

MGI – Media and Games Invest

Q123 update

Building adtech market presence

MGI – Media and Games Invest (MGI) is building a strong position in the programmatic adtech sector, under the Verve name. Its supply (publishing) side is expanding its customer base in a difficult market, with Verve now the largest mobile in-app provider for Google in North America and EMEA and fourth largest on iOS. Verve's demand (advertising) side is growing strongly, from a lower base. The group's Q123 revenues were up by 1% (organic, +4% with currency), while lower costs from the slimmed-down games portfolio and the operational benefit of the combined tech stacks have lifted margins faster than we anticipated. The share price is at a sizable discount to peers. In our view, this does not reflect the value inherent in MGI's large first-party data resource, AI-driven targeting or the scale of its opportunity.

| Year end | Revenue (€m) | Adjusted EBITDA* (€m) | PBT* (€m) | EPS* (€) | EV/EBITDA* (x) | P/E (x) |
|----------|--------------|-----------------------|-----------|----------|----------------|---------|
| 12/21 | 252.2 | 71.2 | 26.9 | 0.20 | 6.8 | 5.2 |
| 12/22 | 324.4 | 93.2 | 30.3 | 0.13 | 5.2 | 8.5 |
| 12/23e | 340.0 | 96.0 | 34.6 | 0.11 | 4.9 | 10.8 |
| 12/24e | 375.0 | 107.5 | 44.9 | 0.14 | 4.4 | 8.1 |

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

Respectable Q1 performance in difficult market

MGI's Q123 net revenues were up 4% (+1% organic), while adjusted EBITDA was 9% ahead of Q122. Programmatic advertising net revenues rose 8%, while games revenues dipped 6%, reflecting a cleaning up of the portfolio in Q422. With well-documented poor trading conditions in advertising markets, this is a good result and reflects the recruitment of more software clients (a modest expansion of large client numbers, but more smaller clients onboarded where business levels should build through the year). Existing clients reined in their budgets in view of the uncertain economic backdrop but the churn rate was limited to 5%. The end-March interest-bearing debt was €288.3m, which equates to 2.7x trailing twelve-month EBITDA, comfortably within management's targeted range of 2-3x.

EBITDA estimates lifted for FY23 and FY24

FY23 revenue guidance has been adjusted to reflect the portfolio changes and is now for €335–45m, with adjusted EBITDA now guided to €95–105m. We have taken €3m out of our revenue number, while upgrading our adjusted EBITDA modelling from €88m up to €96m, with consequential uplift to FY24 estimates.

Valuation: Substantial discount to peers, DCF

MGI's share price is down 38% year-to-date, versus an 11% median gain across global adtech peers (in a very wide range of +108% to -40%). MGI's shares are valued below both adtech and gaming peers. Across averaged FY22–24 EV/sales and EV/adjusted EBITDA, parity would imply a share price of €3.57 (€3.50 in our March update). A DCF now indicates €3.91 (was €3.80).

Media

5 June 2023

Price €1.07

Market cap €170m

Net debt (€m) at 31 March 2023 288.3

Shares in issue 159.2m

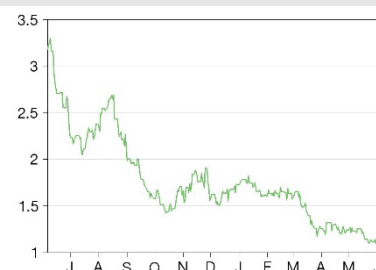
Free float 70.1%

Code M8G

 Primary exchange Nasdaq Stockholm
First North Premier
Growth

 Secondary exchange Deutsche Börse
Scale, OTCQX

Share price performance



| % | 1m | 3m | 12m |
|-------------|--------|--------|--------|
| Abs | (13.7) | (34.3) | (65.5) |
| Rel (local) | (15.5) | (37.3) | (68.9) |

52-week high/low €3.21 €1.07

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

AGM 30 June 23

H123 results 31 August 23

Analysts

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Q123: restricted top line growth, good margin progress

For most advertising businesses, Q1 is always the weakest period, building sequentially with a heavier weighting to Q4. In the current year, this is likely to be even more exaggerated than normal, with advertisers reluctant to commit spend against budgets when the consumer backdrop is so friable. With volumes under pressure, pricing adjusts downward to attempt to stimulate demand, meaning each dollar of revenue earned through the ecosystem is harder to earn. MGI delivered 166bn ad impressions in Q123, a 6% increase on last year. Given the reduced spending from its existing customers (down 11%), the gains from new software clients are substantial. The group discloses the number of customers generating over US\$100k of annualised gross revenues and this increased from 551 at end-FY22 to 557 at end-March. This is a relatively modest uplift but it does not take into account clients coming on board at levels under this threshold and who may build as they use the platform more extensively. On the analysts' call, this number was put at 50–60 in the period.

