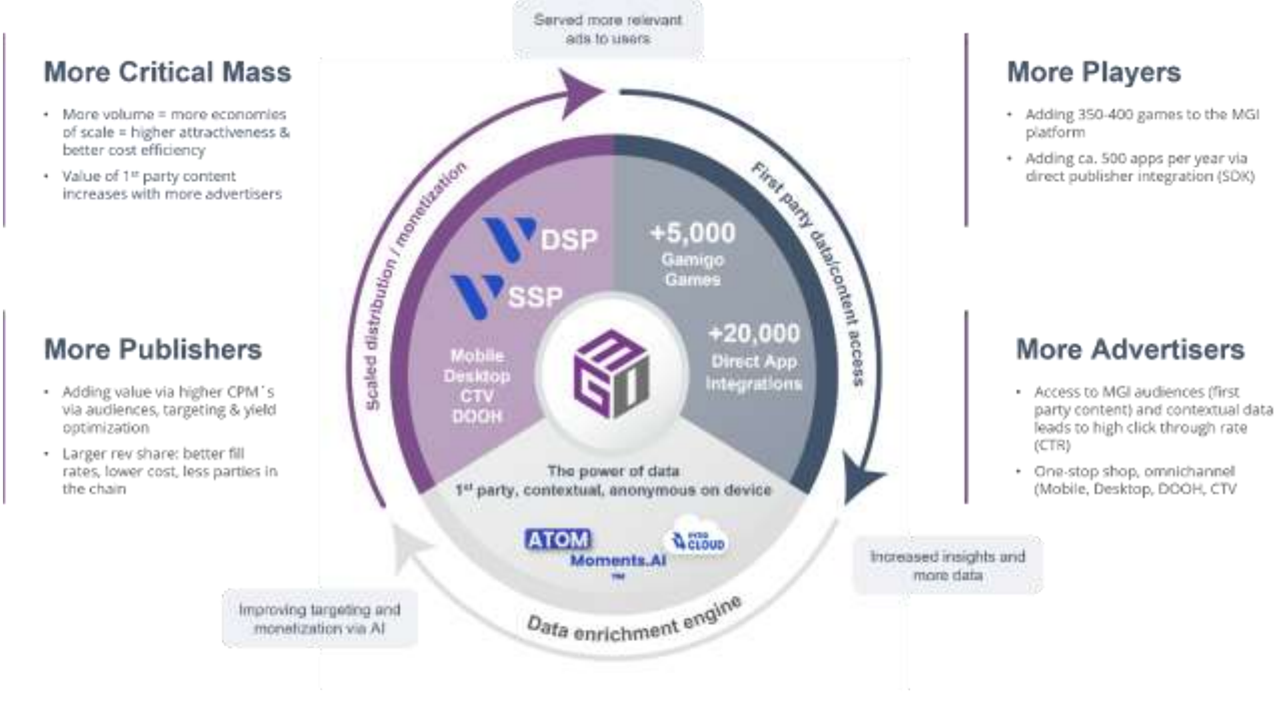
Target segment	Target description	Completed
Mobile games developer & publisher	Own strong IP, mobile racing games, €7–10m revenues, highly profitable	AxesInMotion
Mobile games developer & publisher	Well-known own IP, €15–20m revenues, highly profitable	No
Mobile & web demand side platform	Own IP, strong customer base, €5–10m revenues, profitable	See below
Mobile demand side platform	Own IP, advanced technology, €30–40m revenues, profitable	No
Mobile & web demand side platform	Own IP, sophisticated technology with focus on R&D, €2.5–5m revenues, not profitable	No

Source: Media and Games Invest presentation. Note: Pricing criteria includes <10x EV/EBITDA (including synergies).

These targets were identified in the Q122 presentation, with the first box already ticked with the purchase of AxesInMotion, described above. From the description, Dataseat would appear to be the target listed here at number three (revenues in mid-single-digit £m).

