

Media and Games Invest

Software & computer services

8 March 2022

Adtech player with first-party content

MGI continued to perform strongly in FY21, beating initial guidance and ending up at the top end of the revised guidance. FY21 results showed revenue growth of 80% y-o-y to €252m, with 38% organic growth. Adjusted EBITDA increased 144% y-o-y to €71m, with margins of 28%. In June 2021, the acquisition of Smaato marked the group's shift to become media led, with MGI evolving to become a content-owning, games-focused adtech platform, with closest peers including Applovin, Azerion and IronSource. Future growth will be both organic and from M&A, with management looking to drive synergies between MGI's ad platform (Verve) and its content (gamigo). Management's FY22 guidance is for revenues of €290–310m, with adjusted EBITDA of €80–90m.

Media and games growing vigorously

MGI is a fast-growing and profitable media and games company, combining a specialist ad-software platform with first-party games content. However, for the first time, in FY21 the media segment overtook games to represent the majority (FY21: 55%) of group revenues. With an adjusted EBITDA margin of 38% for games versus 20% for media, games still contributed most group profits in FY21. However, given relative growth rates (media delivered 115% growth y-o-y in FY21, vs 50% growth for games), media's contribution is expected to grow in future years, with strong organic growth coupled with targeted M&A.

M&A focus on mobile, 2.8x leverage, €180m cash

Net interest-bearing debt amounted to €199m at 31 December 2021 (FY20: €62m), with net leverage of 2.8x (FY20: 2.1x) following the acquisitions of KingsIsle and LKQD in Q121, as well as Smaato in Q421. Interest cover fell to 3.2x in FY21 (FY20: 4.1x). Absent major M&A and with a full-year contribution from Smaato in FY22, management expects net leverage to fall and interest cover to rise in FY22. Management anticipates further small M&A deals in FY22, with a focus very much on the high-growth mobile sector, now valuations have fallen.

Valuation: Material discount to adtech peers

MGI has achieved annual revenue growth of over 70% y-o-y for each of the last three years, contributing to a five-year revenue CAGR of 45% for FY16–21. In FY20 and FY21, management has also consistently beaten guidance. On this basis, we are confident in management's FY22 guidance of €290–310m, with adjusted EBITDA of €80–90m. At the midpoint of this guidance, MGI is trading on 2.3x FY22e EV/revenue and 8.1x FY22e EV/ adjusted EBITDA, in line with our games peer group but at a material discount to MGI's adtech peers.

Consensus estimates

Year end	Revenue (€m)	Adjusted EBITDA*	PBT (€m)	EPS (€)	EV/adjusted EBITDA* (x)	P/E (x)
12/20	140.2	29.1	3.9	0.04	23.6	91.4
12/21	252.2	71.1	14.9	0.11	9.7	28.9
12/22e	304.8	85.6	31.8	0.22	8.1	15.1
12/23e	348.8	101.6	45.6	0.26	6.8	12.7

Source: MGI and Refinitiv. Note: *EBITDA adjusted for one-off M&A and financing costs.

Price €3.27

Market cap €489m

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 December 2021	€198.6m

Business description

Media and Games Invest is a fast-growing and profitable content-owning games-focused adtech platform. It combines organic growth with value-accretive acquisitions to deliver strong and sustainable earnings growth.

Bull

- Proven buy-and-build model has delivered a five-year revenue CAGR FY16–21 of 45%.
- Business with synergistic media/games platform, underpinned by long-term growth trends.
- Has consistently beaten FY20/21 guidance.

Bear

- After its rapid transformation, the adtech-led model still needs to be understood by investors.
- MGI's games portfolio remains PC focused, with mobile still substantially under-represented.
- Media segment (Verve) margins remain below those of the games segment (gamigo).

