

Media and Games Invest plc ^{*5a;5b;7;11}

Rating: Buy
Target price: € 5.15
(Previously: € 3.20)

Current price: 3.36
 29/01/21 / Xetra
 (17:35 pm)
 Currency: EUR

Master data:

ISIN: MT0000580101
 WKN: A1JGT0
 Ticker Symbol: M8G
 Number of shares ³: 128.45
 Market cap ³: 431.59
 EnterpriseValue³: 477.74
³ in m / in € m
 Free float: 52.44%

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

Marcel Goldmann
 goldmann@gbc-ag.de

Cosmin Filker
 filker@gbc-ag.de

* Catalogue of possible conflicts of interest on page 7

Date (time) completion:
 01/02/2021 (09:09 am)

Date (time) first distribution:
 01/02/2021 (10:00 am)

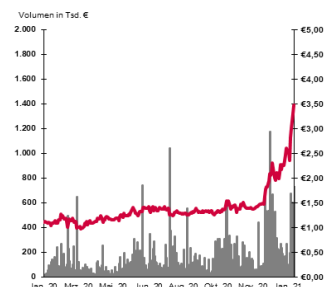
Validity of the price target: until
 max. 31.12.2021

Company profile

Industry: Entertainment, Media
 Focus: Video games (so-called MMOs)
 Employees: 800 (as of Q3 2020)
 Foundation: 2011 (gamigo in the year 2000)
 Head office: Malta (expected from 2022 Luxembourg)

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 primarily aims to grow through acquisitions of companies, restructuring and integrating them into one large platform. So far, this strategy has produced various synergies such as cost reductions, leverage and economies of scale. According to management, this strategy is followed by only a few competitors, especially in the gaming sector, leaving room for acquisitions at a favourable price. In 2020, the following has already been achieved: 1) the acquisition of North American mobile data platform Verve Group, 2) an increase in gamigo AG's shareholding from 53% to 99%, 3) the purchase of programmatic advertising company Platform 161, 4) a 100% stake in ReachHero, and 5) the full acquisition of 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 free time, demand for entertainment, and therefore video games, has soared. In July 2020, MGI shares were admitted to the Scale segment (previously: Basic Board) of Deutsche Börse and on 6 October 2020, a dual listing was carried out on Nasdaq First North Premier, where many other midcap game companies are listed.



P&L in € m \ FY-end	31/12/2019	31/12/2020e	31/12/2021e	31/12/2022e
Revenues	83.89	133.25	173.55	199.88
EBITDA	15.54	25.02	47.42	55.92
EBIT	5.00	11.52	23.72	33.02
Net result before minorities	1.90	2.87	12.38	18.54
Net result after minorities	-0.32	2.47	12.08	18.24

Key figures in EUR				
Earnings per share	-0.01	0.02	0.09	0.14
Dividend per share	0.00	0.00	0.00	0.00

Key figures				
EV/turnover	5.69	3.59	2.75	2.39
EV/EBITDA	30.74	19.09	10.07	8.54
EV/EBIT	95.55	41.47	20.14	14.47
P/E ratio (after minorities)	neg.	174.73	35.73	23.66
KBV	2.56			

Financial calendar	**last research from GBC:
26/02/2021: Annual Report 2020	Date: Publication / Target price in EUR / Rating
31/05/2021: Interim Report Q1 2021	07/12/2020: RS / 3.20 / BUY
30/06/2021: Consolidated Financial Statements 2020	09/08/2020: RS / 2.95 / BUY
	25/08/2020: RS / 2.85 / BUY

** the research studies listed above can be viewed at www.gbc-ag.de or requested from GBC AG, Halderstr. 27, D86150 Augsburg, Germany.

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KingsIsle M&A provides leap in revenue and earnings and significantly strengthens US business; Internationalisation of acquired games IPS and expansion of these online games to further end devices opens up significant revenue potential; Increase in forecasts and price target

On 18/01/2021, Media and Games Invest plc (MGI) announced the signing of an agreement for the full acquisition of US game developer KingsIsle (KingsIsle) Entertainment Inc. KingsIsle, based in Austin, Texas (USA), is a leading game developer and publisher. KingsIsle's wholly owned MMO games Wizard101 and Pirate101 (including mobile IP rights) will be transferred to MGI's gaming portfolio. Both online games have loyal communities and therefore very sustainable revenues and have generated the majority of revenues in the US market to date.

The FY2021 revenue guidance for the acquired KingsIsle includes expected revenue of \$32.0 million and expected Adjusted EBITDA of \$21.0 million with an expected EBITDA margin of 68.0%.

MGI has agreed with the KingsIsle owners on a fixed purchase price of USD 126.0 million and a performance-based purchase price component (earn out) of up to USD 84.0 million. To finance the M&A, Oaktree Capital, which has a high level of expertise in the media and gaming sector, has agreed to a capital increase of € 25.0 million, as a result of which this company will hold a stake of approx. 9.0% in the MGI Group in the future. In our view, MGI has not only gained a new shareholder, but also a strategic partner who should provide significant support for the group's further growth course on the "financing side".