- **Platform synergies:** this is where the network effects should come into play. These are summarised in management's illustrative flywheel, shown below.

Exhibit 9: Value-adding flywheel



Source: Media and Games Invest

These objectives are designed to achieve the following mid-term targets (by FY25):

- **Becoming one of the world's top five ad software platforms**. This should be transparent, open source, innovative, multi-format, omni-platform and vertically integrated. Top five would imply handling impressions in the trillions, rather than billions, but we hesitate to translate this into a revenue target as there are definitional inconsistencies, with some platforms independent and others within larger organisations where disclosure levels are limited.
- **Building a white-label SaaS ad software platform**. Allowing other companies to host their own first-party data in a fully privacy-compliant and cyber-secure environment.
- **Becoming one of the most desired global companies to work for**. An admittedly 'softer' ambition, but one that sits alongside ESG commitments on diversity, transparency, carbon neutrality etc.**Reflecting MGI's partners' values and delivering transparency to clients**. Again, difficult to tie down to specific KPIs and probably clearer in the breach than the observance, this should combine MGI's and its partner's strengths, alongside consent-based partners' data-sharing. This means that clients should not need to be concerned that their data will be used to optimise MGI's games.

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 2018. He has extensive experience in the mobile and online entertainment industry. He founded Bob Mobile (later 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 was appointed CEO and executive director of the board. gamigo was acquired and integrated and all real estate assets were subsequently, with the business model changed to 'buy, integrate, build and improve' in the gaming and media sectors. He has an indirect holding of 41.7m shares and an option for 15.0m running through to FY30 at €2.60 per share. 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 and that 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 1.7m of phantom stock and 45,320 shares in the company.

COO 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. Jens holds 2.55m of phantom stock but no shares. The C-suite is completed by the more recent appointment of CIO Sonja Lilienthal. Her background is in investment banking and, in particular, M&A. Before joining MGI in Q122, Sonja had worked for Rothschild & Co since 2007, most recently as managing director. She holds 0.3m of phantom stock.

Improving governance standards

MGI is going through a process of raising the standards of its corporate governance. Following the listing of the shares in Sweden on the Nasdaq Stockholm First North Premier Growth Market in 2020, management has reappraised the group's governance structure to make sure that it has better access to capital markets, with fewer barriers to investment by potential shareholders who would otherwise be interested. The impetus behind this process was increased by the grey listing of Malta by the Financial Action Task Force in mid-2021.

This involves:

- changing the group's domicile from Malta to Sweden. The group's business is predominantly in North America and continental Europe and Sweden has been chosen as the new corporate base owing to the familiarity of the market to the company post the 2020 listing and having existing operations on the ground;
- implementing a Nomination Committee;
- the Board of Directors instituting Remuneration and Audit Committees to reflect the size of the underlying business, with an increase in the overall number of directors on the board to six. The new nominees are from Germany, Sweden and the US, bringing additional experience in finance, Swedish corporate management and media and entertainment respectively; and
- splitting the roles of chairman and CEO. Remco Westermann will remain as CEO of the company and a new chair will be appointed. Under the Swedish Governance Code, only one executive director normally sits on the main board, usually the CEO. It is proposed that MGI follows this model.

These changes will bring the group into line with Swedish laws and the Swedish Corporate Governance Code.