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FY21 results: Delivery of both M&A and organic growth

MGI is a fast-growing and profitable media and games company, combining a specialist ad-software platform with first-party games content. In FY21, MGI delivered revenues of €252m, up 80% y-o-y (FY20: €140m) through strong organic growth (FY21: 38%), coupled with M&A, principally the acquisitions of KingsIsle and LKQD in Q121 and Smaato in Q421. Adjusted EBITDA increased 144% y-o-y to of €71m (FY20: €29m), with margins of 28% in FY21 up from 21% in FY20, as they strengthened in the games and (particularly) media divisions. This strong performance resulted in the group reporting a net profit of €16m, a five-fold rise year-on-year (FY20: €3m). The group had cash and cash equivalents at 31 December 2021 of €180m (FY20: €46m), with net interest-bearing debt of €199m (FY20: €62m).

Exhibit 1: FY21 financial results

€000	FY20	H121	H221	FY21
Revenue	140,220	109,045	143,121	252,166
Capitalised development	15,994	10,560	12,291	22,851
EBITDA	26,549	26,631	38,411	65,042
Adjusted EBITDA	29,135	28,700	435	71,100
Depreciation & Amortisation	(15,508)	(13,446)	(14,792)	(28,238)
EBIT	11,041	13,185	23,619	36,804
Net profit/(loss)	2,707	5,646	10,409	16,055
Owners of the Company	3,059	5,643	10,419	16,062
Non-controlling interests	(352)	(3)	(4)	(7)
Number of shares outstanding (m)	117.07	149.68	149.68	149.68
Average shares in issue (m)	85.50	133.61	149.68	141.71
EPS (adjusted) (€)	0.04	0.04	0.07	0.11
Net cash/(debt)	(61,600)	(44,100)	(198,600)	(198,600)

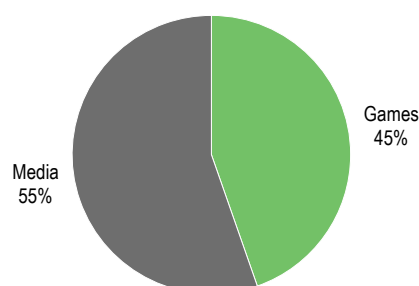
Source: MGI

MGI has now delivered a five-year revenue CAGR of 45% to FY16–21 with its 'Buy, Integrate, Build and Improve' acquisition strategy supplementing healthy organic growth. In FY21, group operating cash flow was €65m (FY20: €25m), an increase of 157%, highlighting the strong cash generation of the business (Q421 cash conversion of 122%). Net leverage remains within management's target range of 2–3x adjusted EBITDA, rising to 2.8x at 31 December 2021 from 2.1x at 31 December 2020, with FY21 interest cover falling to 3.2x (FY20: 4.1x).

Divisional review

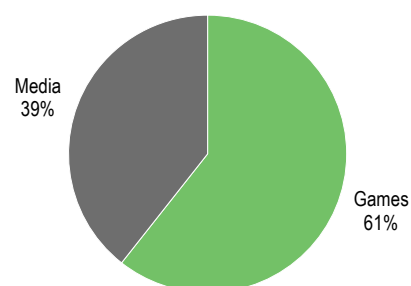
In FY21, the media sector became the largest contributor to net revenue (Exhibit 2) as it outgrew games, and its relative contribution is only expected to increase with strong organic growth and targeted M&A. However, with an adjusted EBITDA margin of 38% vs 20%, games still contributes the majority of profits (Exhibit 3).

Exhibit 2: In FY21, media delivered the majority of group net revenues



Source: MGI

Exhibit 3: But games remains the engine of profits (FY21: adjusted EBITDA)



Source: MGI

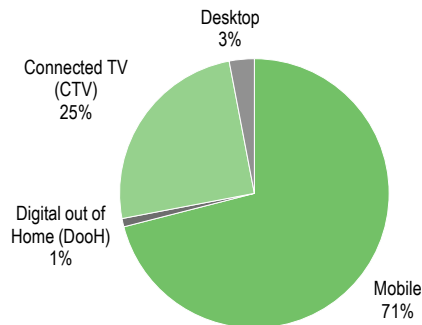
Media: Building out the Verve adtech platform

Verve served more than 411bn ads in FY21, with 250m daily active users and 1.7bn connected devices. The division has more than 400 software clients with over US\$100,000 of revenues, with a 95% client retention rate.

