

## Media and Games Invest plc <sup>\*5a;5b;7;11</sup>

**Rating: Buy**  
**Target price: € 3.20**  
**(Previously: € 2.95)**

Current price: 1.47  
 04/12/2020/ Xetra  
 (Closing price)  
 Currency: EUR

### Master data:

ISIN: MT0000580101  
 WKN: A1JGT0  
 Ticker symbol: M8G  
 Number of shares <sup>3</sup>: 117.07  
 Marketcap <sup>3</sup>: 172.09  
 EnterpriseValue<sup>3</sup>: 218.24  
<sup>3</sup> in m / in € m  
 Freefloat: approx. 49.9%

Transparency level:  
 Nasdaq First North Premier

Market segment  
 Open market  
 (Open Market)

Accounting:  
 IFRS

Financial year: 31.12.

Designated Sponsors:  
 Hauck & Aufhäuser Private  
 Bankers AG  
 Pareto Securities AB

### Analysts

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\* Catalogue of possible con-  
 flicts of interest on page 6

Date (time) completion:  
 07/12/2020 (09:19 am)

Date (time) first distribution:  
 07/12/2020 (10:00 am)

Validity of the price target: until  
 max. 31/12/2021

### Company profile

Industry: Entertainment, Media

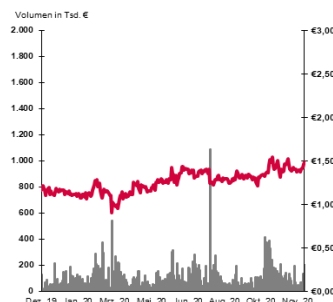
Focus: Video games (so-called MMOs)

Employees: +650 (as of Q3 2020)

Foundation: 2000

Head office: Malta

Management Board: Remco Westermann (CEO), Paul  
 Echt (CFO)



Media and Games Invest plc has a profitable and growing portfolio of companies in the games and digital media sectors. The Group's primary objective is to grow through acquisitions of companies, restructure them and integrate them into a large platform. So far, this strategy has produced various synergies such as cost reductions, leverage and economies of scale. According to the management, only a few competitors, in particular in the gaming sector, are pursuing this strategy, leaving room for acquisitions at a favourable price. In 2020, the following has already been achieved: 1) the acquisition of the North American mobile data platform Verve Group, 2) an increase in gamigo AG's shareholding from 53% to 99%, 3) the purchase of the programmatic advertising company Plattform 161, 4) a 100% stake in ReachHero and 5) the complete take-over of the Freenet Digital Group with more than 1,500 mobile games. In the current COVID-19 pandemic, video games have once again proven to be crisis-proof and non-cyclical. As consumers have had more leisure time, the demand for entertainment and thus for video games has increased strongly. In July 2020, the MGI share was included in the Scale Segment (previously: Basic Board) of the German Stock Exchange and on 6 October 2020, a dual listing was carried out on the Nasdaq First North Premier, where many other mid-cap game companies are listed.

P&L in € m \ FY-end	31/12/2019	31/12/2020e	31/12/2021e	31/12/2022e
Revenue	83.89	133.25	145.62	163.05
EBITDA	15.54	25.02	28.88	33.90
EBIT	5.00	11.52	14.78	19.20
Net income before minority interests	1.90	2.87	5.91	8.50
Net result after minorities	-0.32	2.47	5.61	8.20

### Key figures in EUR

Earnings per share	-0.01	0.02	0.05	0.07
Dividend per share	0.00	0.00	0.00	0.00

### Key figures

EV/turnover	2.60	1.64	1.50	1.34
EV/EBITDA	14.04	8.72	7.56	6.44
EV/EBIT	43.65	18.94	14.77	11.37
P/E ratio (after minorities)	neg.	69.67	30.68	20.99
KBV	1.02			

### Financial calendar

26/02/2021: Annual Report 2020

### \*\*last research by GBC:

Date: Publication / Target price in EUR / Rating

08/09/2020: RS / 2.95 / BUY

25/08/2020: RS / 2.85 / BUY

27/07/2020: RS / 2.85 / BUY

07/05/2020: RS / 2.10 / BUY

\*\* the above research studies can be viewed at [www.gbc-ag.de](http://www.gbc-ag.de) or requested from GBC AG, Halderstr. 27, D86150 Augsburg

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## **9 Months 2020: MGI continues on a clear growth course, expansion of mobile gaming activities opens up additional high revenue potential; company guidance raised again; increase of forecasts and target price**

On 30 November 2020, Media and Games Invest plc (MGI) announced its Q3 business figures and 9-month business figures respectively. On the basis of these published figures, the company was again able to increase revenues in the third quarter by 29.0% year on year to € 35.00 million (Q3 2019: € 27.2 million), thus continuing on its growth path. At the adjusted EBITDA level, the company achieved an EBITDA increase of 61.0% to € 6.40 million (Q3 2019: € 4.00 million), thus increasing its earnings power disproportionately.

