

## Media and Games Invest

### Focus moves from games to media

Both organic and M&A-driven growth were evident in H121, as net revenues rose 93% to €109.0m, with 36% organic revenue growth year-on-year in Q221, and adjusted EBITDA increased by 127% to €28.7m. Having completed the Kingslsle transaction, in January 2021, to bolster the games division, Media and Games Invest (MGI) announced a second major deal in June 2021, the €140m acquisition of Smaato, a mobile-first adtech platform to drive the growth of MGI's synergistic media business. This deal marks the move in the group's focus from games to media. Management raised its FY21 revenue guidance to €234–254m and adjusted EBITDA guidance to €65–70m, an EV/FY21 adjusted EBITDA multiple of 14.0x at the midpoint, assuming pro forma net debt of €148.1m (post-Smaato). Due to its superior growth both prospective and historically (45% five-year revenue CAGR in FY15–20), MGI trades at a justified premium to its European games peers.

### Powerful growth across media and games in Q221

In Q221, MGI's revenues rose by 90% to €57.1m (Q220: €30.0m), with Q221 adjusted EBITDA increasing by 127% to €15.3m (Q220: €6.7m) thanks to a strong contribution from the Kingslsle acquisition (completed in January). Q221 saw 36% organic revenue growth year-on-year against a tough comparator in Q220, with the surge due to the COVID-19 pandemic. H121 net revenues rose 93% to €109.0m (H120: €56.6m), with adjusted EBITDA increasing 127% to €28.7m (H120: €12.7m).

### Scope for future M&A: 1.0x leverage, €246m of cash

In Q221, MGI raised over €270m, including c €90m of equity, a €150m bond issue and a €30m RCF, to fund the two acquisitions (Smaato, Kingslsle) as well as further M&A. This left MGI with end June net interest-bearing debt of €44.1m (31 December 2020: €61.1m). Leverage fell to 1.0x at end H121, but is expected to rise again to between 2–3x with the close of the Smaato transaction in Q321. The group reported cash and cash equivalents of €246.1m as at 30 June 2021 (31 December 2020: €46.3m), leaving plenty of scope for a full M&A pipeline.

### Valuation: Premium justified by superior growth

Following the acquisition of Smaato in July 2021, management's FY21 revenue guidance was raised to €234–254m (a 67–81% y-o-y increase) with adjusted EBITDA guidance of €65–70m (a 123–141% y-o-y rise). At the midpoint of this guidance (adjusted EBITDA of €67.5m) and assuming pro forma net debt of €148.1m (post-Smaato), MGI is trading on c 14.8x FY21e EV/adjusted EBITDA and 4.1x FY21e EV/revenue. This is a small premium to MGI's European games peers, despite MGI's superior growth rate, but a material discount to its US adtech peers.

#### Consensus estimates

Year end	Revenue (€m)	Adjusted EBITDA*	PBT (€m)	EPS (€)	EV/adjusted EBITDA* (x)	P/E (x)
12/19	83.9	18.1	(0.8)	(0.01)	49.4	N/A
12/20	140.2	26.5	3.9	0.03	33.7	189.7
12/21e	222.7	58.8	20.8	0.11	15.2	53.3
12/22e	284.0	82.6	33.8	0.19	10.8	29.8

Source: MGI accounts (historical figures), Refinitiv consensus. Note: \*EBITDA adjusted for one-off M&A and financing costs.

#### Software & computer services

31 August 2021

Price €5.69  
Market cap €852m

#### Share price graph



#### Share details

Code M8G  
Listing Deutsche Börse Scale/  
Nasdaq First North Premier  
Shares in issue 149.7m  
Net interest-bearing debt at 30 June 2021 €44.1m

#### Business description

Media and Games Invest is a fast-growing and profitable digital games company with a strong, supportive media unit. The company combines organic growth with value-accretive acquisitions to deliver strong and sustainable earnings growth.

#### Bull

- Management with proven M&A track record.
- Business underpinned by long-term games growth trends, with a synergistic media platform.
- 45% five-year revenue CAGR from FY15–20.

#### Bear

- Undergoing a period of rapid transformation and with €246m of cash at H121, this will continue.
- MGI's games portfolio remains PC focused, with mobile still substantially under-represented.
- The media segment lags the games business.

