

Media and Games Invest plc

Malta / Entertainment
Xetra
Bloomberg: M8G GR
ISIN: MT0000580101

2019
gamigo results

RATING	BUY
PRICE TARGET	€ 2.80
Return Potential	141.4%
Risk Rating	High

GAMIGO FY19 RESULTS SHOW GOOD TOPLINE & EARNINGS GROWTH

Full year results for Media and Games Invest subsidiary, gamigo AG, showed strong revenue and earnings growth and were close to our forecasts. The top line climbed 30% on an annualised basis, while EBITDA grew some 48% Y/Y. MGI now holds 99% of gamigo after upping its stake in February. The video gaming specialist benefited from solid organic and M&A driven growth and expects good business momentum to continue this year. The strong gamigo performance gives us confidence in our full year MGI targets. We stick to our Buy rating and €2.8 price target.

What about potential coronavirus risks? Global bourses have been routed on recessionary fears traced to covid-19, and MGI shares have retreated some 13% from recent highs despite positive corporate news flow. We think the current share price weakness is overdone. The company does not depend on any far-flung supply chains, nor are largely digital operations vulnerable to potential travel restrictions as covid-19 spreads. And we argue that operations are well insulated from a China-led global slowdown. We wrote in our initiation of 7 November 2019 that video gaming is largely recession / crisis-proof. We play games when we are feeling rich or poor. Their low price is often a bargain when considering the pleasure and utility they deliver. If anything, during recessions gamers may spend more time at home immersed in their favourite alternative worlds. Plus, video gaming rights are an alternative asset class with little correlation to economic activity. We therefore do not expect gamigo operations to suffer from potential recession effects traced to the covid-19 virus.

Performance led by 30% topline increase Revenues topped €59m for the year, thanks to positive organic developments with new game launches such as *ArchAge Unchained*, which accounted for some 10% of group sales last year. Swift integration of TrionWorlds and WildTangent spearheaded external growth contributions last year. The latter not only boosted the group's topline, the company is also instrumental in . . . (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2017	2018	2019E	2020E	2021E	2022E
Revenue (€m)	0.00	32.62	71.77	100.47	135.64	176.33
Y-o-y growth	n.a.	n.a.	120.0%	40.0%	35.0%	30.0%
EBITDA (€m)	0.00	8.65	13.30	17.54	23.37	34.81
EBITDA margin	0.0	26.5%	18.5%	17.5%	17.2%	19.7%
Net income (€m)	0.00	5.26	-0.76	2.45	4.40	10.50
EPS (diluted) (€)	0.00	0.09	-0.01	0.03	0.05	0.12
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	0.00	-7.17	-17.15	-36.30	5.81	8.89
Net gearing	0.0	24.0%	27.9%	45.4%	43.6%	37.8%
Liquid assets (€m)	0.00	4.45	24.03	12.89	13.66	5.76

RISKS

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

COMPANY PROFILE

MGI is a strategic investment holding company that pursues a 'buy-integrate-build-and-improve' strategy to foster fast-growing companies within the media and games segments through acquisitions and growth in operations. gamigo and AppLift are the flagship holdings within the group.

MARKET DATA

As of 03 Mar 2020

Closing Price	€ 1.16		
Shares outstanding	88.22m		
Market Capitalisation	€ 102.34m		
52-week Range	€ 0.98 / 1.47		
Avg. Volume (12 Months)	73,833		
Multiples	2018	2019E	2020E
P/E	13.1	n.a.	41.6
EV/Sales	7.6	3.4	2.5
EV/EBITDA	28.6	18.6	14.1
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2019

Liquid Assets	€ 26.25m
Current Assets	€ 49.76m
Intangible Assets	€ 226.70m
Total Assets	€ 245.48m
Current Liabilities	€ 56.42m
Shareholders' Equity	€ 123.73m

SHAREHOLDERS

Bodhivas GmbH	61.7%
Free Float	38.3%

. . . extending reach into new markets, forging synergies with other companies within the group, and in adding technology, game development, and marketing expertise. gamigo accounts for some 80% of group revenue. We therefore believe MGI will beat FBe 2019 revenues of €72 with publication of full year results.

EBITDA rose 48% Y/Y to €16m (28% margin), owing to the higher revenue and efficiency gains from synergy effects. Adjusted EBITDA, which excludes one-time M&A and financing expenses, totalled €18m (31% margin).