In the third quarter, the company recorded revenues of € 18.00 million in its core business area of gaming, which were slightly below the extraordinarily strong second quarter (Q2 2020: € 18.80 million) due to seasonal effects and lower corona restriction effects. The very positive business development in the gaming segment during the year was characterised by significant organic growth overall (16.0% organic growth in the first nine months of 2020). In terms of segment earnings, adjusted EBITDA in the third quarter amounted to € 5.00 million (Q2 2020: € 5.50 million).

The second business segment, Media, recorded a significant 49.0% jump in revenues to € 17.00 million in the third quarter compared to the previous quarter (Q2 2020: € 11.20 million). This development was mainly driven by increased mobile gaming advertising campaigns with Zynga and other gaming companies. Compared to the previous quarter (Q2 2020: € 1.20 million), adjusted EBITDA increased significantly by 13.0% to € 1.40 million due to a higher advertising business volume.

On a strategic level, MGI took an important step towards further expanding the particularly high-growth mobile gaming business by acquiring the mobile gaming company freenet Digital GmbH at the end of the third quarter. As a result, mobile gaming revenues are expected to increase significantly from the current fourth quarter onwards. According to its own statements, the company sees significant potential for organic growth in this area, e.g. by expanding the existing games portfolio to mobile devices as well or by introducing new licensed mobile games. The targeted dynamic growth in the mobile games segment is also to be supported substantially by the company's own advertising division, which also has extensive know-how in the marketing of mobile games, through efficient user acquisition.

In the first nine months of the current financial year, MGI generated sales revenues of € 91.50 million, which represents an increase of 64.0% compared to the same period of the previous year. This increase was driven by strong organic and inorganic growth. At earnings level, adjusted EBITDA of € 19.00 million was achieved, representing an increase of 54.0% over the same period of the previous year. Net income (after minorities) after the first nine months amounted to € 0.70 million, almost on a par with the previous year (Q1-Q3 2019: € 0.90 million).

In view of the very dynamic business development in the third quarter and the positive expectations for the fourth quarter, the MGI management has again raised the issued corporate guidance for the current financial year. The company now expects consolidated sales revenues in a range of € 125 million to € 135 million and EBITDA of between € 23 million and € 26 million. The company is optimistic about the current fourth quarter due to what is traditionally the strongest quarter in terms of revenue and the many planned gaming activities as well as game releases and updates.

In view of the raised corporate guidance, we have also adjusted our previous revenue and earnings forecasts upwards. For the current financial year, we now expect revenues of € 133.25 million (previously: € 118.16 million) and EBITDA of € 25.02 (previously: € 21.74 million). For the following year 2021, we expect revenues of € 145.62 million (previously: € 139.28 million) and an EBITDA of € 28.88 million (previously: € 26.98 million). In the following financial year 2022, revenue should increase again to € 163.05 million (previously: € 162.12 million) and EBITDA of € 33.90 million (previously: € 32.34 million) should be achieved.

P&L in € m\ FY-end	FY 2020e (new)	FY 2020e (old)	FY 2021e (new)	FY 2021e (old)	FY 2022e (new)	FY 2022e (old)
Revenue	133.25	118.16	145.62	139.28	163.05	162.12
EBITDA	25.02	21.74	28.88	26.98	33.90	32.34
EBIT	11.52	8.88	14.78	13.68	19.20	18.84
Net result (after minorities)	2.47	1.64	5.61	4.75	8.20	7.93

Source: GBC AG estimates

Based on our raised estimates and lowered cost of capital, we have used our DCF model to calculate a fair value of € 3.20 per share, thereby raising our previous target price (€ 2.95 per share). The recent significant capital increase has further improved the company's risk profile and led to a reduction in our cost of capital due to a beta reduction. (note: an even stronger increase in our target price was counteracted by the dilution effect of the capital increase). In view of the current share price level, we continue to assign a BUY rating and see significant upside potential.

All in all, we believe that the company is in a very good position to continue its successful growth strategy at a very dynamic pace. The intensified expansion of mobile gaming activities in combination with the Media division's increasing focus on target customers with online-based business models (such as gaming or e-commerce companies) should provide an additional boost to future revenue development. In addition, the company's high level of cash opens up the possibility of further increasing the pace of growth of the company through targeted M&As.