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## H121 results: Strong performance from both segments

MGI is a rapidly scaling and profitable games and digital media group, increasingly realising the synergies between the two segments to deliver strong top- and bottom-line growth.

In Q221, MGI's revenues rose by 90% to €57.1m (Q220: €30.0m), with Q221 adj EBITDA rising by 127% to €15.3m (Q220: €6.7m) thanks to a strong contribution from the KingsIsle acquisition (completed in January 2021). Q221 saw 36% organic revenue growth year-on-year against a tough comparator in Q220, the start of the COVID-19 pandemic. H121 net revenues rose 93% to €109.0m (H120: €56.6m), with adjusted EBITDA increasing by 127% to €28.7m (H120: €12.7m).

The strong organic growth (Q221: 36%) was driven by game launches and content updates in the games segment, as well as new products like ATOM in Media, supported by M&A (eg KingsIsle, LKQD). Although COVID-19 has led to a structural step-up in engagement and an uplift in revenues since Q220, this demand boost was less evident in Q221 and appears now to be tailing off.

Exhibit 1: Quarterly summary					
€m	H121	H120	Q221	Q121	FY20
<b>Group</b>					
Net revenues	109.0	56.6	57.1	51.9	140.2
y-o-y growth	93%	98%	90%	96%	67%
Adjusted EBITDA	28.7	12.7	15.3	13.4	29.1
y-o-y growth	127%	184%	127%	126%	61%
Margin (%)	26%	22%	27%	26%	20.8%
Cash and cash equivalents	246.1	15.4	246.1	51.7	46.3
Net debt	44.1	70.7	44.1	97.6	61.6
<b>Gaming division</b>					
Revenues	55.4	32.7	28.0	27.4	75.2
Adjusted EBITDA	21.4	10.5	10.6	10.8	23.2
Margin (%)	39%	32%	38%	39%	31%
<b>Media division</b>					
Revenues	53.6	23.8	29.1	24.5	65.0
Adjusted EBITDA	7.3	2.1	4.7	2.6	6.0
Margin (%)	14%	9%	16%	11%	9%

Source: MGI

Group adjusted EBITDA margins rose to 26% in H121 from 22% in H120, with a continuing strong performance from games and an improved contribution from media. In Q221, the group also increasingly benefited from synergies between the games and media segments with, for example, gamigo's casual games platform being connected to the Verve platform, allowing more effective in-game ad monetisation. There was also a notable step-up in media segment margins (Q221: 16%, Q121: 11%) as this scales and is consolidated onto a single platform, Verve. Management expects adjusted EBITDA margins in the media division to continue to build to 15–20% once current acquisitions are fully integrated, while gaming margins are targeted to remain above 30%.

Q221 net profit rose 708% to €3.4m (Q220: €0.4m), with H121 net profit rising 11-fold to €5.6m (H120: €0.5m), driven by strong top-line growth, improving margins and slower growth in costs.

## Fund-raising bonanza leaves ample resources for future M&A

In March 2021, MGI completed a €40m tap issue of its bond. In May 2021, MGI then completed a €90m share placing, before a further €150m tap issue in June 2021, when the group also signed a €30m unsecured revolving credit facility (RCF). With this funding (principally for M&A), at 30 June 2021, MGI had €246.1m of cash (31 December 2020: €46.3m) and more than €270m of free liquidity. As at 30 June 2021, net interest-bearing debt amounted to €44.1m (31 December 2020: €61.6m) with a leverage ratio of 1.0x (31 December 2020: 2.1x), below MGI's target leverage range of 2–3x. However, on a pro forma basis, assuming completion of the Smaato acquisition (a cash payment of €101m), and based on pro forma last 12 months Q221 adjusted EBITDA (including Smaato and KingsIsle), MGI estimates pro forma net leverage of 1.9x. This leaves MGI with substantial headroom for further M&A.

On 24 August 2021, MGI completed a further €80m bond tap issue with a yield to maturity of 4.76%, taking the total bond framework to €350m.

