GBC AG Investment Research

Media and Games Invest SE*5a, 7, 11

Rating: BUY
Target price: € 4.05
(previously: € 5.30)

Current price: € 1.15
08/09/2023 / Xetra
(17:35 pm)

Currency: EUR

Master data:

ISIN: SE0018538068
WKN: A3D3A1
Ticker symbol: M8G
Number of shares[3]: 159.25
Market cap[3]: 183.14
Enterprise value[3]: 457.14
[3] in million / in EUR million

Free float: 55.9%

Transparency level:
Nasdaq First North Premier

Market segment:
Open market
(Freiverkehr)

Accounting:
IFRS

FY-end: 31/12/

Designated Sponsor:
Kepler Cheuvreux
Pareto Securities AB

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* Catalogue of possible conflicts of interest on page 9

Date (time) completion:
11/09/2023 (8:59 am)

Date (time) first distribution:
11/09/2023 (10:30 am)

Validity of the price target: until max. 31/12/2024

Company profile

Industry: Ad-Tech and Mobile/Online Games

Focus: Software Application

Employees: >800

Foundation: 2011

Headquarters: Stockholm (Sweden)

Board members: Remco Westermann (CEO), Paul Echt (CFO), Jens Knauber (COO), Sonja Lilienthal (CIO), Sameer Sondhi (CRO)

Media and Games Invest SE (MGI) operates a fast-growing, profitable advertising software platform that matches global advertiser demand with publisher advertising supply and uses first-party data from its own online games to improve advertising results. MGI operates primarily in North America and Europe. Through investments in organic growth and innovation, as well as targeted acquisitions, MGI has built a one-stop shop for programmatic advertising, enabling companies to buy and sell advertising space across all digital devices (mobile apps, web, connected TV and digital out of home) with the goal of making advertising better. MGI is registered as a Societas Europaea in Sweden (registration number 517100-0143) and its shares are listed on the Nasdaq First North Premier Growth Market in Stockholm and on the Scale segment of the Frankfurt Stock Exchange. The company has two secured bonds listed on Nasdaq Stockholm and on the Open Market of the Frankfurt Stock Exchange.

P&L in € million	**31/12/2022**	**31/12/2023e**	**31/12/2024e**	**31/12/2025e**
Revenues	324.44	303.21	324.74	357.66
Adjusted EBITDA (Adj. EBITDA)	93.20	93.07	102.16	114.29
EBITDA	84.75	85.37	95.56	108.49
Net result (after minorities)	-20.32*1	0.09	6.57	14.48
*1 negatively influenced by a one-time write-off of € 23.6 million				
Key figures in EUR				
Earnings per share (EPS)	-0.13	0.00	0.04	0.09
Dividend per share	0.00	0.00	0.00	0.00

Key figures				
EV/Revenue	1.41	1.51	1.41	1.28
EV/Adj. EBITDA	4.90	4.91	4.47	4.00
EV/EBITDA	5.39	5.35	4.78	4.21
P/E ratio (after minorities)	neg.	n.a.	27.87	12.65
P/B ratio	0.57			

Financial Calendar
30/11/2023: Q3 Report FY 2023

****last research from GBC:**
Date: Publication / Target price in EUR / Rating
20/06/2023: RS / 5.30 / BUY
08/03/2023: RS / 5.40 / BUY
07/09/2022: RS / 5.75 / BUY
02/08/2022: RS / 5.75 / BUY
** The research studies listed above can be viewed at www.gbc-ag.de or requested from GBC AG, Halderstr. 27, D86150 Augsburg.

Note pursuant to MiFID II regulation for research "Minor Non-Monetary Contribution": This research meets the requirements for classification as "Minor Non-Monetary Contribution". For further information, please refer to the disclosure under "I. Research under MiFID II".