## EVALUATION

### Media and Games Invest plc - Discounted Cashflow (DCF) consideration

Value drivers of the DCF model after the estimate phase:

consistency - phase		final - phase	
Sales growth	10.0%	perpetual growth in turnover	2.0%
EBITDA margin	20.8%	perpetual EBITA - margin	15.6%
AFA to operating fixed assets	15.5%	Effective tax rate at final value	30.0%
Working capital to sales	8.0%		

#### three-stage DCF model:

Phase	estimate			consistency					final End-value
	GJ 20e	GJ 21e	GJ 22e	GJ 23e	GJ 14e	GJ 25e	GJ 26e	GJ 27e	
in million EUR									
Sales (US)	133.25	145.62	163.05	179.35	197.29	217.02	238.72	262.59	
US Change	58.8%	9.3%	12.0%	10.0%	10.0%	10.0%	10.0%	10.0%	2.0%
US to operating assets	1.39	1.51	1.74	1.96	2.21	2.49	2.78	3.11	
EBITDA	25.02	28.88	33.90	37.22	40.94	45.03	49.53	54.49	
EBITDA margin	18.8%	19.8%	20.8%	20.8%	20.8%	20.8%	20.8%	20.8%	
EBITA	11.52	14.78	19.20	22.67	26.79	31.22	36.00	41.19	
EBITA Margin	8.6%	10.2%	11.8%	12.6%	13.6%	14.4%	15.1%	15.7%	15.6%
Taxes on EBITA	-4.03	-3.25	-4.22	-6.80	-8.04	-9.36	-10.80	-12.36	
to EBITA	35.0%	22.0%	22.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
ECI (NOPLAT)	7.49	11.53	14.97	15.87	18.75	21.85	25.20	28.83	
Return on investment	7.9%	11.4%	14.0%	14.6%	17.8%	20.8%	24.1%	27.5%	27.8%
Working Capital (WC)	5.33	10.19	14.67	14.35	15.78	17.36	19.10	21.01	
WC to turnover	4.0%	7.0%	9.0%	8.0%	8.0%	8.0%	8.0%	8.0%	
Investments in WC	-2.73	-4.86	-4.48	0.33	-1.43	-1.58	-1.74	-1.91	
Operating fixed assets (OAV)	95.63	96.53	93.83	91.29	89.14	87.32	85.79	84.49	
AFA on OAV	-13.50	-14.10	-14.70	-14.54	-14.15	-13.82	-13.53	-13.30	
AFA to OAV	14.1%	14.6%	15.7%	15.5%	15.5%	15.5%	15.5%	15.5%	
Investments in OAV	-17.50	-15.00	-12.00	-12.00	-12.00	-12.00	-12.00	-12.00	
Invested capital	100.96	106.72	108.50	105.63	104.92	104.68	104.88	105.50	
EBITDA	25.02	28.88	33.90	37.22	40.94	45.03	49.53	54.49	
Taxes on EBITA	-4.03	-3.25	-4.22	-6.80	-8.04	-9.36	-10.80	-12.36	
Total investments	-24.48	-19.86	-16.48	-11.67	-13.43	-13.58	-13.74	-13.91	
Investments in OAV	-17.50	-15.00	-12.00	-12.00	-12.00	-12.00	-12.00	-12.00	
Investments in WC	-2.73	-4.86	-4.48	0.33	-1.43	-1.58	-1.74	-1.91	
Investments in goodwill	-4.25	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Free cash flows	-3.50	5.77	13.19	18.74	19.47	22.09	25.00	28.22	476.13

Value of operating business (reporting date)	377.36	400.68
Present value of explicit FCFs	94.22	95.71
Present value of continuing value	283.14	304.96
Net debt	21.33	22.77
Value of equity capital	356.03	377.91
Minority interests	-3.50	-3.72
Value of the share capital	352.53	374.19
Shares outstanding in million	117.07	117.07
Fair value of the share in EUR	3.01	<b>3.20</b>

#### Calculation of capital costs:

risk-free return	1.0%
Market risk premium	5.5%
Beta	1.36
Cost of equity	8.5%
Target weighting	80.0%
Borrowing costs	6.0%
Target weighting	20.0%
Taxshield	22.0%
WACC	<b>7.7%</b>

Return on investment	WACC				
	7.1%	7.4%	7.7%	8.0%	8.3%
27.3%	3.54	3.33	3.15	2.98	2.83
27.5%	3.57	3.36	3.17	3.00	2.85
27.8%	3.60	3.39	<b>3.20</b>	3.03	2.87
28.0%	3.63	3.41	3.22	3.05	2.89
28.3%	3.66	3.44	3.25	3.07	2.92

## ANNEX

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