

# Media and Games Invest plc

Malta / Entertainment  
 Xetra  
 Bloomberg: M8G GR  
 ISIN: MT0000580101

Q2  
 Results

**RATING**  
**PRICE TARGET**  
 Return Potential  
 Risk Rating

**BUY**  
**€ 2.90**  
 125.7%  
 High

## GAMING GROWTH HIGHLIGHTS Q2 REPORTING

Six month reporting confirmed recent Q2 prelims and showed continued good business momentum. Sales nearly doubled on an annualised basis (+98%) and were close to our forecasts. The good performance owes chiefly to the strong uptick in Gaming activities. External growth was exclusive to the Media segment in H1 and is already paying off at the EBITDA level. In our view, management continue to pull the right levers in striking the right balance between the gaming and digital media verticals. We reiterate our Buy rating and €2.9 price target.

**Underlying organic growth in gaming spurs performance** The topline nearly doubled on an annualised basis to €30m, thanks chiefly to 35% organic growth within gaming. Group EBITDA and operating income were also up sharply (table 1 overleaf), and margins remained strong despite the higher earnings contribution of the growing Media portfolio, which features lower margins than the gaming vertical. The overall performance has the company firmly on track to hit our recently updated forecasts (see note of 2 August 2020).

**Cash flow and balance sheet reporting** Operating cash flow amounted to €10.8m at the six month juncture (H1/19: €5.8m), despite a negative working capital effect of €2.0m in Q2. Cash flow from investing totalled €-17.7m reflecting the external growth strategy, while cash flow from financing was reported at €-10.7m. The latter included payback of a term-loan towards Silicon Valley Bank, which MGI assumed with the Verve Wireless asset deal. MGI exited the six month period with cash and liquid assets of €15.4m (YE19: €33.0m) giving the company ample financing headroom to pursue opportunities in its acquisition pipeline. MGI reported an ICR (interest coverage ratio) of 3.5x end of H1 (YE19: 2.7x), but the equity ratio dipped to 47% (table 3 overleaf), owing to lower total equity. This declined in conjunction with the transfer of ownership in gamigo AG when MGI cleaned up the minority stake earlier this year. (p.t.o.)

### FINANCIAL HISTORY & PROJECTIONS

	2018	2019	2020E	2021E	2022E
Revenue (€m)	32.62	83.89	114.93	142.52	165.32
Y/Y growth	n.a.	157.2%	37.0%	24.0%	16.0%
EBITDA (€m)	8.65	15.54	20.37	28.17	34.73
EBITDA margin	26.5%	18.5%	17.7%	19.8%	21.0%
Net income (€m)	5.26	1.25	0.64	6.11	9.44
EPS (diluted) (€)	0.10	-0.01	0.01	0.07	0.10
DPS (€)	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-7.17	3.13	-6.72	10.09	13.40
Net gearing	24.0%	27.4%	46.8%	43.4%	37.7%
Liquid assets (€m)	4.45	32.98	10.16	13.53	11.58

### 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 13 Aug 2020

Closing Price	€ 1.28
Shares outstanding	74.00m
Market Capitalisation	€ 95.09m
52-week Range	€ 0.95 / 1.45
Avg. Volume (12 Months)	94,657

Multiples	2019	2020E	2021E
P/E	n.a.	181.8	19.8
EV/Sales	1.9	1.4	1.1
EV/EBITDA	10.4	8.0	5.8
Div. Yield	0.0%	0.0%	0.0%

### STOCK OVERVIEW



### COMPANY DATA

As of 30 Jun 2020

Liquid Assets	€ 15.45m
Current Assets	€ 38.79m
Intangible Assets	€ 254.45m
Total Assets	€ 324.85m
Current Liabilities	€ 53.60m
Shareholders' Equity	€ 152.39m

### SHAREHOLDERS

Bodhivas GmbH	62.4%
Free Float	37.6%

**Table 1: Q2 results vs FBe and prior year**

EURm	Q2/20	Q2/20E	Variance	Q2/19	Variance	H1/20	H1/19	Variance
Revenue	30.0	29.2	2.7%	15.2	97.4%	56.6	28.6	97.9%
EBITDA	6.3	5.5	14.5%	3.8	65.8%	11.6	7.5	54.7%
Margin (%)	21.0%	18.8%	-	25.0%	-	20.5%	26.2%	-
EBIT	2.9	2.3	26%	1.6	81%	5.0	3.3	52%
Margin	9.7%	7.9%	-	10.5%	-	8.8%	11.5%	-
Net income	0.4	0.3	25%	0.3	18%	0.5	0.9	-47%