Sensitivities

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

- **Acquisitions:** MGI's buy, integrate, build and improve strategy and track record of earnings-enhancing acquisitions, providing a platform for these businesses to perform, is key to the investment case. The success of this strategy hinges on the company's ability to select the right acquisitions, maintain price discipline and retain a reputation as an attractive acquiror. While an acquisition strategy does bring inherent risk, each target further diversifies the group's revenue streams, reducing the risk of any single acquisition significantly affecting results.
- **Leverage:** management has set guidance for leverage at 2.0–3.0x. Following the acquisition of AxesInMotion, leverage increased to 2.9x EBITDA on a last 12-month basis and our modelling envisages it being at the top of the indicated range at end FY22 before unwinding.
- **Interest rates and stock market rating:** a rising interest rate environment obviously increases the cost of capital but has the advantage of reducing the amount of competition for attractive assets. The reduction in the group's stock market rating over recent months makes it more difficult to negotiate transactions that are earnings enhancing in the short term. Indicated target valuations are less than 10x EV/EBITDA, with the group currently trading at 8.0x historical EBITDA.
- **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 chairman and CEO) is the largest shareholder in MGI through his indirect holding in Bodhivas, which holds 27.8% of group equity. He also holds an option for 15.0m shares running through to FY30 at €2.60, solely for the purpose of the ESOP, as described above. The AGM at which the board restructure and change of domicile will be voted on will be in Q3 2022.
- **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 currently look to be playing in MGI's favour).

Valuation

Peer valuation across different groupings

MGI operates across stock market subsectors, with its adtech earnings becoming increasingly important but no longer truly distinguishable from the revenues it generates from games. Historically, it may have made sense to appraise the valuation against other games stocks, but this no longer seems appropriate and any 'sum-of-the-parts' approach fails through the aggregation in the reporting.

We have therefore looked at the valuation when 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. The gaming companies are being accorded slightly higher ratings on a current year EV/Sales and EV/EBITDA basis, but at a discount on P/E. On FY23 numbers, there is less differential.

It is notable, however, that this follows a difficult period for high-growth stocks on global markets in FY22. The gaming stocks have not been such a primary target for the bears, with their share prices retreating on average by 16% year to date, compared to falls of 47% in the adtech and 56% in the ad software and content group. MGI's share price has retreated by 52% over the same period, with a notable further step down over the last few weeks from €3.30 at the time of the bond placing on 9 June on comparatively thin volumes.

MGI's shares are trading at a discount across EV/Sales, EV/EBITDA and P/E for FY21, FY22e and FY23e. Were they to trade at parity to the averages of these peers across the three years, MGI's share price would be €5.06, above the level at which they started the year.