Exhibit 1: Quarterly income statement progression

| €m | Q122 | Q222 | Q322 | Q422 | Q123 |
|----------------------------|------|------|------|------|------|
| Revenue | 65.9 | 78.1 | 87.6 | 92.9 | 68.8 |
| y-o-y revenue growth (%) | 27% | 37% | 39% | 16% | 4% |
| q-o-q revenue growth (%) | -18% | 19% | 12% | 6% | -26% |
| EBITDA | 16.9 | 20.0 | 21.4 | 26.5 | 17.4 |
| Adjusted EBITDA | 17.6 | 21.1 | 23.0 | 24.0 | 19.1 |
| Adjusted EBITDA margin (%) | 27% | 27% | 26% | 26% | 28% |

Source: Company accounts

Operating costs in the quarter reflect a full quarter of costs taken out with the games portfolio rationalisation in Q422 but also the benefits starting to come through from the consolidation of the various tech stacks gained through earlier acquisitions. Two larger consolidations have already been completed, with the amalgamation of the Connected TV tech stacks likely to be fully achieved by Q323, with most Liquid customers now moved across to the Smaato platform.

Adjustments to estimates

We have trimmed our revenue estimates slightly on the Q123 results. Management's guidance is €335–45m, which, excluding the portfolio changes and currency effects, would be equivalent to guidance of €350–60m. The progress on the cost base enables us to lift our outlook for adjusted EBITDA, which increases by 9% for FY23e and by 8% for FY24e.

The anticipated interest charge is little changed after the successful issue of €225m of new corporate bonds in May 2023 and the subsequent repurchase of €175m of bonds previously set to expire in FY24. Further bond repurchases will be made if the pricing makes sense. We have also increased the anticipated rate of reported tax, dampening the impact at the EPS level, although, for now, we are not modelling any cash tax payments.

Exhibit 2: Adjustments to forecasts

| | Revenue (€m) | | | Adjusted EBITDA (€m) | | | EPS (€) | | |
|-------|--------------|-------|----------|----------------------|-------|----------|---------|------|----------|
| | Old | New | % change | Old | New | % change | Old | New | % change |
| 2023e | 343.0 | 340.0 | -1 | 88.0 | 96.0 | +9 | 0.09 | 0.11 | +12 |
| 2024e | 388.5 | 375.0 | -3 | 100.0 | 107.5 | +8 | 0.13 | 0.14 | +6 |

Source: Edison Investment Research

Mid-term financial targets unchanged

While the outlook for the current year is circumspect, management's guidance for the medium-term is for a good uplift in top-line growth equating to a CAGR of 25–30% as momentum builds

particularly on the demand-side segment, where MGI has a strong offering in AI-driven privacy-first and contextual targeting. This should ensure that adjusted EBITDA margins remain in a range of 25–30% (our modelling derives 28.2% for FY23 and 28.7% for FY24e).

Valuation

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.

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 the three years, MGI's share price would be €3.57, from €3.50 when this exercise was last carried out in March.

Our DCF, based on a WACC of 9% and a terminal growth rate of 2% (unchanged on our March calculation), derives a value of €3.91, previously €3.80.