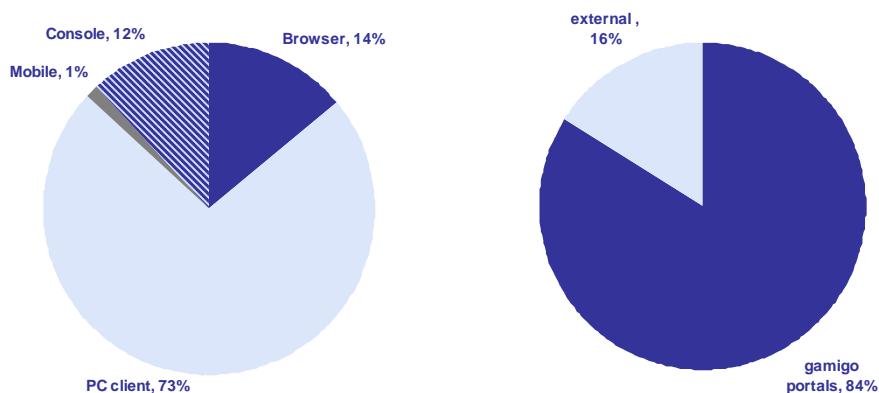
Table 1: Results vs FBe and prior year

EUR '000	2019	2019E	Variance	2018	Variance	Q4/19	Q4/18	Variance
Revenue	58,916	57,444	2.6%	45,289	30.1%	16,026	13,517	18.6%
EBITDA	16,330	15,361	6.3%	11,051	47.8%	4,006	3,472	15.4%
<i>Margin</i>	27.7%	26.7%	-	24.4%	-	25.0%	25.7%	-
EBIT	6,259	5,757	8.7%	2,587	141.9%	1,602	1,031	55.4%
<i>Margin</i>	10.6%	10.0%	-	5.7%	-	10.0%	7.6%	-
Net income	1,970	1,822	8.1%	1,616	21.9%	987	720	37.1%

Source: First Berlin Equity Research; gamigo

The gaming portfolio contains over 5k casual games and ~30 massive multiplayer online games (MMOGs). gamigo exited 2019 with >600k daily active users (DAU) and more than 5m monthly active users (MAU). The company did not report ARPPU (average revenue per paying user) for the year. The US remained the top market with 38% of revenue followed by Germany at 16%.

Figure 1: Revenue breakdown by device and distribution channels



Source: First Berlin Equity Research; gamigo

Q4/19 developments On a quarterly basis, revenue climbed 18.6% on an annualised basis to €16m. EBITDA rose 15% to €4m, while the margin equalled 25.0% for the three month period vs 25.7% in the prior year.

The B2C Games Publishing segment saw a significant graphics update of its popular strategy game, *Desert Operations*, helping spur long-term player engagement. The B2B Media & Advertising segment reorganised its sales team under the new joint umbrella brand "Media Elements Group". The unit will handle joint strategies.

BALANCE SHEET AND CASH FLOW

Total gamigo assets rose to €125m (YE18: €94m), stemming mainly from the WildTangent acquisition. Long-term liabilities increased by some €22m to €64m owing to the bond issuances in H1/19.

Table 2: gamigo balance sheet developments

EUR '000	2019	2018	Variance
Cash	21,957	4,158	428.1%
Financial debt (short- and long-term)	50,012	25,991	92.4%
Net debt	28,055	21,833	28.5%
Intangible assets	76,171	67,585	12.7%
Total assets	124,588	93,792	32.8%
Shareholders' equity	30,194	28,526	5.8%
Equity ratio	24.2%	30.4%	-

Source: First Berlin Equity Research; gamigo

The equity ratio dipped to 24%, due to the bond tap ups and higher asset base from corporate expansion. The interest coverage ratio (ICR) fell to 3.2x at YE19 (YE18: 5.3x). This is occasioned by the rise in interest expense coupled with the bond tap ups.

Table 3: gamigo cash flow developments

EUR '000	2019	2018	Variance	Q4/19	Q4/18	Variance
Operating cash flow	16,385	10,481	56%	6,948	3,389	105%
Cash flow from investing	-11,848	-6,345	-	-2,178	-5,237	-
Free cash flow	4,537	4,136	10%	4,770	-1,848	-
Cash flow from financing	13,261	3,777	251%	-3,758	10,186	-
Change in cash	17,799	7,913	125%	1,012	8,339	-88%
Cash EoP	21,957	4,158	428%	21,957	4,158	428%

Source: First Berlin Equity Research; gamigo

MGI primed for another good year We expect the MGI topline to hit €100m in 2020, driven by organic and external growth opportunities. This optimism is underscored by a video gaming market that is projected to hit a record high this year according to Newzoo Research. The market researcher looks for global gaming revenues to top \$160bn in 2020 equal to 7.3% annualised growth.