Exhibit 10: Peer valuations across adtech, ad software/content and gaming

	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	44.2	(52)	21,348	(843)	19.3	13.6	10.9	47.9	35.6	27.9	62.2	46.4	39.4
Pubmatic	15.9	(53)	820	(140)	3.4	2.5	2.1	8.9	6.9	5.5	23.3	24.9	18.6
Viant Technology	5.2	(47)	314	(194)	0.6	0.5	0.4	4.0	4.7	3.0	-	-	-
Magnite	8.1	(54)	1,058	434	4.0	2.9	2.5	11.8	8.4	7.0	16.7	10.3	8.0
AcuityAds Holdings	3.0	(36)	140	(64)	0.9	0.7	0.6	5.3	5.7	4.3	18.3	66.4	18.7
DoubleVerify Holdings	22.8	(31)	3,711	(191)	12.0	8.6	6.8	37.9	28.2	21.3	179.3	96.1	63.9
Integral Ad Science Hold	9.8	(56)	1,517	151	5.9	4.2	3.3	18.9	13.5	10.5	-	89.5	33.5
Quotient Technology	2.7	(64)	253	(43)	0.5	0.7	0.6	6.5	6.5	3.4	29.9	-	69.9
LiveRamp Holdings	26.7	(44)	1,830	(542)	3.5	2.7	2.2	60.5	30.1	22.8	148.4	57.3	49.1
Digital Turbine	16.7	(73)	1,634	367	7.8	1.7	2.5	32.3	10.9	8.7	28.9	10.8	10.4
Tremor	379.0	(32)	671	(310)	1.3	1.1	0.9	2.7	2.2	1.9	7.2	6.5	5.5
Criteo	22.4	(42)	1,345	(497)	1.0	0.9	0.8	3.0	2.9	2.5	8.5	8.1	7.1
YOC	16.0	20	55	(1)	3.0	2.2	-	24.5	-	-	39.9	-	-
Median		(47)			3.4	2.2	2.1	11.8	7.6	6.2	28.9	35.6	18.7
Ad-software and content													
AppLovin	32.9	(65)	12,379	1565	5.7	4.4	3.5	21.8	12.3	9.7	241.2	97.0	29.5
IronSource	3.3	(58)	3,330	(685)	5.5	3.6	2.9	16.0	11.8	8.8	58.2	39.1	22.2
Azerion	7.7	(23)	852	(370)	-	1.0	0.9	-	7.3	5.2	-	80.4	29.6
Future	1,781	(53)	2,543	262	3.9	2.9	2.7	11.5	8.1	7.5	13.9	11.3	10.5
Median		(56)			5.5	3.3	2.8	16.0	10.0	8.2	58.2	59.7	25.8
Gaming													
Embracer Group	82.7	(14)	8,281	1395	10.3	6.2	2.7	26.7	15.1	7.9	-	-	-
Stillfront Group	24.5	(43)	1,168	341	2.9	2.3	2.1	7.7	6.3	5.6	14.1	8.2	7.3
Paradox Interactive	173.4	(3)	1,723	(42)	12.1	9.5	7.4	21.3	14.8	11.3	65.0	32.4	26.8
Modern Times Group	84.7	21	880	178	2.1	2.0	1.8	12.2	7.9	7.0	96.5	25.9	17.9
Rovio Entertainment	6.2	(5)	463	(107)	1.3	1.1	1.1	7.1	6.4	6.0	14.2	14.4	12.8
Team17	390.0	(50)	671	(63)	5.6	4.2	3.8	15.1	12.1	10.7	19.9	17.9	16.5
Median		(16)			4.3	3.2	2.4	13.7	10.0	7.5	19.9	17.9	16.5
Total average		**(39)**			**4.4**	**2.9**	**2.5**	**13.8**	**9.2**	**7.3**	**35.7**	**37.8**	**20.3**
Media & Games Invest	**2.1**	**(52)**	**328**	**198**	**2.1**	**1.7**	**1.4**	**7.4**	**5.7**	**5.1**	**12.4**	**9.3**	**8.7**
Premium/(discount.) to ad-tech		(5)			(39%)	(24%)	(33%)	(37%)	(25%)	(18%)	(57%)	(74%)	(54%)
Premium/(discount) to ad-software and content		3			(62%)	(48%)	(49%)	(54%)	(43%)	(37%)	(79%)	(84%)	(66%)
Premium/(discount) to gaming		(36)			(51%)	(47%)	(42%)	(46%)	(43%)	(32%)	(38%)	(48%)	(47%)
Premium/(discount) to total		(13)			(53%)	(41%)	(42%)	(47%)	(38%)	(30%)	(65%)	(75%)	(57%)

Source: Refinitiv. Note: Prices as at 13 July 2022.

DCF to sense check

We have also looked at a DCF based on revenues continuing to grow at the 25% indicated by management in its medium-term guidance through to FY25 and then increasing at a reducing pace through to a terminal growth rate of between zero and 4.0%. In this broad-brush modelling, we have also assumed that the achievable margin starts to drift off a little towards a long-term rate of 25% post FY25, although it is arguable that if capex and marketing spend were to be curtailed, then that margin would lift – at least for a couple of years before the top line would start to sag.

As ever, we caution that the output of a DCF is crucially dependent on the inputs and that erroneous assumptions become compounded. As described, our modelling generates a value per share of €3.92 using a WACC of 9.0% and terminal growth of 2%, which is reasonably close to the valuation derived from the peer analysis.