Source: First Berlin Equity Research; Media and Games Invest

**Record topline drives six month performance** Q2 revenue was close to our estimate. The Gaming segment benefited heavily from stay-at-home policies, which led to a strong uptick in the number of new players and player activity. Updates to the *ArcheAge*, *Aura Kingdom*, and *Trove* games also helped drive the performance. Gaming contributed €18.8m or 63% of group revenue, while Media accounted for the balance.

Earnings rose sharply on an annualised basis with EBITDA climbing some 66% to €6.3m. EBITDA and operating income were higher than FBe owing chiefly to the higher 'own work capitalised' result. Operating and personnel costs were largely in line with our targets.

On a six month basis, MGI reported sales of €57m vs €29m in H1/19 (+98%). Trailing twelve month sales now top €110m giving us a high degree of confidence in our €117m revenue target and recently updated guidance (€115m to €125m). Six month EBITDA rose 55% Y/Y.

**Table 2: Segment reporting**

EURm	Q2/20	Q2/19	Variance	H1/20	FY19
<b>Gaming segment</b>					
Revenue	18.8	13.9	35.3%	32.7	43.1
EBITDA	5.3	4.5	17.8%	9.8	12.6
Margin (%)	28.2%	32.4%	-	30.0%	29.2%
<b>Media segment</b>					
Revenue	11.2	12.6	-11%	23.8	40.8
EBITDA	1.0	0.8	26%	1.8	2.9
Margin	9.0%	6.3%	-	7.6%	7.1%

Source: First Berlin Equity Research; Media and Games Invest

On a segment basis, gaming saw a 35% increase in revenue. The dip in margin is traced to higher marketing spend to attract new players into the games during the lockdown. The marketing investment has long-term potential, given that new MMO players (massively multiplayer online) tend to remain active in their virtual worlds for years.

Media sales were down 11% Y/Y, due to lower ad spend during the pandemic. MGI's advertisers include operators in the travel and sports industries, which were among the hardest hit by covid-19 issues this year. The company noted a pickup in Q3 activity, which will help the Media topline and earnings growth in H2, assuming no resurgence of the corona virus. Segment EBITDA rose 26% to €1.0m for the period, while the margin climbed some 260 basis points in Q2, thanks to cost synergies realised within the Verve mothership.

**Table 3: Balance sheet snapshot**

EUR '000	H1/20	2019	Variance
Cash	15,448	32,984	-53%
Liabilities (short- and long-term)	172,465	143,891	20%
Intangible assets	254,458	233,207	9%
Total assets	324,852	312,449	4%
Total equity	152,387	168,558	-10%
Equity ratio	47%	54%	-

Source: First Berlin Equity Research; Media and Games Invest

## VALUATION MODEL

We continue to like MGI for its dual exposure to the sizable video gaming and digital media markets. Management are quickly building a track record for quickly integrating acquired companies and harnessing synergies. The company is well on track to reach our recently raised forecasts. We remain Buy-rated on MGI with an unchanged €2.9 price target.

All figures in EUR '000	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Revenue	114,933	142,517	165,320	190,118	218,636	240,500	252,525	262,626
NOPLAT	4,826	10,644	13,736	18,290	22,119	27,025	28,270	31,198
(+) depreciation & amortisation	13,217	12,399	14,383	16,540	19,021	18,518	19,444	17,596
<b>Net operating cash flow</b>	<b>18,044</b>	<b>23,043</b>	<b>28,119</b>	<b>34,830</b>	<b>41,140</b>	<b>45,543</b>	<b>47,714</b>	<b>48,794</b>
(-) Investments	-29,493	-13,140	-15,243	-17,529	-20,158	-19,769	-20,758	-18,962
(-) Working capital	-1,769	-2,524	-2,081	-2,705	-2,614	-2,082	-819	-688
<b>Free cash flows (FCF)</b>	<b>-13,219</b>	<b>7,379</b>	<b>10,795</b>	<b>14,596</b>	<b>18,368</b>	<b>23,692</b>	<b>26,138</b>	<b>29,145</b>
PV of FCF's	-12,768	6,503	8,679	10,706	12,291	14,464	14,558	14,810