Buy rating and €2.8 price target confirmed Management hinted at a full pipeline for new licensed games and takeover targets to spur further corporate activity. We target 2020E EBITDA of €17.5m equal to a 17.5% margin. Despite higher financing costs owing to the recent tap of the bond and credit line in conjunction with the increased gamigo stake, we look for the bottom line to be comfortably in the black this year. Full year MGI results will be published in June.

VALUATION MODEL

All figures in EUR '000	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Revenue	71,766	100,473	135,638	176,330	211,595	243,335	267,668	281,052
NOPLAT	1,613	5,736	7,810	13,142	17,483	21,742	25,234	29,215
(+) depreciation & amortisation	10,908	9,043	11,801	15,341	18,409	21,170	20,610	21,641
Net operating cash flow	12,522	14,778	19,611	28,483	35,892	42,912	45,844	50,856
(-) Investments	-28,864	-9,264	-12,506	-16,258	-19,509	-22,435	-22,002	-23,102
(-) Working capital	-2,300	-2,546	-3,289	-4,972	-4,193	-3,891	-2,383	-2,350
Free cash flows (FCF)	-18,643	2,968	3,815	7,253	12,189	16,585	21,459	25,403
PV of FCF's	-18,643	2,751	3,225	5,594	8,577	10,647	12,568	13,574

All figures in thousands	Terminal EBIT margin								
	17.2%	19.2%	21.2%	23.2%	25.2%	27.2%	29.2%		
PV of FCFs in explicit period	103,852	6.6%	3.77	4.47	5.16	5.86	6.55	7.25	7.94
PV of FCFs in terminal period	216,858	7.6%	2.91	3.43	3.96	4.48	5.01	5.54	6.06
Enterprise value (EV)	320,710	8.6%	2.29	2.69	3.10	3.51	3.92	4.33	4.74
(+) Net cash / (-) net debt (pro-forma)	-68,346	9.6%	1.82	2.14	2.47	2.79	3.12	3.44	3.76
(-) Non-controlling interests	-6,093	10.6%	1.45	1.72	1.98	2.24	2.50	2.76	3.02
Shareholder value	246,270	11.6%	1.16	1.38	1.59	1.80	2.02	2.23	2.45
Fair value per share (€)	2.80	12.6%	0.92	1.10	1.28	1.45	1.63	1.81	1.98

WACC	Terminal growth rate								
	0.0%	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%		
Cost of equity	11.0%	6.6%	4.63	4.97	5.37	5.86	6.45	7.18	8.11
Pre-tax cost of debt	6.0%	7.6%	3.67	3.90	4.17	4.48	4.85	5.29	5.83
Tax rate	32.5%	8.6%	2.95	3.11	3.30	3.51	3.76	4.04	4.38
After-tax cost of debt	4.1%	9.6%	2.39	2.51	2.64	2.79	2.96	3.16	3.38
Share of equity capital	80.0%	10.6%	1.94	2.03	2.13	2.24	2.36	2.50	2.66
Share of debt capital	20.0%	11.6%	1.58	1.65	1.72	1.80	1.90	2.00	2.11
WACC	9.6%	12.6%	1.28	1.33	1.39	1.45	1.52	1.60	1.68