According to the company, taking into account the earn-out component, the EV/EBITDA multiple from the acquisition will be in the range of 5.8x - 7.3x, depending on the growth of KingsIsle in 2021. This valuation is based on higher revenues, which also generate higher EBITDA, and includes additional EBITDA that may result from a higher revenue base if an earn-out becomes due. In light of the potential multiples to be incurred or paid, we rate the purchase price as favourable.

For us, the KingsIsle acquisition represents a very good strategic step to once again significantly increase the growth rate in the group's gaming division and at the same time to leverage significant synergy potentials within the MGI group (e.g. utilisation of the large player base in North America & EU or access to particularly efficient in-house marketing). In addition, this will also significantly strengthen the market position of the gaming segment in the USA.

Through the acquisition, the company acquires Wizard101 and Pirate101, two strong online games that have so far generated revenues primarily in the USA. We are convinced that MGI will succeed in growing significantly, especially through the increased internationalisation of the acquired KingsIsle games portfolio. In this context, the strong market position in Europe with a large player base (cross-selling) should pay off for the company in particular, opening up considerable additional business potential. Furthermore, KingsIsle should also be able to benefit from the cooperation with the media companies of the MGI Group with regard to targeted and efficient advertising. Furthermore, an expansion of the games portfolio to other end devices such as consoles or even smartphones offers additional growth opportunities, especially in Asia.

In view of the very significant KingsIsle acquisition and the expected positive effects (including synergy effects), we have adjusted our previous revenue and earnings forecast for the 2021 and 2022 financial years upwards. In addition, the increased expansion of the mobile gaming business (e.g. recently announced licensing of the Tripe-A games "Golf Champions" and "Heroes of Twilight") and the promotion of the Asian gaming business through cooperation with local publishers (e.g. in the case of Trove, recently launched in closed beta in South Korea) also contributed to the positive forecast adjustment.

For the current financial year, we now expect revenues of € 173.55 million (previously: € 145.62 million) and an EBITDA of € 47.42 million (previously: € 28.88 million). For the following year 2022, we expect revenues of € 199.88 million (previously: € 163.05 million) and an EBITDA of € 55.92 million (previously: € 33.90 million).

P&L in € m \ FY-end	FY 2020e	FY 2021e (new)	FY 2021e (old)	FY 2022e (new)	FY 2022e (old)
Revenue	133.25	173.55	145.62	199.88	163.05
EBITDA	25.02	47.42	28.88	55.92	33.90
EBIT	11.52	23.72	14.78	33.02	19.20
Net result (after minorities)	2.47	12.08	5.61	18.24	8.20

Source: GBC AG estimates

Within the framework of our DCF valuation model, we have determined a new target price of €5.15 (previously: €3.20). In addition to the significantly raised forecasts, a reduction of the WACC to 7.11% (previously: 7.70%) has a target price-increasing effect. This reduction is related to the general lowering of the risk-free interest rate in our valuation models since 01/01/2021 to the new lower limit of 0.25% (previously: 1.00%). An even stronger price target increase is countered by the dilution effect due to the completed capital increase to finance the M&A transaction. In view of the current share price level, we continue to assign a Buy rating and see significant upside potential.

Overall, we see the MGI Group in a good starting position to continue the successful dynamic growth course within the growth sectors of online gaming and digital marketing/digital media. The KingsIsle acquisition should provide additional growth impetus within the gaming segment and also have a clearly positive effect on the earnings situation due to the expected high synergy effects. In addition, the Group's own media division provides a significant competitive advantage and should additionally favour the expansion of the market position in the gaming segment.

EVALUATION

Model assumptions

We have valued Media and Games Invest plc using a three-stage DCF model. Starting with the concrete estimates for the years 2020 to 2022 in phase 1, the forecast is made from 2023 to 2027 in the second phase using the value driver approach. We expect revenue to increase by 7.5% (previously: 10.0%). We have assumed an EBITDA target margin of 28.0% (previously: 20.8%). We have included the tax rate at 30.0% in phase 2. In the third phase, a residual value is determined after the end of the forecast horizon using the perpetual annuity. In the terminal value we assume a growth rate of 2.0%.

Determination of the cost of capital

The weighted average cost of capital (WACC) of Media and Games Invest plc 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. To smooth short-term market fluctuations, the average yields of the previous three months are used and the result rounded to 0.25 basis points. The value currently used for the risk-free interest rate is 0.25% (previously: 1.00%). For the risk-free interest rate, we currently use 0.25% (previously: 1.00%) as the value floor.

We use 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 by what percentage 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 7.71% (previously: 8.46%) (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 7.11% (previously: 7.71%).

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 7.11%. The resulting fair value per share at the end of fiscal 2021 corresponds to a target price of €5.15 (previously: €3.20). Our significant price target increase is mainly based on the expected positive effects from the KingsIsle acquisition. In addition, the reduction in the cost of capital (WACC) due to the reduction in the risk-free interest rate has had an upward effect on the price target. An even stronger increase in the target price is countered by the dilutive effect of the completed capital increase to finance the KingsIsle transaction.

