

Media and Games Invest SE

Malta / Entertainment

Xetra & Nasdaq First North Premier

Bloomberg: M8G GR

ISIN: MT0000580101

Update

RATING**PRICE TARGET**

Return Potential

Risk Rating

BUY**€ 8.00**

66.7%

High

WELL POSITIONED TO ADAPT TO MARKET TURBULENCE

MGI published a business update highlighting its position amid global supply chain bottlenecks and increased constraints for digital advertisers in relation to IDFA (Identifier for Advertisers). MGI's client base predominantly markets digital products and services and is unaffected by component shortages, while its advertising solutions rely heavily on contextual data, which are unaffected by IDFA changes. The company also noted good organic sales growth (OSG) in Q3 and early Q4 across both the Gaming and Media segments. We thus believe MGI is well insulated from these disruptions and is on target to meet 2021 guidance and FBe. We remain Buy-rated on MGI and reiterate our €8 pricetarget.

New privacy rules send digital advertisers back to the drawing board

Business for digital-ad platforms has been going gangbusters lately, thanks to the ability to monitor and micro-profile audiences with behavioural tracking tools. But on 26 April, Apple, which supplies one-fifth of the world's smartphones, introduced a software update that will end much of this snooping. Apple's mobile operating system now forces apps to ask users if they want to be tracked. Many are tired of feeling watched and declining. Users can now forbid apps to access their "identifier for advertisers" code, which singles out their device, and stop them from tracking their activity across other firms' apps and websites. This amounts to a seismic shift in in-app advertising and is forcing actors to rethink how they target digital ads to minimise budget waste. Some firms are already feeling the brunt of Apple's privacy changes, as evidenced by poor Q3 results.

How does this impact MGI's media business? Media and Games began preparing for the IDFA changes last year, and management believe the company actually stands to benefit from the increased constraints. In its business update, MGI explained that Verve, which oversees . . . (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2018	2019	2020	2021E	2022E	2023E
Revenue (€m)	32.62	83.89	140.22	234.15	305.09	381.36
Y-o-y growth	n.a.	157.2%	67.1%	67.0%	30.3%	25.0%
EBIT (€m)	8.65	15.54	26.55	66.25	92.23	112.92
EBIT margin	26.5%	18.5%	18.9%	28.3%	30.2%	29.6%
Net income (€m)*	4.32	-0.32	3.06	24.75	33.97	44.79
EPS (diluted) (€)*	0.10	-0.01	0.03	0.17	0.23	0.30
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-7.17	3.13	-12.50	-172.24	5.96	52.06
Net gearing	24.0%	22.4%	34.8%	55.8%	53.6%	40.3%
Liquid assets (€m)	4.45	32.98	46.25	163.92	157.26	186.71

* Adjusted for PPA-amortisation

RISKS

Risks include but are not limited to: revenue diversity, financing, technology, and regulatory risks.

COMPANY PROFILE

Media and Games Invest SE (MGI) is a digital integrated video game and media company that combines organic growth with value-accretive and synergetic acquisitions. The company's Gaming and Media segments generate nearly equal revenues.

MARKET DATA

As of 26 Oct 2021

Closing Price	€ 4.80
Shares outstanding	149.70m
Market Capitalisation	€ 718.56m
52-week Range	€ 1.31 / 6.69
Avg. Volume (12 Months)	196,068

Multiples	2020	2021E	2022E
P/E	149.2	27.6	21.1
EV/Sales	5.4	3.3	2.5
EV/EBITDA	28.7	11.5	8.3
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2021

Liquid Assets	€ 246.10m
Current Assets	€ 301.40m
Intangible Assets	€ 437.53m
Total Assets	€ 762.60m
Current Liabilities	€ 109.80m
Shareholders' Equity	€ 292.90m

SHAREHOLDERS

Bodhivas GmbH	32.3%
Oaktree Capital Mngt	9.1%
Janus Henderson	3.1%
Free Float	55.5%



. . . MGI's media segment, operates a vertical *omnichannel* ad-tech-platform that in large part does not depend on IDFA technology. Rather it serves the full value chain from the advertiser through the demand side platform (DSP) and supply side platform (SSP) with thousands of direct integrations to publishers giving access to first-party mobile data.

