

Media and Games Invest plc

Malta / Entertainment
 Xetra
 Bloomberg: M8G GR
 ISIN: MT0000580101

9M/19
 Results

RATING
BUY
PRICE TARGET
€ 2.10
 Return Potential 85.8%
 Risk Rating High

GAMIGO REPORTS GOOD THIRD QUARTER RESULTS

Nine month reporting for Media and Games Invest subsidiary, gamigo AG, showed strong revenue and earnings growth close to our forecasts. The top line climbed 35% on an annualised basis, while EBITDA grew some 63% Y/Y. MGI also announced that its subsidiary, PubNative, acquired the development team and software assets from TVSMILES GmbH to bolster its supply side platform. The good 9M gamigo performance gives us confidence in our full year targets, and the company continues to execute its external growth strategy. We reiterate our Buy rating and €2.1 price target.

9M EBITDA outpaces 2018 full year result The solid nine month topline performance (€43m) resulted in strong gamigo profitability with EBITDA topping €12.3m for the period. This also beats full year EBITDA of €11m in 2018. On a quarterly basis, sales hit €14.4m equating to 41% Y/Y growth. The topline dipped ~4% Q/Q, due to mild seasonality effects typically for the period, when good weather generally cuts into video gaming hours. By the same token, we expect a seasonality uptick in Q4. Good Q3 and 9M performances owe chiefly to organic growth plus the successful integration of the WildTangent and Trionworlds acquisitions and the associated efficiency gains. The corralled synergy effects resulted in revenues rising higher than costs. MGI reports on a half yearly basis, but gamigo results are a good gauge of third quarter performance given the high portion (~80%) of group earnings. The October launch of *ArcheAge: Unchained* should provide tailwinds for organic growth in Q4, and the company expects a strong finish to the year as it prepares for further launches in H1/20.

TVSMILES GmbH joins the MGI group The TVSMILES team brings >6 years of mobile industry competence, which is a strategic focus for MGI and gamigo. In our view, the acquisition of development team and advertising technology stack will: (1) help PubNative accelerate the development of its in-app bidding stack; (2) allow for further expansion into . . . (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2017	2018	2019E	2020E	2021E	2022E
Revenue (€m)	n.a.	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)	n.a.	8.65	13.30	17.54	23.37	34.81
EBITDA margin	n.a.	26.5%	18.5%	17.5%	17.2%	19.7%
Net income (€m)	n.a.	5.26	-0.76	2.57	4.64	10.74
EPS (diluted) (€)	n.a.	0.09	-0.01	0.02	0.05	0.14
DPS (€)	n.a.	0.00	0.00	0.00	0.00	0.00
FCF (€m)	n.a.	-7.17	-18.14	4.45	5.22	8.22
Net gearing	n.a.	24.0%	28.4%	28.2%	27.1%	23.1%
Liquid assets (€m)	n.a.	4.45	23.05	22.81	23.33	15.11

* 2017 reporting reflects discontinued operations

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.

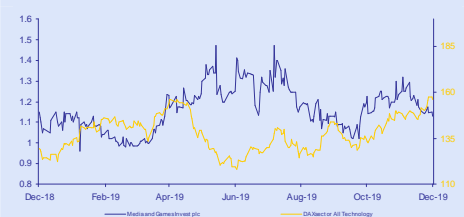
MARKET DATA

As of 17 Dec 2019

Closing Price	€ 1.13
Shares outstanding	70.02m
Market Capitalisation	€ 79.12m
52-week Range	€ 0.96 / 1.47
Avg. Volume (12 Months)	61,696

Multiples	2018	2019E	2020E
P/E	12.7	n.a.	47.4
EV/Sales	6.9	3.1	2.2
EV/EBIT	25.9	16.9	12.8
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%



. . . the Connected TV ecosystem; (3) complement the current offering with new ad units such as full screen video and rewarded video, while helping pave the way for monetising mobile games; and (4) contribute to the development of the company's consent management platform making it fully GDPR (General Data Protection Regulation) compliant.

Plus, the startup boom in Berlin has created a scarcity of available technology talent in the past years. We therefore also regard the deal as a 'talent-win' for the MGI group. MGI paid an undisclosed six figure sum for TVSmiles.

Table 1: gamigo third quarter results vs forecasts

in € '000	Q3/19	Q3/19E	variance	Q3/18	variance	9M/19	9M/18	variance
Revenue	14,468	14,299	1%	10,231	41%	42,889	31,772	35%
EBITDA	4,013	3,623	11%	2,335	72%	12,328	7,579	63%
margin	28%	25%	-	23%	-	29%	24%	-
EBIT	1,415	1,270	11%	254	457%	4,661	1,556	200%
margin	10%	9%	-	2%	-	11%	5%	-
Net income	190	176	8%	73	160%	987	896	10%

Source: First Berlin Equity Research; gamigo AG

Earnings translate into good cash flows Operating cash flow for the nine month period tallied €9.4m, thanks to the strong EBITDA result. Cash flow from investing amounted to €-9.7m for the period and is traced to the external growth strategy. Cash flow from financing equalled €17.0m, owing to the bond issuances this year. gamigo exited the 9M period with cash and cash equivalents of €20.9m. The equity ratio equalled 23.8% vs 30.4% at YE18. This is largely due to the higher asset base from external growth.