Exhibit 11: DCF (€/share) at varying WACC and terminal growth rates

		Terminal growth rate				
		0.0%	1.0%	2.0%	3.0%	4.0%
WACC	11.5%	1.99	2.13	2.31	2.53	2.80
	11.0%	2.18	2.35	2.56	2.81	3.14
	10.5%	2.40	2.60	2.84	3.14	3.54
	10.0%	2.64	2.87	3.15	3.51	4.00
	9.5%	2.91	3.18	3.51	3.95	4.54
	9.0%	3.21	3.52	**3.92**	4.45	5.20
	8.5%	3.55	3.92	4.40	5.05	6.00
	8.0%	3.93	4.37	4.95	5.77	7.00
	7.5%	4.36	4.89	5.61	6.66	8.30
	7.0%	4.86	5.50	6.41	7.77	10.03

Source: Edison Investment Research

Financials

While we have commented on the financial performance of the company in our previous notes, we have now built out a model and introduce our own forecasts, rather than relying on market consensus.

Impressive revenue CAGR

MGI has achieved annual revenue growth of more than 67% y-o-y for each of the last three years, contributing to a five-year revenue CAGR in FY16–21 of 45%. In FY20 and FY21, management has developed an attractive habit of beating guidance:

- FY20 guidance was for revenues of €115–125m (FY20: €140m, top end beaten by 12%), with adjusted EBITDA of €20–23m (FY20: €36m).
- FY21 initial guidance was for revenues of €220–240m (FY21: €252m, top end beaten by 5%), with adjusted EBITDA of €60–65m (FY21: €71m, top end beaten by 9%).

Management guidance for FY22 is:

- FY22 revenue: €295–315m (17–25% growth y-o-y), lifted by €5m to reflect the acquisition of AxesInMotion.
- FY22 adjusted EBITDA: €83–93m (17–31% growth y-o-y), up by €3m.

Our FY22 revenue projection is towards the higher end of the guided range, with 21% further progress modelled for FY23. This is lower than the mid-term guidance for revenue growth, which reflects a degree of caution from us on overall advertising market sentiment, given the economic backdrop of major developed economies. The figure does not build in any additional M&A but gives a full-year benefit from those acquisitions carried out in FY22 to date. Given management's expansionary strategy, we would be surprised (and possibly disappointed) if the group's configuration was to look the same by that stage.

Management's margin assumptions are set building in continuing investment in people and products that will drive future growth. Dialling the investment down could deliver adjusted EBITDA margins of 30–35% which, in our opinion, would signal migration into a more mature development phase with a slower top-line trajectory.

Our modelling therefore assumes that EBITDA margins stay in the high 20s to 30%.

The largest element of operating expenses is purchased services, at 55% of revenue in FY21 (and FY20). We would expect this proportion to go down as the group builds its own DSP and brings more of the offering in house. Labour costs represented another 22% (FY20: 28%), again with further opportunity to reduce this proportion as the business scales.