<b>Exhibit 2: H121 financial results</b>				
<b>€000s</b>	<b>FY19</b>	<b>FY20</b>	<b>H120</b>	<b>H121</b>
Revenue	83,893	140,220	56,569	109,045
Capitalised development	10,187	15,994	7,993	10,560
Other operating income	4,636	6,272	1,806	3,057
Cost of purchased services	(45,803)	(77,620)	(35,152)	(69,225)
Employee-related costs	(27,358)	(39,573)	(19,587)	(26,806)
Other operating expenses	(10,012)	(18,745)	-	-
EBITDA	15,543	26,549	11,629	26,631
Adjusted EBITDA	18,100	29,135	12,700	28,700
Depreciation & Amortisation	(10,543)	(15,508)	(6,583)	(13,446)
Net profit/(loss)	1,253	2,707	474	5,646
Number of shares outstanding (m)	70.02	117.07	70.02	149.68
Average shares in issue (m)	60.39	85.50	70.02	133.61
EPS (reported) (€)	(0.01)	0.04	0.01	0.04
Net cash/(debt)	(34,911)	(61,600)	(70,709)	(44,100)

Source: MGI accounts

## Divisional review

### Games: Benefiting from R&D investment and KingsIsle

Gamigo has more than 100 million registered players, served by a team of over 500 employees.

MGI's games business has been built around its games platform, gamigo, and includes over 10 massively multiplayer online games (MMOs) and over 5,000 casual games, across the role-playing game (RPG), fantasy and strategy genres. Titles include Trove, Aura Kingdom, Desert Operations, Grand Fantasia, Fiesta Online, as well as Pirate101 and Wizard101, MGI's latest major games properties, which were acquired through the KingsIsle transaction in January 2021.

Delivering 69% y-o-y growth in H121, games represented 51% of MGI group revenues and 75% of adjusted EBITDA in H121. Revenues grew 49% y-o-y in Q221 to €28.0m, with growth driven by the KingsIsle acquisition as well as new game launches and game updates for many of gamigo's titles. Operational investment remains an ongoing focus, with further game launches and substantial content updates in the pipeline for H221 and FY22, including the release of multiple new game IPs.

Management expects to release three updates (downloadable content (DLC)) per year for games in its core portfolio, with three further new game launches expected by the end of FY21. This rate of investment is expected to accelerate in FY22, with further geographic and platform expansion anticipated. Organic growth will be supplemented by continuing M&A, with three to five complementary acquisitions expected per year, targeting long-lived titles at conservative multiples, with a focus on mobile titles.

### Media: Rising margins as business scales

Verve served more than 166bn ads in the 12 months to 30 June 2021, from over 5,000 advertisers, supported by a team of over 400 employees.

Having had great success in the games division bringing all of its properties onto a common platform, gamigo, MGI has been repeating this strategy on the media side of its business, aggregating its adtech properties onto a single platform, Verve. This is now starting to deliver attractive operational and cost-saving benefits as the business scales.

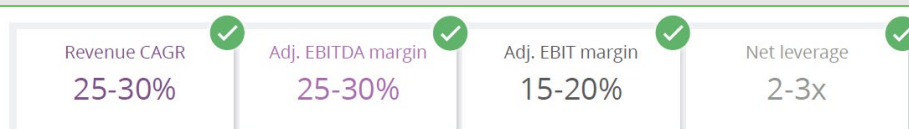
Media represented 49% of group revenues in H121, but only 25% of adjusted EBITDA. However, H121 saw year-on-year revenue growth of 125% as well as a step-up in adjusted EBITDA margin to 14% (H120: 9%). In Q221, revenues grew 160% y-o-y to €29.1m (the first quarter when media revenues have exceeded games revenues), with growth driven by the effective consolidation of the media properties leading to 21% growth in new clients, together with contributions from Beemray

(Q221) and LKQD (Q121). The [Smaato](#) acquisition, announced in July 2021, is expected to complete in Q321 and will have a major impact on the growth of the media segment in H221.