*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	2017	2018	2019E	2020E	2021E	2022E
Revenues	n.a.	32,621	71,766	100,473	135,638	176,330
Capitalised work	n.a.	2,791	3,658	3,841	4,033	4,235
Total output	n.a.	35,412	75,424	104,314	139,671	180,564
Cost of goods sold	n.a.	-12,699	-22,965	-32,151	-43,404	-54,662
Gross profit	n.a.	22,713	52,459	72,162	96,267	125,902
Personnel expenses	n.a.	-10,438	-21,530	-29,137	-37,979	-47,609
Other OpEx	n.a.	-10,135	-23,180	-31,147	-40,691	-49,372
Other operating income	n.a.	6,506	5,550	5,661	5,774	5,890
EBITDA	n.a.	8,646	13,299	17,540	23,371	34,810
Depreciation & amortisation	n.a.	-6,318	-10,908	-9,043	-11,801	-15,341
Operating income (EBIT)	n.a.	2,328	2,390	8,497	11,570	19,470
Net financial result	n.a.	-1,641	-3,516	-4,870	-5,045	-3,909
Pre-tax income (EBT)	n.a.	687	-1,126	3,627	6,525	15,561
Income taxes	n.a.	895	366	-1,179	-2,121	-5,057
Net income	n.a.	1,582	-760	2,448	4,405	10,504
Discontinued operations	n.a.	3,673	0	0	0	0
Consolidated profit	n.a.	5,255	-760	2,448	4,405	10,504
Minority interests	n.a.	-932	360	-49	-88	-210
Net income to owners	n.a.	4,323	-400	2,399	4,316	10,294
Diluted EPS (in €)	n.a.	0.09	-0.01	0.03	0.05	0.12
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Ratios						
Gross margin on revenues	n.a.	61.1%	68.0%	68.0%	68.0%	69.0%
EBITDA margin on revenues	n.a.	26.5%	18.5%	17.5%	17.2%	19.7%
EBIT margin on revenues	n.a.	7.1%	3.3%	8.5%	8.5%	11.0%
Net margin on revenues	n.a.	13.3%	-0.6%	2.4%	3.2%	5.8%
Tax rate	n.a.	-130.3%	32.5%	32.5%	32.5%	32.5%
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Expenses as % of revenues						
Personnel expenses	n.a.	32.0%	30.0%	29.0%	28.0%	27.0%
Other OpEx	n.a.	31.1%	32.3%	31.0%	30.0%	28.0%
Depreciation & amortisation	n.a.	19.4%	15.2%	9.0%	8.7%	8.7%
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Y-Y Growth						
Revenues	n.a.	n.a.	120.0%	40.0%	35.0%	30.0%
Operating income	n.a.	n.a.	2.7%	255.5%	36.2%	68.3%
Net income/ loss	n.a.	n.a.	n.m.	n.m.	79.9%	138.5%

*2017 reporting reflects discontinued operations

BALANCE SHEET

All figures in EUR '000	2017	2018	2019E	2020E	2021E	2022E
Assets						
Current assets, total	n.a.	16,250	45,663	43,167	54,533	58,900
Cash and equivalents	n.a.	4,447	24,035	12,888	13,656	5,759
Trade receivables	n.a.	11,803	21,628	30,279	40,877	53,140
Properties held for sale	n.a.	0	0	0	0	0
Other ST assets	n.a.	0	0	0	0	0
Non-current assets, total	n.a.	220,043	238,126	238,477	239,314	240,366
Property, plant & equipment	n.a.	4,189	4,203	4,223	4,251	4,286
Intangible assets	n.a.	0	0	0	0	0
Shares in affiliates	n.a.	210,495	228,564	228,894	229,705	230,721
Long-term loans to investees	n.a.	5,359	5,359	5,359	5,359	5,359
Other non-current assets	n.a.	0	0	0	0	0
Total assets	n.a.	236,293	283,789	281,644	293,847	299,266
Shareholders' equity & debt						
Liabilities, total	n.a.	24,358	32,067	38,360	45,859	53,345
Trade payables	n.a.	9,162	16,687	22,792	30,101	37,392
Short-term liabilities	n.a.	333	348	363	379	396
Financial debt	n.a.	3,556	3,556	3,556	3,556	3,556
Provisions	n.a.	6,671	6,771	6,873	6,976	7,080
Other current liabilities	n.a.	4,636	4,706	4,776	4,848	4,920
n.a.						
Provisions, total	n.a.	53,395	82,345	92,639	92,939	80,369
Long-term debt	n.a.	14,100	14,100	24,100	24,100	54,100
Bonds	n.a.	24,877	53,539	53,539	53,539	10,662
Deferred tax liabilities	n.a.	14,418	14,706	15,000	15,300	15,607
Shareholders' equity	n.a.	158,540	169,376	150,644	155,049	165,552
Total consolidated equity and debt	n.a.	236,293	283,789	281,644	293,847	299,266
Ratios						
Current ratio (x)	n.a.	0.7	1.4	1.1	1.2	1.1
Net debt	n.a.	38,125	47,199	68,346	67,578	62,598
Net gearing	n.a.	24%	28%	45%	44%	38%
Equity ratio	n.a.	67%	60%	53%	53%	55%
Return on equity (ROE)	n.a.	1.0%	-0.4%	1.6%	2.8%	6.3%
Capital employed (CE)	n.a.	211,935	251,721	243,284	247,988	245,921
Return on capital employed (ROCE)	n.a.	1%	1%	3%	5%	8%