Having brought all of its games properties to a common platform, gamigo, MGI has repeated this strategy in media, aggregating its adtech properties on a single platform, Verve, serving both advertisers and publishers. Verve is a transparent, vertical omnichannel ad-tech platform that specialises in games and consists of connected demand-side platforms (DSP), data management platforms and supply-side platforms (SSPs) that enable and serve ads on mobile web, in-app, on web and via connected TV and digital-out-of-home. Management thoughtfully set out its ambitions in adtech in a [media seminar](#) ahead of its acquisition of Smaato in June 2021.

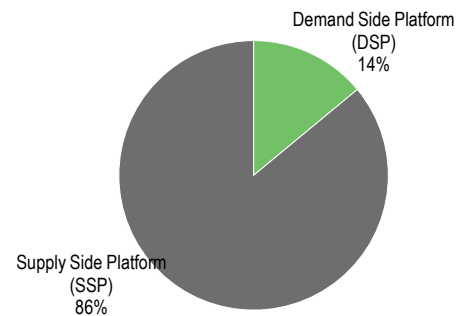
The vast majority of Verve revenues derive from its function as an SSP (FY21: 86%) (Exhibit 5), taking revenue from advertisers looking to identify ad-space, with 71% of revenues coming from mobile devices (Exhibit 4). Management has identified that in FY22 M&A is likely to be focused on building up MGI's DSP capabilities.

Exhibit 4: FY21 media revenues by device



Source: MGI

Exhibit 5: FY21 media revenues by function



Source: MGI

FY21 saw media revenue growth of 115% y-o-y, with the acquisition of [Smaato](#) (announced in July 2021) having a major impact on the growth of the segment in H221. As a result, media represented 55% of group revenues in FY21 and 39% of adjusted EBITDA. Adjusted EBITDA margins rose from 9% in FY20 to 20% in FY21.

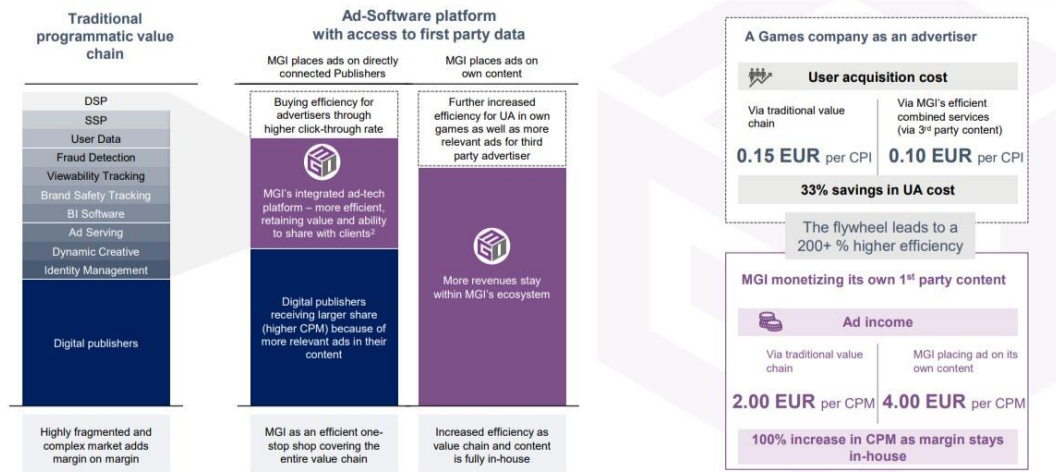
Critical to MGI's strategy are the synergies between the group's games and media platforms. The essence of this is set out in Exhibit 6 below, where Verve is used to deliver cost-effective user acquisition for gamigo, delivering potential players at a lower price than gamigo could achieve through third-party ad partners and providing effective monetisation of its ad space. Additionally, by operating across the adtech value chain, Verve captures a greater proportion of advertising revenues for MGI. In particular, through accessing gamigo's first-party data and its unique advertising inventory, Verve is able to leverage its owned content to deliver materially higher margins for the group. By management's calculation, this allows Verve to double the cost per mille for MGI owned content over a third-party provider. When coupled with lower player acquisition costs for gamigo, this can lead to a tripling of the value retained within the group.