Moreover, the Verve solution works with contextual data that is not subject to IDFA restrictions. Not only does this configuration spare MGI's media business from the current disruption, the company notes that its costs-per-mille (CPMs) is better for publishers. And this outperformance is leading to increased ad-spend and an inflow of new clients looking to circumvent IDFA changes.

Another IDFA-workaround in the works Verve also started developing its ATOM solution last year. This platform works both with anonymous behavioural and contextual data without relying on identifiers like Apple's IDFA. The solution builds user groups and contextual data on mobile devices, which never leaves the smartphone, and brings advertising logic to the device. ATOM is currently in beta testing and already showing promising results, but a date for a full launch has yet to be set.

Smaato integration on track Meanwhile, the Verve team continues to steer the planning and execution of Smaato's commercial, technical and product roadmaps in alignment with the overall Verve strategy. Initial revenue synergies have already been generated by connecting the platforms and the initial cross-selling activities with existing customers—both on the demand as well as supply side. Management are confident that initial 2021 guidance calling for ~20% organic growth for Smaato standalone will be met.

What about the pervasive supply chain issues? Supply disruptions are forcing firms to idle production plants and peddlers of hard goods across the world to turn away customers. Faced with dwindling inventories, these firms are also dialling back advertising budgets, which is having a ripple effect across digital media operators. But MGI does not expect these market disruptions to burden the performance of either its Gaming or Media segments.

Management provided some insight into MGI's customers in its business update, which should comfort investors. The customer base is made up predominantly of companies with digital business models—particularly digital gaming operators—with very low exposure to sellers of tangible goods. These means that MGI is not exposed to potential budget cuts from advertisers. In fact, management see a scenario whereby demand and consumer spending will shift from constrained tangible goods to digital products and services until supply chain bottlenecks ease.

Importantly, the company also noted that its Gaming business is not exposed to component shortages currently hitting gaming-console makers. MGI's gamers already play their games on old consoles and these titles are compatible with next generation hardware once players are able and want to switch.



VALUATION MODEL

Investors have been spooked by the potential impact of stronger privacy restrictions on MGI. We think the business update clarifies MGI's ability to adapt to the changes in digital media and even benefit. Fears of the well-publicised supply shortages also appear overblown in MGI's case. With the stock having retreated > 25% from summer highs, the upside looks appealing. Q3 results are now slated for 15 November (old: 30 November) and management hinted at good OSG for the period in today's update. Our rating remains Buy with an unchanged €8 price target.

All figures in EUR '000	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
Revenue	234,145	305,091	381,364	446,196	490,816	515,357	535,971	552,050
NOPLAT	24,691	36,911	47,749	59,649	72,057	80,945	87,883	94,533
(+) depreciation & amortisation	29,668	37,543	42,179	47,819	44,993	39,682	35,910	31,467
Net operating cash flow	54,359	74,454	89,928	107,468	117,049	120,628	123,793	126,000
(-) Investments	-226,515	-64,129	-34,399	-40,247	-39,363	-41,332	-38,697	-33,233
(-) Working capital	-11,154	-10,886	-10,001	-9,832	-6,522	-3,224	-2,708	-2,112
Free cash flows (FCF)	-183,310	-562	45,527	57,390	71,164	76,072	82,388	90,655
PV of FCF's	-178,573	-508	38,243	44,765	51,546	51,166	51,457	52,577

All figures in thousands		Terminal EBIT margin							
		23.3%	25.3%	27.3%	29.3%	31.3%	33.3%	35.3%	
PV of FCFs in explicit period	223,674	4.7%	13.28	14.86	16.44	18.02	19.61	21.19	22.77
PV of FCFs in terminal period	930,048	5.7%	9.78	10.88	11.98	13.08	14.19	15.29	16.39
Enterprise value (EV)	1,153,722	6.7%	7.62	8.44	9.25	10.07	10.88	11.70	12.51
(+) Net cash / (-) net debt (pro-forma)	51,504	7.7%	6.17	6.79	7.42	8.04	8.67	9.30	9.92
(-) Non-controlling interests	-1,154	8.7%	5.11	5.61	6.10	6.60	7.09	7.58	8.08
Shareholder value	1,204,071	9.7%	4.32	4.71	5.11	5.51	5.91	6.31	6.71
Fair value per share (€)	8.00	10.7%	3.69	4.02	4.35	4.67	5.00	5.32	5.65