* 2017 reporting reflects discontinued operations

CASH FLOW STATEMENT

All figures in EUR '000	2017	2018	2019E	2020E	2021E	2022E
Pre-tax income	n.a.	5,255	-760	2,448	4,405	10,504
Depreciation and amortisation	n.a.	6,318	10,908	9,043	11,801	15,341
Change in trade rec & other assets	n.a.	-8,083	-9,952	-8,781	-10,730	-12,398
Change in payable & other liabilities	n.a.	14,501	7,998	6,587	7,799	7,791
Results from sale of subsidiaries	n.a.	-5,645	0	0	0	0
Other non-cash adjustments	n.a.	-6,150	0	0	0	0
Net interest expense	n.a.	1,641	3,516	4,870	5,045	3,909
Tax result	n.a.	-895	-366	1,179	2,121	5,057
Operating cash flow	n.a.	6,942	11,344	15,346	20,440	30,204
Tax expense	n.a.	0	366	-1,179	-2,121	-5,057
Interest income	n.a.	1	0	0	0	0
Net operating cash flow	n.a.	6,943	11,710	14,167	18,320	25,146
CapEx	n.a.	-8,251	-158	-41,421	-298	-388
Investment in intangible assets	n.a.	-3,919	-28,706	-9,043	-12,207	-15,870
Change in financial assets	n.a.	0	0	0	0	0
Other adjustments	n.a.	-1,943	0	0	0	0
Cash flow from investing	n.a.	-14,113	-28,864	-50,464	-12,506	-16,258
Free cash flow (FCF)	n.a.	-7,170	-17,154	-36,297	5,814	8,889
Equity inflow, net	n.a.	3,792	11,596	20,020	0	0
Debt inflow, net	n.a.	-15,992	0	10,000	0	30,000
Corporate debt	n.a.	25,800	28,662	0	0	-42,877
Interest paid	n.a.	-2,014	-3,516	-4,870	-5,045	-3,909
Other adjustments	n.a.	-489	0	0	0	0
Cash flow from financing	n.a.	11,097	36,742	25,150	-5,045	-16,786
Net cash flows	n.a.	3,927	19,588	-11,147	769	-7,897
Fx adjustments	n.a.	114	0	0	0	0
Cash, start of the year	n.a.	406	4,447	24,035	12,888	13,656
Cash, end of the year	n.a.	4,447	24,035	12,888	13,656	5,759
EBITDA/share (in €)	n.a.	0.18	0.20	0.20	0.26	0.39
Y-Y Growth						
Operating cash flow	n.a.	n.m.	68.7%	21.0%	29.3%	37.3%
Free cash flow	n.a.	n.m.	n.m.	n.m.	n.m.	52.9%
EBITDA/share	n.a.	n.m.	14.0%	0.9%	29.8%	48.9%

*2017 reporting reflects discontinued operations

FIRST BERLIN 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	18 December 2019	€1.13	Buy	€2.10
3	21 February 2020	€1.23	Buy	€2.80
4	Today	€1.16	Buy	€2.80

Authored by: Ellis Acklin, Senior Financial Analyst;
Cathrin Schwanke, Analyst

Company responsible for preparation:

First Berlin Equity Research GmbH
 Mohrenstraße 34
 10117 Berlin

Tel. +49 (0)30 - 80 93 96 83 Fax +49 (0)30 - 80 93 96 87

info@firstberlin.com
www.firstberlin.com

Person responsible for forwarding or distributing this financial analysis: Martin Bailey

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INFORMATION PURSUANT TO SECTION 64 OF THE GERMAN SECURITIES TRADING ACT [WPHG] (2ND FINANOG) OF 23 JUNE 2017, DIRECTIVE 2014/65/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 15 MAY 2014 ON MARKETS IN FINANCIAL INSTRUMENTS AND AMENDING DIRECTIVE 2002/92/EC AND DIRECTIVE 2011/61/EU, ACCOMPANIED BY THE MARKETS IN FINANCIAL INSTRUMENTS REGULATION (MIFIR, REG. EU NO. 600/2014)

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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.

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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: <http://firstberlin.com/disclaimer-english-link/>

SUPERVISORY AUTHORITY: Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Lurgallee 12, 60439 Frankfurt

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