All figures in thousands	WACC	Terminal EBIT margin							
		16.7%	18.7%	20.7%	22.7%	24.7%	26.7%	28.7%	
PV of FCFs in explicit period	118,293	6.6%	3.77	4.39	5.02	5.64	6.26	6.88	7.50
PV of FCFs in terminal period	204,058	7.6%	3.01	3.48	3.96	4.43	4.90	5.37	5.84
Enterprise value (EV)	322,351	8.6%	2.46	2.83	3.20	3.57	3.94	4.30	4.67
(+) Net cash / (-) net debt	-46,145	9.6%	2.05	2.34	2.64	2.93	3.22	3.52	3.81
(-) Non-controlling interests	-6,125	10.6%	1.72	1.96	2.20	2.44	2.68	2.91	3.15
Shareholder value	270,082	11.6%	1.46	1.66	1.85	2.05	2.24	2.44	2.63
Fair value per share (€)	2.90	12.6%	1.25	1.41	1.57	1.73	1.90	2.06	2.22

	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%	4.54	4.85	5.21	5.64	6.16	6.81	7.64
Pre-tax cost of debt	6.0%	7.6%	3.70	3.91	4.15	4.43	4.76	5.15	5.63
Tax rate	32.5%	8.6%	3.06	3.21	3.38	3.57	3.79	4.05	4.35
After-tax cost of debt	4.1%	9.6%	2.56	2.67	2.79	2.93	3.08	3.26	3.46
Share of equity capital	80.0%	10.6%	2.17	2.25	2.34	2.44	2.55	2.67	2.82
Share of debt capital	20.0%	11.6%	1.84	1.91	1.97	2.05	2.13	2.22	2.33
<b>WACC</b>	<b>9.6%</b>	12.6%	1.58	1.62	1.68	1.73	1.80	1.87	1.94

\*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	2018	2019	2020E	2021E	2022E
<b>Revenues</b>	<b>32,621</b>	<b>83,893</b>	<b>114,933</b>	<b>142,517</b>	<b>165,320</b>
Capitalised work	2,791	10,187	10,696	11,231	11,793
<b>Total output</b>	<b>35,412</b>	<b>94,080</b>	<b>125,630</b>	<b>153,749</b>	<b>177,113</b>
Cost of goods sold	-12,699	-45,803	-57,467	-71,259	-82,660
<b>Gross profit</b>	<b>22,713</b>	<b>48,277</b>	<b>68,163</b>	<b>82,490</b>	<b>94,453</b>
Personnel expenses	-10,438	-27,359	-37,928	-41,758	-44,967
Other OpEx	-10,135	-10,012	-14,597	-17,387	-19,673
Other operating income	6,506	4,636	4,729	4,823	4,920
<b>EBITDA</b>	<b>8,646</b>	<b>15,542</b>	<b>20,367</b>	<b>28,168</b>	<b>34,732</b>
Depreciation & amortisation	-6,318	-10,543	-13,217	-12,399	-14,383
<b>Operating income (EBIT)</b>	<b>2,328</b>	<b>4,999</b>	<b>7,150</b>	<b>15,769</b>	<b>20,350</b>
Net financial result	-1,641	-5,758	-6,195	-6,710	-6,362
<b>Pre-tax income (EBT)</b>	<b>687</b>	<b>-759</b>	<b>955</b>	<b>9,059</b>	<b>13,987</b>
Income taxes	895	2,012	-310	-2,944	-4,546
<b>Net income</b>	<b>1,582</b>	<b>1,253</b>	<b>645</b>	<b>6,115</b>	<b>9,441</b>
Discontinued operations	3,673	0	0	0	0
<b>Consolidated profit</b>	<b>5,255</b>	<b>1,253</b>	<b>645</b>	<b>6,115</b>	<b>9,441</b>
Minority interests	-932	-1,577	-13	-122	-189
<b>Net income to owners</b>	<b>4,323</b>	<b>-324</b>	<b>632</b>	<b>5,993</b>	<b>9,253</b>
<b>Diluted EPS (in €)</b>	<b>0.10</b>	<b>-0.01</b>	<b>0.01</b>	<b>0.07</b>	<b>0.10</b>
<b>Ratios</b>					
Gross margin on output	64.1%	51.3%	54.3%	53.7%	53.3%
EBITDA margin on revenues	26.5%	18.5%	17.7%	19.8%	21.0%
EBIT margin on revenues	7.1%	6.0%	6.2%	11.1%	12.3%
Net margin on revenues	13.3%	-0.4%	0.5%	4.2%	5.6%
Tax rate	n.a.	n.a.	32.5%	32.5%	32.5%
<b>Expenses as % of revenues</b>					
Personnel expenses	32.0%	32.6%	33.0%	29.3%	27.2%
Other OpEx	31.1%	11.9%	12.7%	12.2%	11.9%
Depreciation & amortisation	19.4%	12.6%	11.5%	8.7%	8.7%
<b>Y-Y Growth</b>					
Revenues	n.a.	157.2%	37.0%	24.0%	16.0%
EBTIDA	n.a.	79.8%	31.0%	38.3%	23.3%
Operating income	n.a.	114.7%	43.0%	120.6%	29.0%
Net income/ loss	n.a.	n.m.	n.m.	848.3%	54.4%