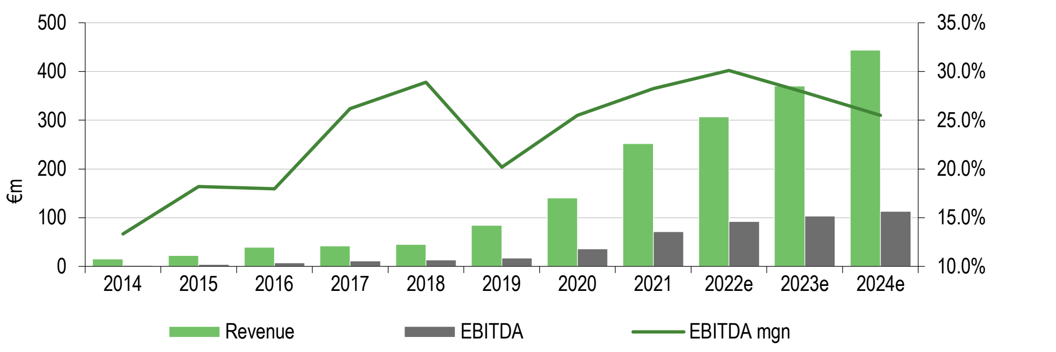
Exhibit 12: Summary income statement

€m	2019	2020	2021	2022e	2023e
Revenue	**83.9**	**140.2**	**252.2**	**307.0**	**370.0**
Op. expenses (excluding D&A, share-based payments and one-off costs)	(67.0)	(104.5)	(181.0)	(214.6)	(267.0)
EBITDA	**16.9**	**35.8**	**71.2**	**92.4**	**103.0**
D&A	(4.5)	(7.4)	(16.3)	(20.7)	(24.6)
Normalised operating profit	12.4	28.4	54.9	71.7	78.4
Amortisation from acquired intangibles	(6.0)	(8.1)	(12.0)	(14.4)	(17.2)
Exceptional items	(1.4)	(7.0)	(4.7)	(3.5)	(3.5)
Share-based payments	-	(2.2)	(1.5)	(1.6)	(1.8)
Reported operating profit	5.0	11.0	36.8	52.2	55.9
Pre-tax profit	(0.8)	3.9	14.9	28.5	30.3
Net income	(0.3)	3.1	16.1	20.4	21.7
Free cash flow	**3.6**	**6.1**	**25.0**	**59.7**	**45.7**
Net debt/(cash)	38.3	57.9	198.3	265.5	254.5
Net debt to EBITDA	2.3	1.6	2.8	2.9	2.5
Revenue growth (%)	157.2	67.1	79.8	21.7	20.5
EBITDA margin (%)	20.2	25.5	28.2	30.1	27.8
Normalised operating margin (%)	14.8	20.2	21.8	23.3	21.2
Reported operating margin (%)	6.0	7.9	14.6	17.0	15.1
PBT margin	(0.9)	2.8	5.9	9.3	8.2
Net income margin	(0.4)	2.2	6.4	6.6	5.9

Source: Media and Games Invest accounts, Edison Investment Research

The longer-term record shows clearly the increased pace of expansion, buoyed by the M&A.

Exhibit 13: Longer-term record and forecasts



Source: Media and Games Invest accounts, Edison Investment Research

Cash flow dominated by M&A

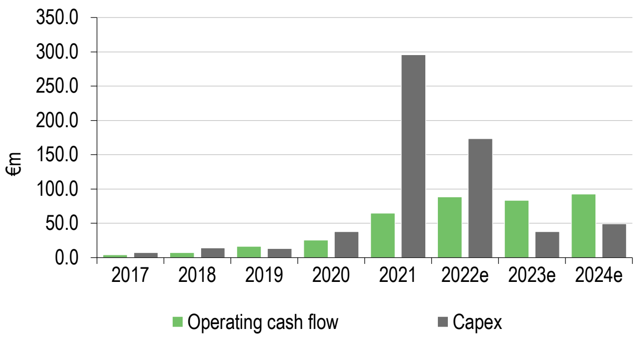
The group actively manages its leverage, with regular raising of both equity and debt. The underlying cash characteristics of the group are strong, with little requirement for major capital expenditure programmes and comparatively little tied up in terms of working capital.

Management's guidance for leverage is that it should fall in a range of 2.0–3.0x across the three years to FY25. Our modelling implies a current year of 2.9x but moving back more comfortably inside for FY23e and FY24e. Of course, the high level of corporate activity at the company means that this calculation will most likely need to be recalibrated on a regular basis.

Maintenance capex requirements are relatively modest, running at €10m in FY21, and primarily directed towards investment in games content and updates. The bulk of capex is directed towards projects to expand the group's base. In FY21, MGI spent €22m on ad software and €2m on games licences. The ad software platform projects included investments in the publisher SDK, ATOM and Moments.AI as described above.

