

Media and Games Invest

Swedish re-domicile going ahead

Media and Games Invest's (MGI's) recent EGM confirmed that the group can now proceed with its relocation to Sweden, set for January 2023, and the associated improvements to corporate governance, which should remove potential barriers to investment. Q322 results are scheduled for 15 November and, as with Q222, we would expect there to be a benefit from new publishers coming on board with an offset from a more testing economic backdrop. The inclusion of recent acquisition Datasat from July will begin to step up the proportion of revenues and earnings generated from the demand-side. MGI's valuation remains well below peers.

Year end	Revenue (€m)	Adjusted EBITDA* (€m)	PBT* (€m)	EPS* (€)	EV/adjusted EBITDA* (x)	P/E (x)
12/20	140.2	35.8	21.2	0.16	13.9	10.2
12/21	252.2	71.2	33.0	0.17	7.0	10.0
12/22e	307.0	92.4	48.0	0.22	5.4	7.5
12/23e	370.0	103.0	52.8	0.24	4.8	7.0

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

Governance improvements in place

The company's earlier attempt to approve the constitutional changes (including transferring the registered office to Sweden) was unanimously passed at the AGM in September. However, as under 50% of the total outstanding voting rights were in attendance, the changes did not take effect, and an EGM was reconvened for 1 November, at which the necessary resolutions were passed. As well moving from Malta to Sweden, and appointing Deloitte Sweden as auditor from 1 January 2023, the group's name changes to MGI – Media and Games Invest SE. By resolutions passed at the AGM, the board expanded to six members, with five independent directors, and has now established both Audit and Remuneration Committees.

Shift in emphasis to organic growth

MGI has now transitioned to an organic growth strategy post July's Datasat purchase, which gave a strong base for building a credible, scalable, demand-side platform. This is very much an international business, with c 70% of advertising revenues earned in the United States, giving a degree of resilience in a deteriorating economic background. MGI's strong portfolio of free-to-play games is also a key defensive characteristic. The current valuation effectively rules out equity-funded M&A, with debt leverage also above management's medium-term range target of 2–3x net debt/EBITDA. With the shift to an organic growth strategy, this should now be less of a concern.

Valuation: Well below peers

MGI's share price is down 60% year to date, while global adtech peers have fallen by 53% on average, reflecting the market rotation away from high-growth sectors. Quoted gaming companies have done a little better, falling by 20%. MGI's shares are valued below both sets of peers. Parity on average across FY21–23 would imply a share price of €3.93 (July: €5.06), with a DCF indicating a value of €4.13.

EGM result and Q222 results

Media

10 November 2022

Price **€1.67**

Market cap **€266m**

\$1.00/€

Net debt (€m) at end June 2022 299

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 13.1 (26.8) (66.9)

Rel (local) 1.6 (27.5) (61.2)

52-week high/low €5.97 €1.40

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 has been supplemented with acquisitions, and the group has bought more than 35 companies and assets in the past six years.

Next events

Q322 report 15 November 2022

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Update post Q222

Good organic and top-line growth in Q2

The Q222 figures were presented as a simple split between the supply (publisher) and demand (advertiser) sides, with the supply side therefore including the bulk of revenues that would previously have been shown in the Games segment. We note that Dataseat was not acquired until July so is not represented in these reported figures.

Exhibit 1: Summary Q222 figures			
€m	Supply-side segment	Demand-side segment	Group
Revenue	70.4	7.7	78.1
% change	32	104	37
% change organic	14	76	18
Adjusted EBITDA	19.9	1.2	21.1
% change	36	71	38
Adjusted EBITDA margin (%)	28	16	27

Source: Media and Games Invest

Organic growth of 14% on the supply-side segment comprises a stable performance from existing software clients, enhanced by 25 new publishers added to the portfolio (including TuToTV and Tripledot), but dampened by softening economic conditions. In Q222, the group had 513 software clients generating more than €100k of gross revenues, up from 479 in Q221, with a retention rate of 95%. Some attrition is inevitable, so this represents a strong performance.

Net interest-bearing debt at the half-year end was €299m (end December 2021: €199m), with the increase mostly attributable to the final fixed consideration and earn-out payments for the KingsIsle acquisition plus the initial payment for AxesInMotion. The group's leverage ratio was 3.7x net debt/EBITDA at 30 June 2022 (end FY21: 2.8x), but this figure is distorted as the EBITDA element only includes earnings from 10 months of trading from Smaat and two months of AxesInMotion. In the medium term, management has stated its intention to reduce leverage back below 3.0x.