HY1 2023: Solid sales development despite economic headwinds; stable operating earnings development due to strict cost management; GBC estimates and price target adjusted after guidance reduction

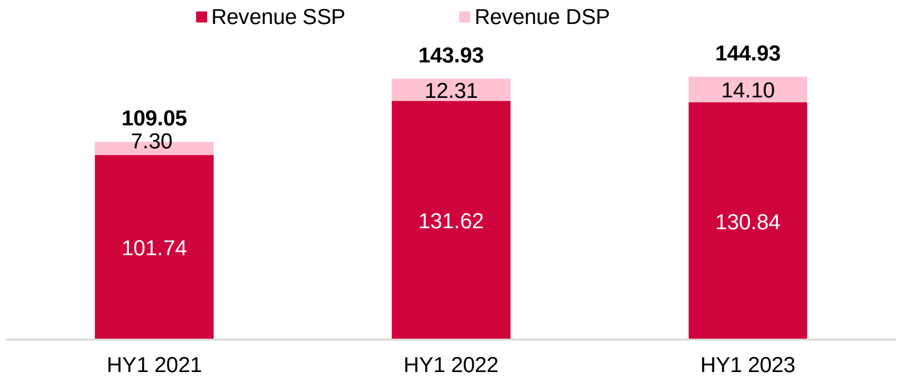
Business development in HY1 2023

Income statement (in € million)	HY1 2021	HY1 2022	HY1 2023
Revenues	109.05	143.93	144.93
EBITDA (*EBITDA* margin)	26.63 (24.4%)	36.91 (25.6%)	37.41 (25.8%)
Adjusted EBITDA (Adjusted EBITDA *margin*)	28.70 (26.3%)	38.60 (26.8%)	40.40 (27.9%)
Net result (after minorities)	5.64	5.59	2.57
EPS in €	0.04	0.04	0.02

Sources: Media and Games Invest SE; GBC AG

Media and Games Invest SE (MGI) published its half-year figures for the current financial year on 31 August 2023. Based on this, the ad tech platform group achieved a stable revenue development in the first six months despite an economic headwind that led to a weakening of the advertising industry. Compared to the same period last year, digital group revenues increased slightly by around 1.0% to € 144.93 million (HY1 2022: € 143.93 million). This revenue growth was achieved despite past divestments (streamlining of the gaming portfolio) and an unfavourable exchange rate development.

Development of Group and segment revenues (in € million)

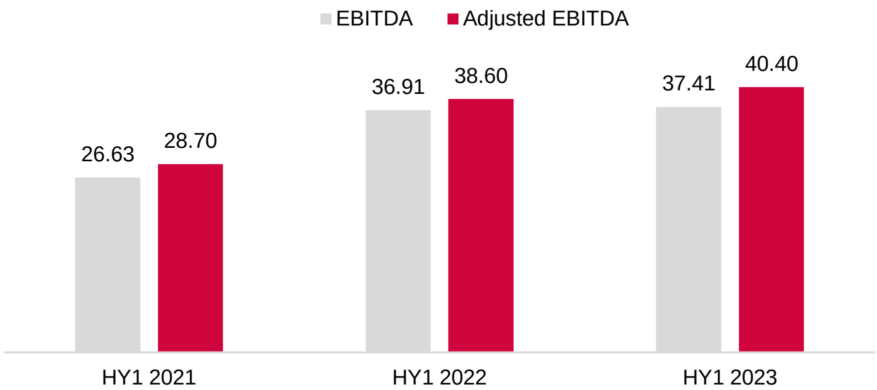


Sources: Media and Games Invest SE; GBC AG

Both advertising segments (Demand Side Platforms - DSP, Supply Side Platforms - SSP) contributed to the robust Group revenue development with stable or growing segment revenue development. In the first half of the year, the SSP business segment was able to confirm the high half-year revenue level of the previous year (HY1 2022: € 131.62 million) with segment revenue of € 130.84 million. In contrast, the DSP business unit even increased its segment revenue significantly by 14.5% to € 14.10 million (HY1 2022: € 12.31 million) compared to the same period of the previous year.

In parallel to the stable revenue development, the consolidated operating result (EBITDA) increased slightly by 1.4% to € 37.41 million (HY1 2022: € 36.91 million) compared to the same period of the previous year. Adjusted for one-off costs and special effects (e.g. M&A costs), adjusted EBITDA (Adj. EBITDA) for the first half of 2023 amounted to € 40.40 million, which increased moderately by 4.6% compared to the same period of the previous year (HY1 2022: € 38.60 million). At the same time, the adjusted EBITDA margin increased slightly to 27.9% (HY1 2022: 26.8%).