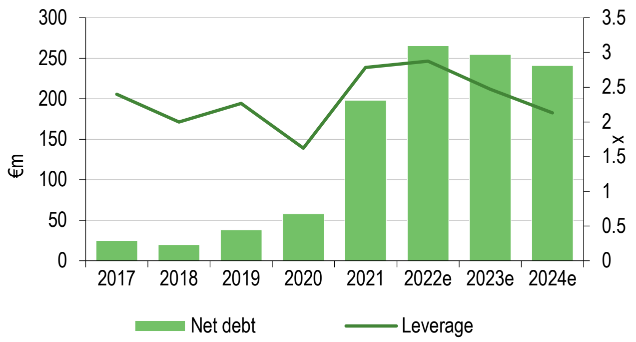
M&A spend in FY21 added up to €261m, the bulk of which was attributable to the purchases of Smaato and KingsIsle. The latest acquisition, UK-based Dataseat, is being bought at an undisclosed price, which is in the high single-digit million pounds for FY22 revenues in the mid-single digit million pounds (and likely to be break-even at the EBITDA level), with a deferred component linked to the vendors staying in the business and an earnout within three years. This represents a modest upfront outlay, to be paid in cash, with the deferred element either in cash or in shares. Cash payments would be made earlier, within 18 months of closing the deal, whereas a share-based deal will settle in three years.

Exhibit 14: Operating cash flow and capex, including M&A



Source: Media and Games Invest accounts, Edison Investment Research

Exhibit 15: Net debt and leverage



Source: Media and Games Invest accounts, Edison Investment Research

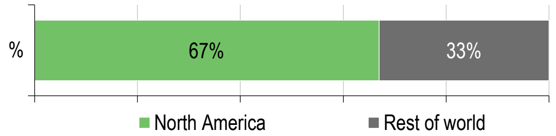
Balance sheet supported by bond issuance

- 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 Group 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 2022, November 2023 and May 2024.
- MGI has recently (June 2022) placed €175m of new senior secured bonds at 98.00% of par with a floating rate coupon of Euribor +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.
- In April 2022, the group 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.