## BALANCE SHEET

All figures in EUR '000	2018	2019	2020E	2021E	2022E
<b>Assets</b>					
<b>Current assets, total</b>	<b>16,250</b>	<b>55,856</b>	<b>41,648</b>	<b>52,580</b>	<b>56,874</b>
Cash and equivalents	4,447	32,984	10,160	13,534	11,581
Trade receivables	11,803	22,872	31,489	39,046	45,293
<b>Non-current assets, total</b>	<b>220,043</b>	<b>256,593</b>	<b>303,104</b>	<b>304,085</b>	<b>305,189</b>
Property, plant & equipment	4,189	3,521	3,544	3,572	3,606
Intangible assets	210,495	244,423	290,900	291,841	292,901
Long-term loans to investees	5,359	6,410	6,410	6,410	6,410
Other non-current assets	0	2,239	2,250	2,261	2,273
<b>Total assets</b>	<b>236,293</b>	<b>312,449</b>	<b>344,752</b>	<b>356,665</b>	<b>362,064</b>
<b>Shareholders' equity &amp; debt</b>					
<b>Liabilities, total</b>	<b>24,358</b>	<b>54,544</b>	<b>61,441</b>	<b>66,892</b>	<b>71,484</b>
Trade payables	9,366	20,274	27,121	32,154	36,321
Financial debt	3,595	6,772	6,409	6,409	6,409
Provisions	7,031	12,585	12,774	12,965	13,160
Other current liabilities	4,366	14,913	15,137	15,364	15,594
<b>Provisions, total</b>	<b>53,395</b>	<b>89,347</b>	<b>104,687</b>	<b>105,033</b>	<b>96,399</b>
Long-term debt	14,100	8,369	8,369	8,369	8,369
Bonds	24,877	63,988	78,988	78,988	70,000
Deferred tax liabilities	14,418	16,990	17,330	17,676	18,030
<b>Shareholders' equity</b>	<b>158,540</b>	<b>168,558</b>	<b>178,625</b>	<b>184,740</b>	<b>194,181</b>
<b>Total consolidated equity and debt</b>	<b>236,293</b>	<b>312,449</b>	<b>344,752</b>	<b>356,665</b>	<b>362,064</b>
<b>Ratios</b>					
Current ratio (x)	0.7	1.0	0.7	0.8	0.8
Net debt	38,125	46,145	83,606	80,232	73,197
ICR (x)	5.0	2.7	3.3	4.2	5.5
Net gearing	24%	27%	47%	43%	38%
Net debt / EBITDA (x)	4.4	3.0	4.1	2.8	2.1
Equity ratio	67%	54%	52%	52%	54%
Return on equity (ROE)	1.0%	0.7%	0.4%	3.3%	4.9%
Capital employed (CE)	211,935	257,905	283,312	289,773	290,580
Return on capital employed (ROCE)	1%	2%	3%	5%	7%