Development of EBITDA or adjusted EBITDA on a half-year basis (in € million)



Sources: Media and Games Invest SE; GBC AG

On the net level, however, MGI suffered a 54.0% year-on-year decline in net income (after minorities) to € 2.57 million in the first six months of the current financial year (HY1 2022: € 5.59 million). This was mainly due to higher tax and interest charges compared to the same period of the previous year.

Business development in Q2 2023

P&L (in € million)	Q2 2021	Q2 2022	Q2 2023
Revenues	57.12	78.06	76.18
EBITDA (*EBITDA* margin)	14.54 (25.5%)	20.04 (25.7%)	19.99 (26.2%)
Adjusted EBITDA (Adjusted EBITDA *margin*)	15.30 (26.8%)	21.10 (27.0%)	21.30 (28.0%)
Net result (after minorities)	3.35	3.05	1.74

Sources: Media and Games Invest SE

The stable revenue development of the MGI Group is also evident at the quarterly level. Despite difficult general conditions, the Group's revenue remained at a high level in the second quarter with a revenue volume of € 76.18 million compared to the same quarter of the previous year (Q2 2022: € 78.06 million). Adjusted for currency effects, organic revenue growth in the second quarter was 1.0% compared to the same quarter of the previous year. Excluding divestment and currency effects, an adjusted increase in turnover of 3.0% was even achieved.

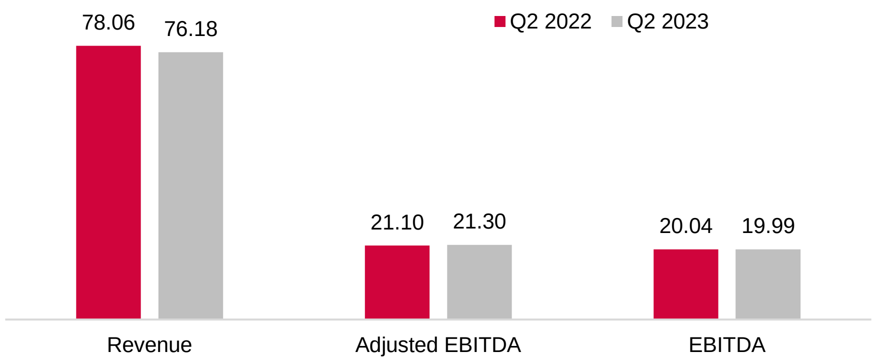
According to the company, the technology company also succeeded in the past quarter in further increasing its market share and thus expanding its market position through innovative AI-based targeting products such as Moments.AI, which significantly improve advertising results for publishers and advertisers. MGI's strong market position is also reflected in the top rankings achieved by various market segments. While MGI was already the leading provider of in-app advertising on Android, the technology company has also managed to be the leading provider on Apple's IOS in North America and Europe since Q2 2023.

The robust (organic) business development in Q2 was supported in particular by a renewed increase in software customers and advertising volume (ad impressions). Compared to the previous year, ad impressions increased significantly by 13.0% and the number of software clients also increased significantly by 9.0%. Thus, the software client base (so-called total software clients with an annual turnover of more than USD 100,000) was expanded by 46 new software clients in the second quarter compared to the same quarter of the previous year to a total of 559 (Q2 2022: 513).

At segment level, the previously smaller Demand Side Segment (DSP) was able to further expand its digital business volume with a slight year-on-year revenue increase of 2.3% to € 7.88 million (Q2 2022: € 7.70 million). In contrast, the Supply-Side segment suffered a slight year-on-year decline in segment revenue of 3.0% to € 68.30 million (Q2 2022: € 70.36 million), due in particular to the divestments of small non-strategic games made in Q4 2022.

At the operating earnings level, MGI achieved an EBITDA of € 19.99 million in the second quarter of 2023, which was almost at the previous year's level (Q2 2022: € 20.04 million), in parallel with the solid revenue development. In contrast, Group EBITDA adjusted for one-off and special effects (e.g. M&A costs or headquarters relocation costs) increased slightly by around 1.0% to € 21.30 million (Q2 2022: € 21.10 million). In the same step, the adjusted EBITDA margin grew to 28.0% (Q2 2022: 27.0%). The increased profitability also underlines the company's general strict cost management.