Verve's success at positioning itself as a specialist games adtech platform can be judged by the clients it is attracting and retaining, with the likes of Applovin and Ironsource now clients, together with games publishers such as Zynga (Take-Two), King.com (EA), Loop Games and ILoveLOL.

Exhibit 6: MGI's integrated ad-tech platform leverages 1st party content to drive margins

The highly fragmented ad-market vs. MGI's setup....

... and the benefits we can get from it!



Source: MGI

Games: Ongoing investment in 'games as a service' model

MGI's games business has been built around its games platform, gamigo, and includes c 10 massively multiplayer online games (MMOs) and over 5,000 [casual games](#), across the role-playing game, fantasy and strategy genres with over 100 million registered players. Titles include Trove, Aura Kingdom, Desert Operations, Grand Fantasia, Fiesta Online and Pirate101 and Wizard101, acquired through the KingsIsle transaction in January 2021. Gamigo delivers average revenue per paying user of €61.

Games delivered 50% growth in FY21 y-o-y, representing 45% of MGI group revenues and 61% of adjusted EBITDA. MGI's games content remains the engine of group profitability.

MGI's core [MMOs](#) are all established games operating a [games as a service](#) model, with games supported with regular content to maintain active communities, encourage user retention and add new players. This model extends the games' lifespan and keeps players engaged and entertained. Gamigo regularly launches new games. with 370 games launched in FY21. This means that, on average, MGI published 30+ casual games every month with major releases weighted towards Q4, to drive engagement and monetisation in the high advertising season.

Leverage: Within target range, falling in FY22

At 31 December 2021, net interest-bearing debt increased to €199m (31 December 2020: €62m), leading to a rise in net leverage to 2.8x from 2.1x at 31 December 2020. This follows the acquisitions of KingsIsle and LKQD in Q121 and as well as Smaato in Q421 but remains within management's target range of 2–3x net leverage. FY21 interest cover fell to 3.2x (FY20: 4.1x). Absent major M&A, and given a full-year contribution from Smaato, management expects both net leverage to fall and interest cover to rise in FY22.

Outlook: Balancing organic growth with M&A

MGI has achieved annual revenue growth of over 70% y-o-y for each of the last three years, contributing to a five-year revenue CAGR FY16–21 of 45%. In FY20 and FY21, management has developed an attractive habit of beating guidance:

- FY20 guidance was for revenues of between €115-125m (FY20: €140m, top end beaten by 12%), with adjusted EBITDA of €20-23m (FY20: €29m, top end beaten by 27%).

- FY21 initial guidance was for revenues of between €220-240m (FY21: €252m, top end beaten by 5%), with adjusted EBITDA of €60-65m (FY21: €71m, top end beaten by 9%).

Management guidance for FY22 is:

- FY22 revenue: €290–310m (15–23% growth y-o-y)
- FY22 adjusted EBITDA: €80–90m (13–27% growth y-o-y)

Management recognises this guidance is conservative, but also includes an allowance for c €20m of revenue from discontinued businesses (its media affiliate and influencer activities), which at the adjusted EBITDA level is broadly offset by the full-year inclusion of Smaato, so margins are sustained at 28–29%, a similar level to FY21.

Exhibit 7: Management's medium-term targets

Revenue CAGR	Adj. EBITDA margin	Adj. EBIT margin	Net leverage
25-30%	25-30%	15-20%	2-3x

Source: MGI

In FY22, management intends to focus on growth based on its 'integrated owned and operated ad-tech' strategy. Management will continue to focus on growing both the media and the games divisions organically, enhancing the synergies between the two platforms and by M&A. Management believes that the synergies between media and games will underpin growth for FY22 and beyond and has maintained its medium-term targets for the business.