## CASH FLOW STATEMENT

All figures in EUR '000	2018	2019	2020E	2021E	2022E
<b>Net income</b>	<b>5,255</b>	<b>1,253</b>	<b>645</b>	<b>6,115</b>	<b>9,441</b>
Depreciation and amortisation	6,318	10,543	13,217	12,399	14,383
Change in trade rec & other assets	-8,083	1,437	-8,841	-7,786	-6,481
Change in payable & other liabilities	14,501	3,928	7,599	5,798	4,945
Results from sale of subsidiaries	-5,645	0	0	0	0
Other non-cash adjustments	-6,150	-5,752	0	0	0
Net interest expense	1,641	5,529	6,195	6,710	6,362
Tax result	-895	-822	310	2,944	4,546
<b>Operating cash flow</b>	<b>6,942</b>	<b>16,116</b>	<b>19,126</b>	<b>26,181</b>	<b>33,197</b>
Tax expense	0	0	-310	-2,944	-4,546
Interest income	1	83	0	0	0
<b>Net operating cash flow</b>	<b>6,943</b>	<b>16,199</b>	<b>18,815</b>	<b>23,237</b>	<b>28,651</b>
Payments for intangible assets	-11,042	-12,606	0	0	0
Acquisition of subsidiaries	-3,919	-6,214	-25,272	-12,827	-14,879
CapEx	0	0	-253	-314	-364
Deposits / payments for other assets	848	5,750	0	0	0
<b>Cash flow from investing</b>	<b>-14,113</b>	<b>-13,070</b>	<b>-25,525</b>	<b>-13,140</b>	<b>-15,243</b>
<b>Free cash flow (FCF)</b>	<b>-7,170</b>	<b>3,129</b>	<b>-6,710</b>	<b>10,097</b>	<b>13,408</b>
Equity inflow, net	3,792	8,845	397	0	0
Debt inflow, net	-15,992	-12,011	-363	0	0
Corporate debt, net	25,800	38,699	15,000	0	-8,988
Interest paid	-2,014	-5,345	-6,195	-6,710	-6,362
Payments for non-controlling interests	0	-5,000	-24,943	0	0
Other adjustments	-489	220	0	0	0
<b>Cash flow from financing</b>	<b>11,097</b>	<b>25,408</b>	<b>-16,104</b>	<b>-6,710</b>	<b>-15,350</b>
<b>Net cash flows</b>	<b>3,927</b>	<b>28,537</b>	<b>-22,813</b>	<b>3,386</b>	<b>-1,942</b>
Fx adjustments	114	0	0	0	0
Cash, start of the year	406	4,447	32,984	10,160	13,534
<b>Cash, end of the year</b>	<b>4,447</b>	<b>32,984</b>	<b>10,171</b>	<b>13,546</b>	<b>11,592</b>
<b>EBITDA/share (in €)</b>	<b>0.20</b>	<b>0.26</b>	<b>0.23</b>	<b>0.31</b>	<b>0.38</b>
<b>Y-Y Growth</b>					
Operating cash flow	n.m.	133.3%	16.2%	23.5%	23.3%
Free cash flow	n.m.	n.m.	n.m.	n.m.	32.8%
EBITDA/share	n.m.	26.2%	-11.5%	34.1%	23.3%

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Ggf. Inhaltlich Verantwortlicher gem. § 6 MDStV

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The production of this recommendation was completed on 14 August 2020 at 14:21

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#### PRICE TARGET DATES

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#### 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 <sup>1</sup>	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%

<sup>1</sup> 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.

#### 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...1	↓	↓	↓	↓
2	18 December 2019	€1.13	Buy	€2.10
3	21 February 2020	€1.23	Buy	€2.80
4	4 March 2020	€1.16	Buy	€2.80
5	16 April 2020	€1.15	Buy	€2.80
6	23 June 2020	€1.41	Buy	€2.80
7	6 August 2020	€1.33	Buy	€2.90
8	Today	€1.28	Buy	€2.90

#### INVESTMENT HORIZON

Unless otherwise stated in the financial analysis, the ratings refer to an investment period of twelve months.

#### UPDATES

At the time of publication of this financial analysis it is not certain whether, when and on what occasion an update will be provided. In general First Berlin strives to review the financial analysis for its topicality and, if required, to update it in a very timely manner in connection with the reporting obligations of the analysed company or on the occasion of ad hoc notifications.

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

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