Quarterly performance of the MGI Group (in € million)



Sources: Media and Games Invest SE; GBC AG

Forecasts and evaluation

P&L in € million	FY 2022	FY 2023e (new)	FY 2023e (old)	FY 2024e (new)	FY 2024e (old)	FY 2025 (new)	FY 2025e (old)
Revenues	324.44	303.21	340.12	324.74	402.55	357.66	471.39
Adjusted EBITDA (Adj. EBITDA)	93.20	93.07	95.94	102.16	121.10	114.29	141.94
EBITDA	84.75	85.37	89.44	95.56	115.80	108.49	136.14
Net result (after minorities)	-20.32*[1]	0.09	6.83	6.57	23.95	14.48	32.97

Sources: Media and Games Invest SE; estimates GBC AG negatively influenced by a one-time write-off of € 23.6 million

In order to further improve their earnings situation and to counteract their lower growth dynamics, MGI has initiated a cost-saving programme in the current third quarter. This cost-optimisation programme, which is primarily aimed at reducing personnel costs, includes annual cost savings of € 10.0 million. The main effects of the planned cost reduction measures are expected to take effect from the fourth quarter of 2024.

Against the backdrop of the weakening advertising market and the lower growth expected by MGI in the second half of 2023, the technology company has reduced its previous corporate guidance (revenue of € 335.0 million to € 345.0 million and Adj. EBITDA of € 95.0 million to € 105.0 million) for the current financial year. The company now expects consolidated revenue of approximately € 303.0 million and Adj. EBITDA of € 93.0 million.

In the context of the publication of the Q2 and half-year figures at the "MGI Capital Markets Day 2023", the technology company confirmed its medium-term corporate guidance (revenue CAGR: 25.0% to 30.0%; Adj. EBITDA margin: 25.0% to 30.0%). Accordingly, the technology company expects higher growth momentum again in the medium term.

In view of the lowered corporate guidance, we have also adjusted our previous turnover and earnings forecasts for the current financial year and the following years downwards. For the current financial year, we now expect consolidated revenue of € 303.21 million (previously: € 340.12 million) and EBITDA of € 85.37 million (previously: € 89.44 million). With regard to the subsequent years 2024 and 2025, we expect, under conservative premises, a turnover (EBITDA) of € 324.74 million (€ 95.56 million) and € 357.66 million (€ 108.49 million) respectively.

Despite our reduced revenue and earnings estimates, the MGI Group should be able to return to its growth path from the 2024 financial year onwards, based on the gradual recovery of the advertising market that we expect. In particular, the strong positioning of the ad tech company in the programmatic advertising market, the fastest-growing segment of the digital advertising market, should ensure further gains in market share and outperformance compared to the overall advertising market in the future. Our forecast EBITDA growth for the future financial years should also be boosted by the expected positive effects from the company's initiated cost-efficiency programme (targeted annual cost savings of € 10.0 million from FY 2024).

Against the backdrop of our adjusted revenue and earnings forecasts, we are lowering our previous price target to € 4.05 (previously: € 5.30) per share. In view of the current share price level, we continue to give the MGI share a "buy" rating and continue to see significant upside potential.

DCF valuation

Model assumptions

We have valued Media and Games Invest SE using a three-stage DCF model. Starting with the concrete estimates for the years 2023 to 2025 in phase 1, the forecast is made from 2026 to 2030 in the second phase by applying value drivers. We expect revenue to increase by 5.0% (previously: 5.0%). We have assumed an EBITDA target margin of 30.3% (previously: 28.9%). We have included the tax rate at 30.0% in phase 2. In the third phase, a residual value is also determined after the end of the forecast horizon using the perpetual annuity. In the terminal value, we assume a growth rate of 2.5% (previously: 2.5%).