		Terminal growth rate							
		0.0%	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	
Cost of equity	9.5%	4.7%	12.85	14.16	15.83	18.02	21.03	25.41	32.38
Pre-tax cost of debt	5.0%	5.7%	10.08	10.89	11.87	13.08	14.63	16.65	19.43
Tax rate	32.5%	6.7%	8.16	8.70	9.32	10.07	10.97	12.10	13.52
After-tax cost of debt	3.4%	7.7%	6.76	7.13	7.55	8.04	8.62	9.31	10.15
Share of equity capital	70.0%	8.7%	5.69	5.95	6.25	6.60	6.99	7.44	7.98
Share of debt capital	30.0%	9.7%	4.85	5.05	5.27	5.51	5.79	6.10	6.47
WACC	7.7%	10.7%	4.18	4.33	4.49	4.67	4.87	5.10	5.36

*Please note our model runs through 2030 and we have only shown the abbreviated version for formatting purposes



INCOME STATEMENT

All figures in EUR '000	2018	2019	2020	2021E	2022E	2023E
Revenues	32,621	83,893	140,220	234,145	305,091	381,364
Capitalised work	2,791	10,187	15,994	16,000	17,440	18,661
Total output	35,412	94,080	156,214	250,145	322,531	400,025
Cost of goods sold	-12,699	-45,803	-77,620	-101,853	-125,087	-156,359
Gross profit	22,713	48,277	78,594	148,292	197,444	243,666
Personnel expenses	-10,438	-27,359	-39,573	-59,707	-74,747	-91,527
Other OpEx	-10,135	-10,012	-18,745	-27,161	-35,391	-44,238
Other operating income	6,506	4,636	6,272	4,823	4,919	5,018
EBITDA	8,646	15,542	26,549	66,247	92,225	112,918
Depreciation & amortisation	-6,318	-10,543	-15,508	-29,668	-37,543	-42,179
Operating income (EBIT)	2,328	4,999	11,041	36,579	54,682	70,739
Net financial result	-1,641	-5,758	-7,139	-13,201	-17,613	-17,613
Pre-tax income (EBT)	687	-759	3,901	23,378	37,070	53,126
Income taxes	895	2,012	-1,194	-7,598	-12,048	-17,266
Net income	1,582	1,253	2,707	15,780	25,022	35,860
Discontinued operations	3,673	0	0	0	0	0
Consolidated profit	5,255	1,253	2,707	15,780	25,022	35,860
Minority interests	-932	-1,577	352	-32	-50	-72
Net income to owners	4,323	-324	3,059	15,748	24,972	35,789
Diluted EPS (in €)	0.10	-0.01	0.03	0.11	0.17	0.24
Adj. EBIT (excl: PPA amor. & one-offs)	2,328	4,999	11,041	49,079	64,682	81,739
Ratios						
Gross margin on output	64.1%	51.3%	50.3%	59.3%	61.2%	60.9%
EBITDA margin on revenues	26.5%	18.5%	18.9%	28.3%	30.2%	29.6%
EBIT margin on revenues	7.1%	6.0%	7.9%	15.6%	17.9%	18.5%
Net margin on revenues	13.3%	-0.4%	2.2%	6.7%	8.2%	9.4%
Tax rate	n.a.	n.a.	30.6%	32.5%	32.5%	32.5%
Expenses as % of revenues						
Personnel expenses	32.0%	32.6%	28.2%	25.5%	24.5%	24.0%
Other OpEx	31.1%	11.9%	13.4%	11.6%	11.6%	11.6%
Depreciation & amortisation	19.4%	12.6%	11.1%	12.7%	12.3%	11.1%
Y-Y Growth						
Revenues	n.a.	157.2%	67.1%	67.0%	30.3%	25.0%
EBTIDA	n.a.	79.8%	70.8%	149.5%	39.2%	22.4%
Operating income	n.a.	114.7%	120.9%	231.3%	49.5%	29.4%
Net income/ loss	n.a.	n.m.	n.m.	414.8%	58.6%	43.3%