Table 2: Changes to forecasts

	old	new	revision	upside	dividend yield	total return
Price target (€)	2.1	2.1	0.0%	85.8%	0.0%	85.8%
	2019E			2020E		
All figures in € '000	old	new	revision	old	new	revision
Revenue	71,766	71,766	0.0%	100,473	100,473	0.0%
EBITDA	11,361	13,299	17.1%	17,540	17,540	0.0%
Margin (%)	15.8%	18.5%	-	17.5%	17.5%	-
Net income	-1,099	-760	n.a.	2,566	2,566	0.0%
EPS diluted (€)	-0.01	-0.01	n.a.	0.02	0.02	0.0%

Source: First Berlin Equity Research estimates

On track for a good finish to the year We like MGI for its 'buy-integrate-build-improve' strategy and its complimentary exposure to the video gaming and media industries. MGI's strategy hinges on successful integration of acquired companies that produce efficiency gains. Nine month reporting shows tangible evidence of successful execution with H1 deals already having positive impact.

The outlook for further growth remains positive and the gamigo group expects continued strong and profitable expansion. The mid-October launch of *ArcheAge: Unchained* should provide additional organic growth in the fourth quarter and further promising launches are in preparation for the following quarters. We have bumped up FBe 2019 EBITDA to account for the 9M gamigo outperformance. Our rating remains Buy with a €2.1 price target.



VALUATION MODEL

All figures in EUR '000	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Revenue	71,766	100,473	135,638	176,330	220,412	264,494	290,944	305,491
NOPLAT	1,613	5,736	7,810	13,142	17,917	22,998	26,774	31,079
(+) depreciation & amortisation	10,908	9,043	11,801	15,341	19,176	23,011	22,403	23,523
Net operating cash flow	12,522	14,778	19,611	28,483	37,093	46,009	49,176	54,602
(-) Investments	-28,864	-9,264	-12,506	-16,258	-20,322	-24,386	-23,916	-25,111
(-) Working capital	-3,283	-2,939	-3,771	-5,530	-5,628	-5,737	-2,953	-2,754
Free cash flows (FCF)	-19,626	2,575	3,334	6,696	11,143	15,886	22,308	26,736
PV of FCF's	-19,564	2,349	2,784	5,117	7,794	10,169	13,070	14,336

All figures in thousands		Terminal EBIT margin							
		16.8%	18.8%	20.8%	22.8%	24.8%	26.8%	28.8%	
PV of FCFs in explicit period	106,510	6.3%	1.44	2.48	3.52	4.56	5.60	6.64	7.68
PV of FCFs in terminal period	245,175	7.3%	1.12	1.89	2.67	3.44	4.22	4.99	5.77
Enterprise value (EV)	351,685	8.3%	0.88	1.47	2.07	2.66	3.26	3.86	4.45
(+) Net cash / (-) net debt	-38,125	9.3%	0.69	1.16	1.63	2.10	2.57	3.04	3.50
(-) Non-controlling interests	-166,699	10.3%	0.54	0.92	1.29	1.67	2.04	2.42	2.80
Shareholder value	146,861	11.3%	0.42	0.72	1.03	1.33	1.64	1.94	2.25
Fair value per share (€)	2.10	12.3%	0.31	0.56	0.81	1.07	1.32	1.57	1.82

		Terminal growth rate							
		0.0%	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	
Cost of equity	11.0%	6.3%	3.54	3.82	4.16	4.56	5.06	5.70	6.53
Pre-tax cost of debt	6.0%	7.3%	2.78	2.97	3.19	3.44	3.75	4.12	4.57
Tax rate	32.5%	8.3%	2.21	2.34	2.49	2.66	2.86	3.10	3.38
After-tax cost of debt	4.1%	9.3%	1.78	1.87	1.98	2.10	2.23	2.39	2.57
Share of equity capital	75.0%	10.3%	1.43	1.50	1.58	1.67	1.76	1.87	2.00
Share of debt capital	25.0%	11.3%	1.16	1.21	1.27	1.33	1.40	1.48	1.57
WACC	9.3%	12.3%	0.93	0.97	1.02	1.07	1.12	1.18	1.24