As was identified in MGI's [FY21 results presentation](#), as a fast-growing market in which MGI is underweight, management has been clear to identify mobile ad-tech infrastructure and mobile games content as key areas for M&A in FY22. Deals are likely to include small specialist acquisitions to build out platform capabilities (eg DSP acquisitions) and larger acquisitions that deliver scale. Management's top five M&A targets are all in the mobile space, with three mobile adtech platforms (all DSPs) and two mobile games developers.

Management expects to complete further M&A deals in both the games and media sectors in FY22.

Vision 2025

As well as the company's guidance for FY22 and its medium-term financial goals, for the first time management also set out four longer-term targets for the group:

- Build a 'white label' SaaS ad-software platform.
- Become a top five worldwide leading ad-software platform that is transparent, open source, innovative, multi-format, omniplatform and vertically integrated.
- Respect partners' values and deliver transparency to clients: consent-based data-sharing.
- Be one of the most desired global companies for which to work.

We intend to examine these ambitions further and monitor progress in future research notes.

Valuation: Justified premium to games peer group

With media now the largest contributor to revenue, we have started to look at both games and adtech peer groups for MGI. Based on consensus, MGI is now trading broadly in line with its European games peer group but remains at a material discount (30%+) to its US adtech peers, such as Magnite, Applovin, Ironsource and Viant.

Management's FY22 revenue guidance is for €290–310m (a 15–23% increase y-o-y) with adjusted EBITDA guidance of €80–90m (a 13–27% rise y-o-y), margins of 28–29%. At the midpoint of this guidance (adjusted EBITDA of €85m), MGI is trading on 2.3x FY22e EV/revenue and 8.1x FY22e EV/ adjusted EBITDA.

Exhibit 8: 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-22	3.27	EUR	490	688	28.1	29.1	2.3	2.0	8.1	6.8	15.1	12.7
Adtech peers													
Applovin	Dec-22	50	USD	17,254	18,840	28.1	31.6	5.5	4.5	19.7	14.3	112.8	39.4
Ironsource	Dec-22	5.0	USD	4,453	3,732	31.9	33.1	5.0	4.0	15.7	12.0	47.3	30.8
Magnite	Dec-22	13	USD	1,531	1,983	32.3	33.9	4.0	3.3	12.5	9.8	16.9	12.4
Azerion Group	Jan-22	9.0	EUR	1,646	1,625	16.2	17.4	3.6	3.0	34.7	24.3	81.4	34.4
PubMatic	Dec-22	22	USD	1,031	906	36.3	37.9	3.5	2.8	9.6	7.5	32.5	24.4
dotDigital Group	Jun-22	58	GBP	209	165	32.5	32.0	2.1	1.9	6.6	6.1	14.7	14.1
Viant Technology	Dec-21	7.4	USD	410	398	15.8	14.8	2.0	1.7	12.9	11.3	NM	NM
CentralNic Group	Dec-22	123	GBP	426	501	11.6	11.8	1.1	1.0	9.5	8.3	12.4	11.0
Mean						26	27	3	3	15	12	34	24
Median						30	32	4	3	13	11	25	24
Games peers													
Embracer Group	Mar-22	69.2	SEK	6,660	5,162	38.9	35.3	3.4	1.6	8.9	4.6	NM	NM
Zynga	Dec-22	9.1	USD	9,473	9,648	23.6	24.6	3.4	3.1	14.3	12.5	23.4	19.6
Stillfront Group	Dec-22	27.7	SEK	1,321	1,622	37.8	39.0	2.6	2.4	7.0	6.3	10.1	8.5
Modern Times Group (MTG)	Dec-22	114.4	SEK	1,191	1,522	26.1	26.9	3.1	2.8	11.8	10.6	25.9	23.6
Ten Square Games	Dec-21	203.0	PLN	312	293	27.2	26.6	2.1	1.9	7.7	7.0	8.6	7.9
G5 Entertainment	Dec-22	188.5	SEK	158	142	29.1	30.1	1.1	1.0	3.8	3.5	6.8	6.2
Mean						30	30	3	2	9	7	15	13
Median						28	28	3	2	8	7	10	9

Source: Refinitiv data. Note: Priced at 7 March 2022.

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