BALANCE SHEET

All figures in EUR '000	2018	2019	2020	2021E	2022E	2023E
Assets						
Current assets, total	16,250	55,856	92,375	237,690	253,387	306,864
Cash and equivalents	4,447	32,984	46,254	163,918	157,262	186,708
Trade receivables	11,803	22,872	46,121	73,772	96,125	120,156
Non-current assets, total	220,043	256,593	293,467	590,639	617,556	610,114
Property, plant & equipment	4,189	3,521	1,742	1,789	1,850	1,926
Intangible assets	204,142	233,208	272,829	569,629	596,155	588,299
Deferred taxes	6,353	11,215	15,737	16,052	16,373	16,700
Long-term loans to investees	5,359	6,410	1,207	1,207	1,207	1,207
Other non-current assets	0	2,239	1,952	1,962	1,972	1,981
Total assets	236,293	312,449	385,842	828,328	870,943	916,978
Shareholders' equity & debt						
Current liabilities, total	24,358	54,544	78,205	158,333	170,441	185,121
Trade payables	9,366	20,274	30,037	46,534	58,001	72,031
Financial debt	3,595	6,772	6,087	6,087	6,087	6,087
Provisions	7,031	12,585	17,257	17,516	17,779	18,045
Other current liabilities	4,366	14,913	24,824	88,196	88,574	88,958
Long term liabilities, total	53,395	89,347	130,792	364,267	369,752	365,247
Long-term debt	14,100	8,369	11,671	11,671	16,671	11,671
Bonds	24,877	63,988	95,355	285,355	285,355	285,355
Other LT liabilities	0	0	0	43,000	43,000	43,000
Deferred tax liabilities	14,418	16,990	23,766	24,241	24,726	25,221
Shareholders' equity	158,540	168,558	176,845	305,728	330,750	366,610
Total consolidated equity and debt	236,293	312,449	385,842	828,328	870,943	916,978
Ratios						
Current ratio (x)	0.7	1.0	1.2	1.5	1.5	1.7
Net debt	38,125	37,776	61,599	170,524	177,180	147,734
ICR (x)	5.0	2.7	3.7	5.0	5.2	6.4
Net gearing	24%	22%	35%	56%	54%	40%
Net debt / EBITDA (x)	4.4	2.4	2.3	2.6	1.9	1.3
Equity ratio	67%	54%	46%	37%	38%	40%
Return on equity (ROE)	1.0%	0.7%	1.5%	5.2%	7.6%	9.8%
Capital employed (CE)	211,935	257,905	307,637	669,995	700,502	731,857
Return on capital employed (ROCE)	1%	2%	4%	5%	8%	10%