*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	-4,695	-4,695	-3,559
Pre-tax income (EBT)	n.a.	687	-1,126	3,802	6,875	15,911
Income taxes	n.a.	895	366	-1,236	-2,234	-5,171
Net income	n.a.	1,582	-760	2,566	4,641	10,740
Discontinued operations	n.a.	3,673	0	0	0	0
Consolidated profit	n.a.	5,255	-760	2,566	4,641	10,740
Minority interests	n.a.	-932	360	-898	-928	-1,074
Net income to owners	n.a.	4,323	-400	1,668	3,713	9,666
Diluted EPS (in €)	n.a.	0.09	-0.01	0.02	0.05	0.14
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%	1.7%	2.7%	5.5%
Tax rate	n.a.	-130.3%	32.5%	32.5%	32.5%	32.5%
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%
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.	122.6%	160.4%

* 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	54,465	66,068	70,670
Cash and equivalents	n.a.	4,447	23,051	22,809	23,332	15,114
Trade receivables	n.a.	11,803	22,611	31,656	42,735	55,556
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	292,942	305,382	311,036
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
Provisions, total	n.a.	53,395	82,345	82,639	82,939	70,369
Long-term debt	n.a.	14,100	14,100	14,100	14,100	44,100
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	171,942	176,583	187,323
Total consolidated equity and debt	n.a.	236,293	283,789	292,942	305,382	311,036
Ratios						
Current ratio (x)	n.a.	0.7	1.4	1.4	1.4	1.3
Net debt	n.a.	38,125	48,183	48,425	47,902	43,243
Net gearing	n.a.	24%	28%	28%	27%	23%
Equity ratio	n.a.	67%	60%	59%	58%	60%
Return on equity (ROE)	n.a.	1.0%	-0.4%	1.5%	2.6%	5.7%
Capital employed (CE)	n.a.	6,830	10,128	13,087	16,885	22,450
Return on capital employed (ROCE)	n.a.	34%	24%	65%	69%	87%

* 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	2,566	4,641	10,740
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	-10,935	-9,174	-11,212	-12,955
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	4,695	4,695	3,559
Tax result	n.a.	-895	-366	1,236	2,234	5,171
Operating cash flow	n.a.	6,942	10,361	14,952	19,959	29,646
Tax expense	n.a.	0	366	-1,236	-2,234	-5,171
Interest income	n.a.	1	0	0	0	0
Net operating cash flow	n.a.	6,943	10,727	13,717	17,724	24,475
CapEx	n.a.	-8,251	-158	-221	-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	-9,264	-12,506	-16,258
Free cash flow (FCF)	n.a.	-7,170	-18,137	4,453	5,218	8,218
Equity inflow, net	n.a.	3,792	11,596	0	0	0
Debt inflow, net	n.a.	-15,992	0	0	0	30,000
Corporate debt	n.a.	25,800	28,662	0	0	-42,877
Interest paid	n.a.	-2,014	-3,516	-4,695	-4,695	-3,559
Other adjustments	n.a.	-489	0	0	0	0
Cash flow from financing	n.a.	11,097	36,742	-4,695	-4,695	-16,436
Net cash flows	n.a.	3,927	18,604	-242	523	-8,218
Fx adjustments	n.a.	114	0	0	0	0
Cash, start of the year	n.a.	406	4,447	23,051	22,809	23,332
Cash, end of the year	n.a.	4,447	23,051	22,809	23,332	15,114
EBITDA/share (in €)	n.a.	0.18	0.20	0.25	0.33	0.50
Y-Y Growth						
Operating cash flow	n.a.	n.m.	54.5%	27.9%	29.2%	38.1%
Free cash flow	n.a.	n.m.	n.m.	n.m.	17.2%	57.5%
EBITDA/share	n.a.	n.m.	14.0%	23.9%	33.2%	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	Today	€1.13	Buy	€2.10

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First Berlin Equity Research GmbH (hereinafter referred to as: "First Berlin") prepares financial analyses while taking the relevant regulatory provisions, in particular the German Securities Trading Act [WpHG], Regulation (EU) No 596/2014 of the European Parliament and of the Council of April 16, 2014, on market abuse (market abuse regulation) and the German Ordinance on the Analysis of Financial Instruments [FinAnV] into consideration. In the following First Berlin provides investors with information about the statutory provisions that are to be observed in the preparation of financial analyses.

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- The author, First Berlin, or a company associated with First Berlin has other significant financial interests in the analysed company;

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PRICE TARGET DATES

Unless otherwise indicated, current prices refer to the closing prices of the previous trading day.

AGREEMENT WITH THE ANALYSED COMPANY AND MAINTENANCE OF OBJECTIVITY

The present financial analysis is based on the author's own knowledge and research. The author prepared this study without any direct or indirect influence exerted on the part of the analysed company. Parts of the financial analysis were possibly provided to the analysed company prior to publication in order to avoid inaccuracies in the representation of facts. However, no substantial changes were made at the request of the analysed company following any such provision.

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

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