DCF model

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

Value drivers of the DCF model after the estimate phase:

consistency - phase		final - phase	
Turnover growth	7.5%	perpetual growth in sales	2.0%
EBITDA margin	28.0%	perpetual EBITA - margin	22.5%
AFA to operating fixed assets	30.0%	Effective tax rate in the terminal value	30.0%
Working capital to turnover	10.0%		

three-stage DCF model:

Phase in EUR m	estimate			consistency					final Final value
	GJ 20e	GJ 21e	GJ 22e	GJ 23e	GJ 14e	GJ 25e	GJ 26e	GJ 27e	
Turnover (US)	133.25	173.55	199.88	214.87	230.98	248.31	266.93	286.95	2.0%
US Change	58.8%	30.2%	15.2%	7.5%	7.5%	7.5%	7.5%	7.5%	
US to operating fixed assets	1.39	2.00	2.63	3.29	4.01	4.74	5.49	6.23	
EBITDA	25.02	47.42	55.92	60.11	64.62	69.47	74.68	80.28	
EBITDA margin	18.8%	27.3%	28.0%	28.0%	28.0%	28.0%	28.0%	28.0%	
EBITA	11.52	23.72	33.02	37.31	45.06	52.17	58.97	65.69	
EBITA margin	8.6%	13.7%	16.5%	17.4%	19.5%	21.0%	22.1%	22.9%	22.5%
Taxes on EBITA	-4.03	-5.93	-8.26	-11.19	-13.52	-15.65	-17.69	-19.71	
to EBITA	35.0%	25.0%	25.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
EBI (NOPLAT)	7.49	17.79	24.77	26.11	31.54	36.52	41.28	45.98	
Return on investment	7.9%	17.6%	25.0%	27.8%	36.4%	45.2%	53.5%	61.0%	61.7%
Working capital (WC)	5.33	12.15	17.99	21.49	23.10	24.83	26.69	28.69	
WC to turnover	4.0%	7.0%	9.0%	10.0%	10.0%	10.0%	10.0%	10.0%	
Investments in WC	-2.73	-6.82	-5.84	-3.50	-1.61	-1.73	-1.86	-2.00	
Operating fixed assets (OAV)	95.63	86.93	76.03	65.22	57.65	52.36	48.65	46.06	
AFA on OAV	-13.50	-23.70	-22.90	-22.81	-19.57	-17.30	-15.71	-14.60	
AFA to OAV	14.1%	27.3%	30.1%	30.0%	30.0%	30.0%	30.0%	30.0%	
Investment in OAV	-17.50	-15.00	-12.00	-12.00	-12.00	-12.00	-12.00	-12.00	
Invested capital	100.96	99.08	94.02	86.71	80.75	77.19	75.34	74.75	
EBITDA	25.02	47.42	55.92	60.11	64.62	69.47	74.68	80.28	
Taxes on EBITA	-4.03	-5.93	-8.26	-11.19	-13.52	-15.65	-17.69	-19.71	
Total investments	-24.48	-129.82	-17.84	-15.50	-13.61	-13.73	-13.86	-14.00	
Investment in OAV	-17.50	-15.00	-12.00	-12.00	-12.00	-12.00	-12.00	-12.00	
Investments in WC	-2.73	-6.82	-5.84	-3.50	-1.61	-1.73	-1.86	-2.00	
Investments in goodwill	-4.25	-108.00	0.00	0.00	0.00	0.00	0.00	0.00	
Free cash flows	-3.50	-88.33	29.82	33.42	37.49	40.09	43.13	46.57	873.27

Value of operating business (reporting date)	625.03	757.79
Present value of explicit FCFs	85.02	179.39
Present value of the continuing value	540.01	578.39
Net debt	21.33	91.87
Value of equity	603.70	665.92
Minority interests in profits	-3.50	-3.86
Value of the share capital	600.20	662.06
Shares outstanding in m	117.07	128.45
Fair value of the share in EUR	5.13	5.15

Cost of capital calculation:

risk-free return	0.3%
Market risk premium	5.5%
Beta	1.36
Cost of equity	7.7%
Target weighting	80.0%
Cost of debt	6.0%
Target weighting	20.0%
Taxshield	22.0%
WACC	7.1%

Return on investment	WACC				
	6.5%	6.8%	7.1%	7.4%	7.7%
61.2%	5.88	5.48	5.12	4.80	4.52
61.4%	5.91	5.50	5.14	4.82	4.53
61.7%	5.93	5.52	5.15	4.83	4.55
61.9%	5.95	5.54	5.17	4.85	4.56
62.2%	5.97	5.56	5.19	4.87	4.58

APPENDIX

I.

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2. the research report shall be made available simultaneously to all investment service providers interested in it.

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The analysts responsible for this analysis are:

Marcel Goldmann, M.Sc. , Financial Analyst

Cosmin Filker, Dipl. Betriebswirt (FH), Deputy Chief Analyst

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GBC AG
Halderstrasse 27
D 86150 Augsburg
Tel.: 0821/24 11 33-0
Fax.: 0821/24 11 33-30
Internet: <http://www.gbc-ag.de>

E-mail: compliance@gbc-ag.de