Exhibit 3: Adtech, ad software and gaming peer valuations

| Company | Price (local ccy) | YTD performance (%) | Market cap (€m) | Net debt (€m) | EV/sales (x) | | | EV/EBITDA (x) | | | P/E (x) | | |
|---|----------------------|---------------------------|-----------------------|---------------------|--------------|------------|------------|---------------|------------|------------|-------------|-------------|-------------|
| | | | | | FY0 | FY1e | FY2e | FY0 | FY1e | FY2e | FY0 | FY1e | FY2e |
| Ad-tech | | | | | | | | | | | | | |
| The Trade Desk | 67.7 | 51 | 30,847 | (1,352) | 20.0 | 16.7 | 13.4 | 48.4 | 43.0 | 33.4 | 65.3 | 56.8 | 47.3 |
| Pubmatic | 17.1 | 33 | 828 | (163) | 2.7 | 2.7 | 2.4 | 7.3 | 9.0 | 7.4 | 31.2 | 111.5 | 42.0 |
| Viant Technology | 4.6 | 14 | 265 | (193) | 0.4 | 0.4 | 0.3 | - | 6.8 | 4.0 | - | - | - |
| Magnite | 11.8 | 11 | 1,489 | 374 | 3.9 | 3.6 | 3.2 | 11.1 | 11.0 | 9.1 | 16.1 | 21.5 | 14.1 |
| AcuityAds Holdings | 2.3 | 8 | 87 | (52) | 0.4 | 0.4 | 0.3 | 7.8 | 13.4 | 5.8 | - | - | - |
| DoubleVerify Hdgs | 33.4 | 52 | 5,178 | (248) | 11.5 | 9.5 | 7.8 | 37.6 | 30.8 | 24.4 | 132.3 | 99.9 | 68.7 |
| Integral Ad Science | 18.3 | 108 | 2,642 | 127 | 7.2 | 6.6 | 5.6 | 24.1 | 20.2 | 16.9 | 484.3 | 169.1 | 69.0 |
| Quotient Technology | 2.7 | (20) | 250 | (6) | 0.8 | 0.9 | 0.9 | 13.4 | 7.7 | 5.3 | - | - | 91.4 |
| LiveRamp Holdings | 25.0 | 7 | 1,546 | (459) | 2.3 | 2.0 | 1.9 | 25.4 | 17.4 | 11.9 | 50.3 | 34.7 | 22.5 |
| Digital Turbine | 9.1 | (40) | 849 | 309 | 1.0 | 1.9 | 2.0 | 6.3 | 7.6 | 8.9 | 5.5 | 7.9 | 11.7 |
| Tremor | 258.6 | (3) | 426 | (84) | 1.1 | 0.9 | 0.8 | 2.5 | 2.7 | 2.2 | 5.4 | 8.1 | 3.6 |
| Criteo | 32.2 | 23 | 1,683 | (349) | 1.6 | 1.5 | 1.3 | 5.7 | 5.2 | 4.5 | 12.5 | 11.7 | 10.5 |
| YOC | 12.4 | (6) | 43 | (1) | 1.8 | 1.4 | 1.2 | 11.9 | 9.3 | 7.3 | 18.2 | 14.1 | 11.4 |
| Median | | 11 | | | 1.8 | 1.9 | 1.9 | 11.5 | 9.3 | 7.4 | 24.7 | 28.1 | 22.5 |