Determination of the cost of capital

The weighted average cost of capital (WACC) of Media and Games Invest SE is calculated from the cost of equity and the cost of debt. To determine the cost of equity, the fair market premium, the company-specific beta and the risk-free interest rate must be determined.

The risk-free interest rate is derived from current yield curves for risk-free bonds in accordance with the recommendations of the Fachausschuss für Unternehmensbewertungen und Betriebswirtschaft (FAUB) of the IDW. The basis for this is the zero bond interest rates published by the Deutsche Bundesbank according to the Svensson method. The average yields of the previous three months are used to smooth short-term market fluctuations. The currently used value for the risk-free interest rate is currently 2.00% (previously: 2.00%).

We set the historical market premium of 5.5% as a reasonable expectation of a market premium. This is supported by historical analyses of equity market returns. The market premium reflects the percentage by which the equity market is expected to yield better than low-risk government bonds.

According to the GBC estimation method, a beta of 1.36 (previously: 1.36) is currently determined.

Using the assumptions made, we calculate a cost of equity of 9.46% (previously: 9.46%) (beta multiplied by risk premium plus risk-free interest rate). Since we assume a sustainable weighting of the cost of equity of 80.0% (previously: 80.0%), the weighted average cost of capital (WACC) is 8.61% (previously: 8.61%).

Valuation result

The future cash flows are discounted on the basis of the entity approach. We have calculated the corresponding cost of capital (WACC) at 8.61% (previously: 8.61%). The resulting fair value per share at the end of the 2024 financial year corresponds to a target price of € 4.05 (previously: € 5.30). Our price target reduction results from the lowered revenue and earnings estimates. On the other hand, the so-called "roll-over effect" (price target related to the following financial year 2024 instead of 2023) had the opposite effect.

GBC AG Investment Research

EVALUATION

Media and Games Invest SE - Discounted Cashflow (DCF) model

Value driver used in the DCF model´s estimate phase:

consistency - Phase	
Revenue growth	5.0%
EBITDA-margin	30.3%
Depreciation on fixed assets	25.5%
Working capital to sales	5.0%

final - Phase	
Perpetual growth rate	2.5%
Perpetual EBITA margin	23.2%
Effective tax rate in terminal value	30.0%

Three-phase DCF model:

Phase	estimate			consistency					final
in mEUR	FY 23e	FY 24e	FY 25e	FY 26e	FY 27e	FY 28e	FY 29e	FY 30e	value
Revenue (RE)	303.21	324.74	357.66	375.54	394.32	414.04	434.74	456.47	
Revenue change	-6.5%	7.1%	10.1%	5.0%	5.0%	5.0%	5.0%	5.0%	2.5%
Revenue to fixed assets	1.55	1.80	2.18	2.51	2.83	3.14	3.42	3.69	
EBITDA	85.37	95.56	108.49	113.92	119.61	125.60	131.88	138.47	
EBITDA margin	28.2%	29.4%	30.3%	30.3%	30.3%	30.3%	30.3%	30.3%	
EBITA	48.27	56.16	66.54	71.97	81.41	90.02	98.16	106.01	
EBITA margin	15.9%	17.3%	18.6%	19.2%	20.6%	21.7%	22.6%	23.2%	23.2%
Taxes on EBITA	-18.34	-16.85	-19.96	-21.59	-24.42	-27.01	-29.45	-31.80	
Tax rate	38.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
EBI (NOPLAT)	29.93	39.31	46.58	50.38	56.99	63.01	68.71	74.21	
Return on capital	14.2%	19.1%	23.7%	27.7%	33.9%	39.6%	45.0%	49.9%	51.8%
Working capital (WC)	9.15	15.99	17.88	18.78	19.72	20.70	21.74	22.82	
WC to sales	3.0%	4.9%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	
Investment in WC	-7.12	-6.84	-1.89	-0.89	-0.94	-0.99	-1.04	-1.09	
Operating fixed assets (OFA)	196.17	180.67	164.22	149.57	139.26	131.98	127.07	123.76	
Depreciation on OFA	-37.10	-39.40	-41.95	-41.95	-38.21	-35.57	-33.72	-32.46	
Depreciation to OFA	18.9%	21.8%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	
CAPEX	-24.20	-23.90	-25.50	-27.30	-27.90	-28.30	-28.80	-29.15	
Capital employed	205.32	196.66	182.10	168.34	158.98	152.69	148.81	146.58	
EBITDA	85.37	95.56	108.49	113.92	119.61	125.60	131.88	138.47	
Taxes on EBITA	-18.34	-16.85	-19.96	-21.59	-24.42	-27.01	-29.45	-31.80	
Total investment	-52.32	-65.74	-68.39	-28.19	-28.84	-29.29	-29.84	-30.24	
Investment in OFA	-24.20	-23.90	-25.50	-27.30	-27.90	-28.30	-28.80	-29.15	
Investment in WC	-7.12	-6.84	-1.89	-0.89	-0.94	-0.99	-1.04	-1.09	
Investment in goodwill	-21.00	-35.00	-41.00	0.00	0.00	0.00	0.00	0.00	
Free cashflows	14.71	12.97	20.14	64.13	66.35	69.30	72.59	76.43	1182.78

