

## Media and Games Invest

### Acquisition of Smaato and updated guidance

Following the Kingsisle transaction in January 2021, Media and Games Invest (MGI) has announced a second transformational deal – the cash acquisition of Smaato (a mobile-first adtech platform) for €140m, 10.7x FY21e EBITDA. The transaction adds scale to MGI's existing adtech platform, Verve, and brings new capabilities, particularly in mobile web and web programmatic advertising. Smaato's adj. EBITDA margin (FY20: 25%) will significantly strengthen Verve's margins (FY20: 9%). Management has raised the group's FY21 revenue guidance to €234–254m and adj. EBITDA guidance to €65–70m. At the midpoint, the implied valuation of 16.1x EV/FY21 adj. EBITDA remains in line with peers, despite superior growth. The transaction is to be funded from existing cash resources and expected to complete in Q321, with €12.7m held over and payable in March 2022. Leverage remains within management's target range of 2–3x adj. EBITDA.

### Acquisition of Smaato for €140m in cash

Founded in San Mateo in 2005, with offices in Hamburg, Pune and Hyderabad, Smaato offers a mobile-first digital supply-side platform (SSP), serving publishers on a SaaS basis. Together with Verve's 1.4bn monthly unique users, Smaato is expected to extend the group's combined reach to 1.8–2.0bn monthly uniques. Shanghai Qiugu Investment Partnership (SQI), which bought Smaato in 2016, agreed to the sale at an EV of €140m, 10.7x management's estimated FY21 adj EBITDA and 6.8x management's estimated FY22 adj. EBITDA. Management expects to realise significant cost and revenue synergies from the acquisition.

### FY21 adjusted EBITDA to more than double y-o-y

Management expects Smaato to deliver FY21 revenues of €39m (c 20% y-o-y growth) and adj. EBITDA of €13m (c 60% y-o-y growth), a 33% margin. This compares to Verve, with 9% adj. EBITDA margin in FY20, expected to rise to 15–20% in the medium term as the platform consolidates and costs are cut. Adding in an expected three-month contribution from Smaato (Q4 is typically the strongest quarter), management has raised MGI's FY21e revenue guidance to €234–254m (a 67–81% y-o-y increase) and adj. EBITDA guidance to €65–70m (a 123–141% y-o-y rise), implying a blended 28% margin (at the midpoint of the guidance).

### Valuation: In line with peers despite superior growth

MGI's valuation is supported by continuing organic growth, as well as M&A (45% revenue CAGR in FY15–20). Including a part-year contribution from Smaato, at the midpoint of management's FY21 guidance (adjusted EBITDA of €67.5m) and assuming net debt of 3x FY21 adj. EBITDA, MGI is trading on c 16.1x FY21e EV/adj. EBITDA and 4.4x FY21e EV/revenue. Factoring in the Smaato acquisition, MGI continues to trade in line with its peer group despite its superior growth prospects.

#### Consensus estimates

Year end	Revenue (€m)	Adj. EBITDA* (€m)	PBT (€m)	EPS (€)	EV/ adjusted EBITDA* (x)	P/E (x)
12/19	83.9	18.1	(0.8)	(0.01)	56.9	N/A
12/20	140.2	26.5	3.9	0.03	36.9	196.3
12/21e	212.6	56.1	20.0	0.11	17.5	54.8
12/22e	253.1	71.8	29.7	0.17	13.6	34.1

Source: MGI accounts (historical figures), Refinitiv consensus (forecasts) not yet reflecting revised guidance. Note: \*EBITDA adjusted for one-off M&A and financing costs.

#### Software & computer services

16 July 2021

Price €5.89  
Market cap €882m

#### 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 31 March 2021	€97.6m

#### 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

- Experienced management team with a proven M&A track record.
- Capitalising on long-term gaming growth trends, with a synergistic media platform.
- 45% five-year revenue CAGR in FY15–20.

#### Bear

- Undergoing a period of rapid transformation, with the media segment still lagging games.
- Debt levels remain elevated, towards the top of management's 2–3x adjusted EBITDA guidance.
- MGI's portfolio is PC focused, with mobile still substantially under-represented.

#### Analysts

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