| Ad-software and content | | | | | | | | | | | | | |
| AppLovin | 24.1 | 128 | 8,174 | 2,094 | 3.9 | 3.8 | 3.4 | 10.4 | 9.6 | 8.3 | - | 75.6 | 38.6 |
| IronSource | 27.7 | (3) | 9,763 | 1,047 | 8.4 | 5.4 | 4.5 | - | 37.7 | 19.6 | - | 77.8 | 31.2 |
| Azerion | 3.1 | (43) | 369 | 176 | 1.2 | 1.0 | 0.9 | 9.9 | 7.8 | 6.4 | - | 37.2 | 18.4 |
| Future | 776.0 | (39) | 1,081 | 560 | 1.7 | 1.8 | 1.8 | 4.9 | 5.1 | 5.0 | 4.9 | 5.5 | 5.4 |
| Median | | (21) | | | 2.8 | 2.8 | 2.6 | 9.9 | 8.7 | 7.3 | 4.9 | 56.4 | 24.8 |
| Gaming | | | | | | | | | | | | | |
| Embracer Group | 21.7 | (54) | 2,235 | 1,395 | 2.3 | 1.1 | 1.0 | 5.7 | 4.6 | 3.6 | - | 5.4 | 5.3 |
| Stillfront Group | 19.3 | 10 | 842 | 345 | 1.9 | 1.8 | 1.7 | 5.4 | 4.9 | 4.8 | 7.4 | 6.9 | 6.3 |
| Paradox Interactive | 253.0 | 19 | 2,314 | (54) | 12.8 | 10.8 | 9.6 | 18.7 | 15.2 | 13.2 | 36.8 | 33.4 | 29.5 |
| Modern Times Group | 70.5 | (21) | 744 | (356) | 0.8 | 0.8 | 0.8 | 3.4 | 3.6 | 3.3 | 12.2 | 13.5 | 11.4 |
| Rovio Entertainment | 9.2 | 52 | 704 | (106) | 1.9 | 1.9 | 1.8 | 11.1 | 11.2 | 11.0 | 21.2 | 22.0 | 20.9 |
| Team17 | 380.0 | (14) | 639 | (54) | 3.8 | 3.6 | 3.4 | 11.1 | 10.2 | 9.4 | 15.5 | 15.1 | 14.1 |
| Median | | (1) | | | 2.1 | 1.8 | 1.8 | 8.4 | 7.6 | 7.1 | 15.5 | 14.3 | 12.8 |
| Total average | | (4) | | | 2.2 | 2.2 | 2.1 | 9.9 | 8.5 | 7.3 | 15.0 | 32.9 | 20.0 |
| MGI - Media & Games Invest | 1.1 | (34) | 182 | 199 | 1.4 | 1.3 | 1.2 | 5.4 | 5.0 | 4.5 | 8.5 | 10.8 | 8.1 |
| Premium/(discount) to ad-tech | | (45) | | | (21%) | (30%) | (36%) | (53%) | (46%) | (39%) | (65%) | (61%) | (64%) |
| Premium/(discount) to ad-software and content | | (13) | | | (50%) | (52%) | (53%) | (46%) | (42%) | (39%) | 74% | (81%) | (67%) |
| Premium/(discount) to gaming | | (33) | | | (33%) | (27%) | (32%) | (36%) | (34%) | (37%) | (45%) | (24%) | (36%) |
| Premium/(discount) to total | | (30) | | | (37%) | (39%) | (42%) | (46%) | (41%) | (39%) | (43%) | (67%) | (59%) |