Exhibit 16: Financial summary

€'000s	2019	2020	2021	2022e	2023e
31-December	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT					
Revenue	83,893	140,220	252,166	307,000	370,000
Operating costs excl. D&A	(66,965)	(104,469)	(180,950)	(214,648)	(266,999)
EBITDA	16,928	35,751	71,216	92,352	103,000
Normalised operating profit	12,417	28,380	54,942	71,684	78,356
Amortisation of acquired intangibles	(6,032)	(8,137)	(11,964)	(14,357)	(17,228)
Exceptionals	(1,386)	(6,993)	(4,708)	(3,500)	(3,500)
Share-based payments	0	(2,209)	(1,466)	(1,613)	(1,774)
Reported operating profit	4,999	11,041	36,804	52,215	55,854
Net Interest	(5,758)	(7,140)	(21,919)	(23,728)	(25,538)
Joint ventures & associates (post tax)	0	0	0	0	0
Exceptionals	0	0	0	0	0
Profit Before Tax (norm)	6,659	21,240	33,023	47,956	52,818
Profit Before Tax (reported)	(759)	3,901	14,885	28,487	30,316
Reported tax	2,012	(1,194)	1,169	(8,103)	(8,623)
Profit After Tax (norm)	4,508	15,281	23,630	34,315	37,794
Profit After Tax (reported)	1,253	2,707	16,054	20,384	21,693
Minority interests	1,577	(352)	(7)	0	0
Discontinued operations	0	0	0	0	0
Net income (normalised)	2,931	15,633	23,637	34,315	37,794
Net income (reported)	(324)	3,059	16,061	20,384	21,693
Basic average number of shares outstanding (m)	60.4	85.5	141.7	154.5	159.2
EPS - basic normalised (€)	0.05	0.18	0.17	0.22	0.24
EPS - diluted normalised (€)	0.04	0.16	0.17	0.22	0.24
EPS - basic reported (€)	(0.01)	0.04	0.11	0.13	0.14
Dividend (€)	0.00	0.00	0.00	0.00	0.00
Revenue growth (%)	157.2	67.1	79.8	21.7	20.5
EBITDA Margin (%)	20.2	25.5	28.2	30.1	27.8
Normalised Operating Margin (%)	14.8	20.2	21.8	23.3	21.2
BALANCE SHEET					
Fixed Assets	256,593	293,466	650,495	768,421	768,301
Intangible Assets	233,208	272,829	605,746	722,172	720,552
Tangible Assets	3,521	1,742	4,681	6,181	7,681
Investments & other	19,864	18,895	40,068	40,068	40,068
Current Assets	55,856	92,376	283,598	268,392	299,887
Stocks	0	0	0	0	0
Debtors	17,047	37,009	97,497	89,544	109,986
Cash & cash equivalents	32,984	46,254	180,156	172,903	183,956
Other	5,825	9,113	5,945	5,945	5,945
Current Liabilities	54,544	78,205	243,433	231,256	244,165
Creditors	20,274	30,037	53,754	53,577	66,486
Short term borrowings	1,409	6,089	32,027	32,027	32,027
Other financial liabilities	17,948	30,155	137,604	125,604	125,604
Other non-financial liabilities	14,913	11,924	20,048	20,048	20,048
Long Term Liabilities	89,347	130,792	383,168	448,168	443,168
Long term borrowings	69,916	98,104	346,382	406,382	406,382
Other long term liabilities	19,431	32,688	36,786	41,786	36,786
Net Assets	456,340	594,839	1,560,694	1,716,237	1,755,521
Minority interests	70,490	60	59	59	59
Shareholders' equity	526,830	594,899	1,560,753	1,716,296	1,755,580
CASH FLOW					
Profit after tax	1,253	2,707	16,054	20,384	21,693
Depreciation & amortisation	10,543	15,508	28,238	35,025	41,872
Working capital	4,692	(4,543)	(5,714)	7,776	(7,534)
Exceptional & other	(5,079)	4,072	1,167	1,613	1,774
Tax	(822)	112	1,514	0	0
Net finance cost	5,612	7,347	23,583	23,728	25,538
Net operating cash flow	16,199	25,203	64,842	88,525	83,343
Capex	(12,611)	(19,098)	(39,844)	(28,792)	(37,593)
Acquisitions/disposals	2,831	(18,609)	(255,790)	(127,000)	(5,000)
Equity financing	8,845	26,876	109,338	27,900	0
Dividends	0	0	0	0	0
Other	(13,415)	(31,304)	(24,920)	(27,887)	(29,697)
Net Cash Flow	1,849	(16,932)	(146,374)	(67,254)	11,053
Opening net debt/(cash)	32,593	38,341	57,939	198,253	265,506
FX	0	0	0	0	0
Other non-cash movements	(7,597)	(2,666)	6,060	1	0
Closing net debt/(cash)	38,341	57,939	198,253	265,506	254,453

Source: Company accounts, Edison Investment Research

Contact details	Revenue by geography
Media and Games Invest St. Christopher Street 168 VLT 1467 Valletta, Malta +356 21 22 7553 www.mgi-se.com	

Management team	
Chairman & CEO: Remco Westermann	**CFO: Paul Echt**
Remco has extensive experience in the mobile and online entertainment industry, founding Bob Mobile (later CLIQ Digital), and helped build the 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. Paul holds 1.7m of phantom stock and 45,320 shares in the company.
COO: Jens Knauber	**CIO: Sonja Lilienthal**
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. Jens holds 2.55m of phantom stock but no shares.	Sonja Lilienthal's background is in investment banking and, in particular, M&A. Before joining MGI in Q122, Sonja had worked for Rothschild & Co since 2007, most recently as managing director. She holds 0.3m of phantom stock.

Principal shareholders	(%)
Bodhivas*	26.2
Oaktree Capital Management	12.6
Sterling Active Fund	3.9
Janus Henderson Investors	3.5

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

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