Guidance confirmed

Management confirmed FY22 guidance at the capital markets day at the end of August, indicating revenues in the range of €295–315m (growth of 17–25%), delivering adjusted EBITDA of €83–93m, implying an adjusted EBITDA margin of between 26% and 32%, compared with the 27% achieved in the first half. Given the inherent seasonality of the advertising industry and its weighting to Q4, a higher adjusted EBITDA margin would normally be expected in H2 and our forecasts imply 31% for H222, at the top end of the guided range. Our forecasts are unchanged from those published in July.

Medium-term guidance (which we take to mean to FY25) is for a revenue CAGR of 25–30%, maintaining adjusted EBITDA margins in the 25–30% range. Given the degree of economic uncertainty currently, we have been more cautious in our underlying assumptions for FY23, pencilling in revenue growth of 21%, with an adjusted EBITDA margin within the guided range.

Elements of resilience built into outlook

There are two key points of note when appraising the group's short-term prospects. Firstly, free-to-play games tend to be reasonably robust in a downturn, particularly when compared to subscription packages (50% of the group's EBITDA is earned from free-to-play games).

It is also worth noting that, while based out of Europe, this is very much an international business, generating around 70% of its advertising revenues from the United States, where the current economic indicators are looking considerably more benign than those in Europe.

Management aims to come out of the recession stronger. To do this, it must continue to invest and manage the cost base. With both the demand side and supply side catered to within the group's market offering, new approaches can be developed, tested and brought to market faster, with the group being able to iterate as it goes along rather than having to rely on third parties. The availability of advertiser data gives a feedback loop in building into predictive modelling to optimise return on investment.

Valuation

As at the time of our initiation in July, we have evaluated 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. The gaming companies are being accorded slightly higher ratings on a current year EV/sales and EV/EBITDA basis, but a discount on P/E. On FY23 numbers, there is less differential.

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 €3.93, just below the level at which it started the year. When we carried out this same exercise in July, the equivalent value was €5.06 with the further poor share price performance across all three comparator sectors representing most of the difference, with some modest underperformance of the adtech and gaming sectors, and a slight outperformance of the ad-software and content stocks.