Source: Refinitiv, Edison Investment Research. Note: Prices as at 30 May 2023.

Exhibit 4: Financial summary

| | €000s | 2021 | 2022 | 2023e | 2024e |
|---|-------|-----------|-----------|-----------|-----------|
| 31-December | | IFRS | IFRS | IFRS | IFRS |
| INCOME STATEMENT | | | | | |
| Revenue | | 252,166 | 324,444 | 340,000 | 375,000 |
| Operating costs excl. D&A | | (187,124) | (239,691) | (249,274) | (272,951) |
| Adj. EBITDA | | 71,216 | 93,153 | 96,000 | 107,500 |
| EBITDA | | 65,042 | 84,753 | 90,727 | 102,048 |
| Operating profit (before amort. and excepts.) | | 48,768 | 68,288 | 73,910 | 84,115 |
| Amortisation of acquired intangibles | | (11,964) | (14,853) | (13,368) | (13,368) |
| Exceptionals | | (4,708) | (27,100) | (3,500) | (3,500) |
| Share-based payments | | (1,466) | (1,613) | (1,774) | (1,951) |
| Reported operating profit | | 36,804 | 26,618 | 55,268 | 65,296 |
| Net Interest | | (21,919) | (37,983) | (39,276) | (39,188) |
| Joint ventures & associates (post tax) | | 0 | 0 | 0 | 0 |
| Exceptionals | | 1 | 0 | 0 | 0 |
| Profit Before Tax (norm) | | 26,850 | 30,304 | 34,634 | 44,927 |
| Profit Before Tax (reported) | | 14,887 | (11,365) | 15,992 | 26,108 |
| Reported tax | | 1,169 | (9,064) | (10,000) | (14,841) |
| Profit After Tax (norm) | | 28,018 | 21,194 | 15,867 | 21,237 |
| Profit After Tax (reported) | | 16,055 | (20,429) | 5,992 | 11,267 |
| Minority interests | | (7) | (88) | (1,000) | (1,200) |
| Discontinued operations | | 0 | 0 | 0 | 0 |
| Net income (normalised) | | 28,019 | 21,056 | 16,867 | 22,437 |
| Net income (reported) | | 16,061 | (20,341) | 6,992 | 12,467 |
| Average Number of Shares Outstanding (m) | | 141.7 | 156.2 | 159.2 | 159.2 |
| EPS - basic normalised (c) | | 19.77 | 13.48 | 10.59 | 14.09 |
| EPS - normalised fully diluted (c) | | 19.77 | 12.07 | 9.51 | 12.64 |
| EPS - basic reported (c) | | 11.33 | (13.02) | 4.39 | 7.83 |
| Dividend (c) | | 0.00 | 0.00 | 0.00 | 0.00 |
| Revenue growth (%) | | | 28.7 | 4.8 | 10.3 |
| Adjusted EBITDA Margin (%) | | 28.2 | 28.7 | 28.2 | 28.7 |
| Normalised Operating Margin (%) | | 19.3 | 21.0 | 21.7 | 22.4 |
| BALANCE SHEET | | | | | |
| Fixed Assets | | 650,495 | 823,637 | 833,581 | 849,409 |
| Intangible Assets | | 605,746 | 791,284 | 800,368 | 815,934 |
| Tangible Assets | | 4,681 | 5,522 | 6,382 | 6,644 |
| Investments & other | | 40,068 | 26,831 | 26,831 | 26,831 |
| Current Assets | | 283,598 | 221,022 | 232,425 | 260,240 |
| Stocks | | 0 | 0 | 0 | 0 |
| Debtors | | 97,497 | 65,085 | 64,274 | 71,918 |
| Cash & cash equivalents | | 180,156 | 149,992 | 162,206 | 182,377 |
| Other | | 5,945 | 5,945 | 5,945 | 5,945 |
| Current Liabilities | | 243,433 | 219,471 | 217,567 | 224,040 |
| Creditors | | 53,754 | 68,711 | 60,360 | 66,833 |
| Short term borrowings | | 32,020 | 31,903 | 39,644 | 39,644 |
| Other financial liabilities | | 137,611 | 97,515 | 97,515 | 97,515 |
| Other non-financial liabilities | | 20,048 | 21,342 | 20,048 | 20,048 |
| Long Term Liabilities | | 383,168 | 503,443 | 491,443 | 491,443 |
| Long term borrowings | | 343,925 | 389,386 | 382,386 | 382,386 |
| Other long term liabilities | | 39,243 | 114,057 | 109,057 | 109,057 |
| Net Assets | | 307,493 | 321,745 | 356,996 | 394,166 |
| Minority interests | | (59) | 1,211 | 1,211 | 1,211 |
| Shareholders' equity | | 307,434 | 322,956 | 358,207 | 395,377 |
| CASH FLOW | | | | | |
| Operating Cash Flow | | 16,055 | (20,429) | 5,992 | 11,267 |
| Depreciation & amortisation | | 28,238 | 58,135 | 30,185 | 31,301 |
| Working capital | | (5,714) | 55,284 | (7,540) | (1,171) |
| Exceptional & other | | 1,167 | (2,755) | 1,774 | 1,951 |
| Tax | | 1,514 | 6,002 | 0 | 0 |
| Net finance cost | | 23,583 | 37,983 | 39,276 | 39,188 |
| Net operating cash flow | | 64,843 | 134,220 | 69,686 | 82,537 |
| Capex | | (39,844) | (46,007) | (38,000) | (40,000) |
| Acquisitions/disposals | | (255,790) | (138,000) | 5,159 | (5,000) |
| Equity financing | | 109,338 | 27,900 | 0 | 0 |
| Dividends | | 0 | 0 | 0 | 0 |
| Other | | (24,920) | (53,413) | (22,905) | (17,365) |
| Net Cash Flow | | (146,373) | (75,300) | 13,940 | 20,172 |
| Opening net debt/(cash) | | 57,690 | 198,600 | 273,900 | 259,824 |
| FX | | 0 | 0 | 0 | 0 |
| Other non-cash movements | | 5,463 | 0 | 136 | 0 |
| Closing net debt/(cash) | | 198,600 | 273,900 | 259,824 | 239,653 |

Source: Company accounts, Edison Investment Research

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