Value operating business (due date)	922.94	989.47
Net present value explicit free cashflows	259.67	269.06
Net present value of terminal value	663.27	720.41
Net debt	307.26	340.93
Value of equity	615.68	648.54
Minority interests	-3.50	-3.69
Value of share capital	612.18	644.86
Outstanding shares in m	159.25	159.25
Fair value per share in €	3.84	**4.05**

Cost of Capital:

Risk-free rate	2.0%
Market risk premium	5.5%
Beta	1.36
Cost of equity	9.5%
Target weight	80.0%
Cost of debt	6.5%
Target weight	20.0%
Tax shield	19.8%
WACC	**8.6%**

Return on Capital	WACC				
	8.0%	**8.3%**	**8.6%**	**8.9%**	**9.2%**
51.3%	4.66	4.31	4.00	3.72	3.47
51.6%	4.68	4.34	4.03	3.75	3.49
51.8%	4.71	4.36	**4.05**	3.77	3.51
52.1%	4.74	4.39	4.07	3.79	3.53
52.3%	4.76	4.41	4.10	3.81	3.55

APPENDIX

I.
Research under MiFID II
1. There is a contract between the research company GBC AG and the Issuer regarding the independent preparation and publication of this research report on the Issuer. GBC AG is remunerated for this by the Issuer.
2. The research report shall be made available simultaneously to all investment service providers interested in it.

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A specific update of the present analysis(es) at a fixed point in time has not yet been scheduled. GBC AG reserves the right to update the analysis without prior notice.

§ 2 (II) Recommendation / Classifications / Rating:
GBC AG has been using a three-stage absolute share rating system since 1 July 2006. Since 1 July 2007, the ratings have referred to a time horizon of at least six to a maximum of 18 months. Previously, the ratings referred to a time horizon of up to 12 months. When the analysis is published, the investment recommendations are determined according to the ratings described below with reference to the expected return. Temporary price deviations outside these ranges do not automatically lead to a change in the rating, but do give rise to a revision of the original recommendation.

The respective recommendations / classifications / ratings are associated with the following expectations:

BUY	The expected return, based on the determined price target, including dividend payment within the corresponding time horizon is >= + 10 %.

HOLD	The expected return, based on the determined price target, including dividend payment within the corresponding time horizon is > - 10 % and < + 10 %.
SELL	The expected return, based on the determined price target, including dividend payment within the corresponding time horizon is <= - 10 %.

Price targets of GBC AG are determined on the basis of the fair value per share, which is determined on the basis of generally recognised and widely used methods of fundamental analysis, such as the DCF method, the peer group comparison and/or the sum-of-the-parts method. This is done by taking into account fundamental factors such as share splits, capital reductions, capital increases, M&A activities, share repurchases, etc.

§ 2 (III) Historical recommendations:
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§ 2 (IV) Information basis:
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The following potential conflict of interest exists with respect to the securities or financial instruments discussed in the analysis: (5a, 7, 11)

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(5) b) There has been a change in the draft financial analysis based on legitimate advice from the company or issuer.
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(6) b) There has been an amendment to the draft financial analysis based on legitimate advice from the third party and/or issuer.
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