Exhibit 2: Peer valuations across adtech, ad software/content and gaming

Company	Price	YTD performance	Market cap	EV/sales (x)			EV/EBITDA (x)			P/E (x)		
	(local ccy)	(%)	(€m)	FY0	FY1e	FY2e	FY0	FY1e	FY2e	FY0	FY1e	FY2e
Ad-tech												
The Trade Desk	43.4	(53)	21,024	19.0	12.8	10.3	47.1	32.5	27.3	61.0	42.2	36.8
Pubmatic	16.2	(53)	840	3.5	2.7	2.4	9.1	7.0	6.8	23.7	23.6	21.4
Viant Technology	4.8	(50)	295	0.5	0.4	0.4	3.4	14.4	3.6	-	-	-
Magnite	6.2	(64)	821	3.3	2.4	2.1	9.9	7.3	6.4	12.9	9.0	7.0
AcuityAds Holdings	2.0	(59)	83	0.2	0.2	0.2	1.3	2.5	1.6	11.4	-	48.7
DoubleVerify Holdings	23.4	(30)	3,817	12.3	8.1	6.5	39.0	26.4	21.0	183.9	91.3	70.5
Integral Ad Science Hold	7.1	(68)	1,095	4.4	3.2	2.7	14.1	10.1	8.2	-	156.4	40.3
Quotient Technology	2.6	(65)	252	0.5	0.7	0.6	6.4	12.2	4.5	29.3	-	-
LiveRamp Holdings	15.6	(67)	1,041	1.4	1.0	0.8	23.4	11.7	8.2	86.8	33.5	23.7
Digital Turbine	11.5	(81)	1,132	5.9	1.3	1.9	24.2	8.2	7.3	19.9	7.4	7.9
Tremor	354.6	(36)	593	1.0	0.8	0.6	2.1	1.8	1.5	6.5	4.3	3.3
Criteo	24.0	(38)	1,434	1.1	1.0	0.9	3.3	3.7	3.3	9.1	9.3	9.2
YOC	13.0	(3)	45	2.4	-	-	19.8	-	-	32.4	-	-
Median		(53)		2.4	1.2	1.4	9.9	9.1	6.6	23.7	23.6	22.6
Ad-software and content												
AppLovin	15.2	(84)	5,586	2.9	2.5	2.1	11.2	6.3	5.2	111.0	-	17.1
IronSource	2.7	(65)	1,895	2.5	-	-	7.3	-	-	49.1	-	-
Azerion	6.7	(33)	745	-	0.8	0.7	-	5.7	4.1	-	47.3	24.9
Future	1,377	(64)	1,902	3.0	2.3	2.2	8.9	6.4	6.1	10.4	8.7	8.3
Median		(64)		2.9	2.3	2.1	8.9	6.3	5.2	49.1	28.0	17.1
Gaming												
Embracer Group	53.9	(44)	5,505	7.4	4.4	1.9	19.0	10.8	6.4	-	-	21.7
Stillfront Group	19.0	(56)	892	2.4	1.9	1.7	6.3	5.3	4.8	10.7	7.3	6.7
Paradox Interactive	196.5	10	1,902	13.4	10.3	8.8	23.5	15.0	12.4	72.4	29.6	28.3
Modern Times Group	87.1	24	1,004	2.3	2.3	2.1	13.6	9.7	8.9	97.4	15.4	19.0
Rovio Entertainment	5.9	(10)	445	1.2	1.1	1.1	6.8	6.5	6.1	13.5	13.7	13.9
Team17	445.0	(43)	740	6.3	4.6	4.3	16.8	13.6	12.2	22.0	19.2	17.4
Median		(20)		4.3	3.4	2.0	15.2	10.2	7.6	22.0	15.4	18.2
Total average		(46)		3.2	2.3	1.8	11.3	8.6	6.5	31.6	22.3	19.3
Media & Games Invest	1.7	(60)	266	1.8	1.5	1.3	6.5	5.0	4.5	10.0	7.5	7.0
Premium/(discount) to ad-tech		(7)		(25%)	30%	(13%)	(34%)	(45%)	(32%)	(58%)	(68%)	(69%)
Premium/(discount) to ad-software and content		5		(37%)	(35%)	(40%)	(27%)	(21%)	(14%)	(80%)	(73%)	(59%)
Premium/(discount) to gaming		(40)		(57%)	(55%)	(37%)	(57%)	(51%)	(41%)	(55%)	(51%)	(61%)
Premium/(discount) to total		(14)		(43%)	(34%)	(32%)	(43%)	(41%)	(31%)	(68%)	(66%)	(64%)

Source: Refinitiv. Note: Prices as at 8 November 2022.

Exhibit 3: Financial summary

	€'k	2019	2020	2021	2022e	2023e
Year end 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)	(267,000)
EBITDA		16,928	35,751	71,216	92,352	103,000
Operating profit (before amort. and excepts.)		12,417	28,380	54,942	71,645	78,357
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	52,175	55,855
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	47,916	52,819
Profit Before Tax (reported)		(759)	3,901	14,885	28,447	30,317
Reported tax		2,012	(1,194)	1,169	(8,092)	(8,624)
Profit After Tax (norm)		4,508	15,281	23,630	34,286	37,795
Profit After Tax (reported)		1,253	2,707	16,054	20,355	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	34,286	37,795
Net income (reported)		(324)	3,059	16,061	20,355	21,693
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 - normalised fully diluted (€)		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	765,803	762,273
Intangible Assets		233,208	272,829	605,746	719,554	714,524
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	273,212	305,887
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	177,723	189,956
Other		5,825	9,113	5,945	5,945	5,945
Current Liabilities		54,544	78,205	243,433	233,486	244,165
Creditors		20,274	30,037	53,754	55,807	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	1,720,668	1,755,493
Minority interests		70,490	60	59	59	59
Shareholders' equity		526,830	594,899	1,560,753	1,720,727	1,755,552
CASH FLOW						
Operating Cash Flow		1,253	2,707	16,054	20,355	21,693
Depreciation & amortisation		10,543	15,508	28,238	35,064	41,872
Working capital		4,692	(4,543)	(5,714)	10,006	(9,763)
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	90,766	81,113
Capex		(12,611)	(19,098)	(39,844)	(26,213)	(34,183)
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)	(62,434)	12,234
Opening net debt/(cash)		32,593	38,341	57,939	198,253	260,686
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	260,686	248,453

Source: Company accounts, Edison Investment Research

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