CASH FLOW STATEMENT

All figures in EUR '000	2018	2019	2020	2021E	2022E	2023E
Net income	5,255	1,253	2,707	15,780	25,022	35,860
Depreciation and amortisation	6,318	10,543	15,508	29,668	37,543	42,179
Change in trade rec & other assets	-8,083	1,437	-4,334	-27,966	-22,674	-24,359
Change in payable & other liabilities	14,501	3,928	-209	17,604	12,592	15,175
Results from sale of subsidiaries	-5,645	0	0	0	0	0
Other non-cash adjustments	-6,150	-5,752	4,072	0	0	0
Net interest expense	1,641	5,529	6,264	13,201	17,613	17,613
Tax result	-895	-822	1,194	7,598	12,048	17,266
Operating cash flow	6,942	16,116	25,202	55,885	82,144	103,734
Tax expense	0	0	0	-7,598	-12,048	-17,266
Interest income	1	83	0	0	0	0
Net operating cash flow	6,943	16,199	25,202	48,287	70,096	86,468
Payments for intangible assets	-11,042	-12,606	-17,380	0	0	0
Acquisition of subsidiaries	-3,919	-6,214	-22,930	-220,000	-63,458	-33,560
CapEx	0	0	0	-515	-671	-839
Deposits / payments for other assets	848	5,750	2,603	-10	-10	-10
Cash flow from investing	-14,113	-13,070	-37,707	-220,525	-64,139	-34,409
Free cash flow (FCF)	-7,170	3,129	-12,505	-172,237	5,957	52,059
Equity inflow, net	3,792	8,845	26,876	113,103	0	0
Debt inflow, net	-15,992	-12,011	-1,420	0	5,000	-5,000
Corporate debt, net	25,800	38,699	27,678	190,000	0	0
Interest paid	-2,014	-5,345	-6,018	-13,201	-17,613	-17,613
Payments for non-controlling interests	0	-5,000	-17,480	0	0	0
Other adjustments	-489	220	-3,862	0	0	0
Cash flow from financing	11,097	25,408	25,774	289,902	-12,613	-22,613
Net cash flows	3,927	28,537	13,269	117,664	-6,656	29,446
Fx adjustments	114	0	0	0	0	0
Cash, start of the year	406	4,447	32,984	46,254	163,918	157,262
Cash, end of the year	4,447	32,984	46,253	163,918	157,262	186,708
EBITDA/share (in €)	0.20	0.26	0.28	0.47	0.62	0.75
Y-Y Growth						
Operating cash flow	n.m.	133.3%	55.6%	91.6%	45.2%	23.4%
Free cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	773.9%
EBITDA/share	n.m.	26.2%	8.5%	66.8%	32.3%	22.4%

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ASSET VALUATION SYSTEM

First Berlin's system for asset valuation is divided into an asset recommendation and a risk assessment.

ASSET RECOMMENDATION

The recommendations determined in accordance with the share price trend anticipated by First Berlin in the respectively indicated investment period are as follows:

Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy ¹	An expected favourable price trend of:	> 50%	> 30%
Buy	An expected favourable price trend of:	> 25%	> 15%
Add	An expected favourable price trend of:	0% to 25%	0% to 15%
Reduce	An expected negative price trend of:	0% to -15%	0% to -10%
Sell	An expected negative price trend of:	< -15%	< -10%

¹ The expected price trend is in combination with sizable confidence in the quality and forecast security of management.

Our recommendation system places each company into one of two market capitalisation categories. Category 1 companies have a market capitalisation of €0 – €2 billion, and Category 2 companies have a market capitalisation of > €2 billion. The expected return thresholds underlying our recommendation system are lower for Category 2 companies than for Category 1 companies. This reflects the generally lower level of risk associated with higher market capitalisation companies.

RISK ASSESSMENT

The First Berlin categories for risk assessment are low, average, high and speculative. They are determined by ten factors: Corporate governance, quality of earnings, management strength, balance sheet and financial risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, strength of brandname, market capitalisation and free float. These risk factors are incorporated into the First Berlin valuation models and are thus included in the target prices. First Berlin customers may request the models.

RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	7 November 2019	€1.23	Buy	€2.10
2...10	↓	↓	↓	↓
11	19 January 2021	€2.76	Buy	€4.00
12	5 March 2021	€3.48	Buy	€5.30
13	27 April 2021	€4.80	Buy	€6.10
14	7 May 2021	€4.30	Buy	€5.80
15	2 July 2021	€5.26	Buy	€6.80
16	16 July 2021	€5.93	Buy	€8.00
17	23 August 2021	€5.30	Buy	€8.00
18	5 October 2021	€4.82	Buy	€8.00
19	Today	€4.80	Buy	€8.00

INVESTMENT HORIZON

Unless otherwise stated in the financial analysis, the ratings refer to an investment period of twelve months.

UPDATES

At the time of publication of this financial analysis it is not certain whether, when and on what occasion an update will be provided. In general First Berlin strives to review the financial analysis for its topicality and, if required, to update it in a very timely manner in connection with the reporting obligations of the analysed company or on the occasion of ad hoc notifications.

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Legally required information regarding

- key sources of information in the preparation of this research report
- valuation methods and principles
- sensitivity of valuation parameters

can be accessed through the following internet link: <https://firstberlin.com/disclaimer-english-link/>

SUPERVISORY AUTHORITY: Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Marie-Curie-Straße 24-28, 60439 Frankfurt am Main

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