In terms of outlook, in the near term, Verve is looking to close the Smaato acquisition and integrate it with Verve to further extend the platform's sales reach. In 2021, Verve also intends to release its ATOM (anonymised targeting on mobile), an on-device mobile audience activation technology that allows brands to continue to target specific audiences on mobile to maintain their return on ad spend without compromising a user's privacy. In 2022, the group expects to further expand and internationalise its offering as well as rolling-out a full white-label software-as-a-service solution. Organic growth will be supplemented by M&A, with three to five complementary acquisitions expected per year, looking to address gaps in Verve's existing capabilities as well as to scale the platform, with a particular focus on developing the platform's reach into Asia.

## Valuation: Justified premium to games peer group

**Exhibit 3: MGI's mid-term targets**



Source: MGI (CMD presentation, August 2021)

Based on consensus, MGI is now trading at a small premium to its European games peer group based on sales and EBITDA multiples, but at a significant premium in terms of P/E multiples, as MGI's recent growth has yet to fully fall through to the bottom line. However, with media now the largest contributor to revenue, we will start to value two divisions separately. MGI remains at a material discount (50%+) to its US adtech peers, such as Magnite, Applovin, Ironsource and Viant.

Following the Smaato deal, announced in July 2021, management's FY21 revenue guidance was raised to €234–254m (a 67–81% y-o-y increase) with adjusted EBITDA guidance of €65–70m (a 123–141% y-o-y rise). At the midpoint of this guidance (adjusted EBITDA of €67.5m) and assuming the company's indicated pro forma net debt of €148.1m (post-Smaato), MGI is trading on 4.1x FY21e EV/revenue and 14.8x FY21e EV/ adjusted EBITDA, closer to its European peer group.

**Exhibit 4: Peer group comparison (based on consensus estimates)**

	Year end	Current price (ccy value)	Quoted currency	Market cap (€m)	EV (€m)	EBITDA margin 1FY (%)	EBITDA margin 2FY (%)	EV/sales 1FY (x)	EV/sales 2FY (x)	EV/EBITDA 1FY (x)	EV/EBITDA 2FY (x)	P/E 1FY (x)	P/E 2FY (x)
Media and Games Invest	Dec-21	5.69	EUR	852	966	26.4	29.1	4.3	3.4	16.4	11.7	53.3	29.8
<b>European games peers</b>													
Embracer Group	Mar-22	197.0	SEK	9,079	7,842	43.1	44.8	4.6	4.0	10.7	9.0	NM	NM
Stillfront Group (publ)	Dec-21	57.1	SEK	2,030	2,377	35.8	38.8	4.4	3.8	12.3	9.9	18.0	14.2
Modern Times Group MTG	Dec-21	122.7	SEK	1,332	1,395	15.4	20.8	2.6	1.9	16.6	9.3	46.9	23.7
Ten Square Games	Dec-21	531.0	PLN	846	773	28.5	30.4	4.9	4.2	17.1	13.7	19.7	15.4
G5 Entertainment (publ)	Dec-21	434.6	SEK	381	363	27.7	31.9	2.6	2.3	9.5	7.2	17.2	12.5
						30.1	33.4	3.8	3.3	13.2	9.8	25.5	16.5
						28.5	31.9	4.4	3.8	12.3	9.3	18.9	14.8
<b>US adtech peers</b>													
Trade Desk	Dec-21	78.42	USD	31,947	31,347	37.8	36.7	31.5	24.5	83.3	66.8	111.5	96.8
Applovin	Dec-21	73.57	USD	23,314	23,813	26.1	28.9	10.3	8.4	39.4	29.2	149.3	82.8
Ironsource	Dec-21	9.59	USD	8,267	8,266	34.0	33.1	18.7	14.2	55.2	43.0	168.2	97.6
Magnite	Dec-21	28.96	USD	3,238	3,689	30.9	31.8	10.4	8.1	33.8	25.4	47.6	31.9
PubMatic	Dec-21	27.05	USD	1,159	1,056	32.5	30.5	6.0	4.8	18.3	15.6	58.2	53.5
Viant Technology	Dec-21	13.37	USD	686	640	14.6	15.7	3.6	3.1	24.5	19.8	NM	NM
						29.3	29.4	13.4	10.5	42.4	33.3	107.0	72.5
						31.7	31.2	10.4	8.3	36.6	27.3	111.5	82.8

Source: Refinitiv data. Note: Priced as at 30 August 2021.

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