BERENBERG

PARTNERSHIP SINCE 1590

16 August 2021

Media and Games Invest SE (M8G GY)

BUY

Media

Building a content fortress

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THE TEAM

Edward James joined the UK Mid-Cap team at Berenberg in July 2016 from Aviva Investors, where he worked for two years in investment risk. Edward gained a Bcom (Hons) with Distinction in Financial Analysis & Portfolio Management, and a BSc in Property Investment – majoring in Economics – from the University of Cape Town. Edward is also a CFA charter holder.

Benjamin May joined Berenberg in 2012 and has helped build the UK Mid-Cap equity research team. He currently leads the Mid-Cap TMT product, which was ranked top five in Extel's investment survey in 2017 and 2018. Ben has previous experience at Berenberg, working in the telecommunications and economics research teams. Prior to this, Ben gained some strategy consultancy experience. Ben was a Santander Scholar at UCL, where he gained a distinction in his MSc management degree. He also holds a BSc from Warwick University.

Sean Thapar joined the UK Mid-Cap team at Berenberg in January 2018. He was previously an equity analyst at private client investment manager Killik & Co. Sean gained a BA (Hons) degree in Politics from Nottingham Trent University and is currently a CFA level III candidate.

Bharath Nagaraj joined the UK Mid-Cap team at Berenberg in September 2020. He has seven years of sell-side and buy-side experience, after starting off his career at Hewlett-Packard as a system software engineer. Bharath has a master's in finance with a distinction from London Business School and a master's in financial engineering from the National University of Singapore. He has also completed CFA level II.

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Building a content fortress

- **Initiating with a Buy rating:** Media and Games Invest (MGI) is a unique European asset, with a vertically integrated video game and media platform – a content fortress. With revenue and EBITDA having increased 6x since 2017, organic growth tracking at c37% in H1 2021 and a strong M&A pipeline, we believe that MGI's growth story is only just getting started. With the shares trading on just 10x EV/EBITDA and 18x P/E for FY 2022, we initiate with a Buy rating and a EUR8.20 price target. Our bull case points to more than 70% upside to our FY 2023 EPS estimate and a potential price target of EUR13.40.
- **Content fortress:** MGI is the only European listed example of a content fortress; that is to say, its video game portfolio is integrated and is supported by an internal advertising ecosystem. This enables first-party data accumulation and reduces the reliance on third-party advertising ecosystems, which is a distinct advantage in the rapidly changing user privacy landscape. MGI's content fortress strategy drives higher user acquisition return on investment (ROI), increases life-time user value and enables the advertising monetisation of its game portfolio. Furthermore, it increases the reach, inventory and first-party data access of its media proposition. All of this also drives considerable acquisition growth and margin synergies.
- **Predictable and strong games outlook:** MGI's strong game portfolio is driven by it having more than 10 long-standing free-to-play massively multiplayer online (MMO) games, while also boasting over 5k casual mobile games. This diversification, combined with its strategy to leverage licence agreements and M&A to expand its IP portfolio, makes for a lower-risk and predictable model. With organic growth tracking above 30% for Q1 and Q2 2021, a very strong pipeline of content over the next 18 months and with the recent KingsIsle acquisition also likely to outperform, we believe that our respective 2020-23 sales and EBITDA CAGRs of 27% and 37% are conservative. We believe that the games division could drive 10-18% upside to our group EBITDA estimates from FY 2021-23.
- **Media division undergoing a step change:** Since 2019, MGI has made nine media acquisitions, with the largest – Smaato – expected to complete in Q4 2021, having been announced last month. Combined with strong organic growth momentum, with it tracking at a high 30% in H1 2021, we expect revenues to grow at a 62% CAGR for FY 2020-22. The growing scale and cost synergies should also push EBITDA margins up to 20% (from 9%) in FY 2020-22, driving a 145% FY 2020-22 EBITDA CAGR. Synergies related to the Smaato acquisition could further accelerate growth and margin development, yielding c13% upside to our group FY 2023 EBITDA forecast.
- **M&A to continue:** We think that MGI is likely to continue to deploy significant capital on M&A in the coming years as it consolidates its fragmented end-markets, accelerates its scale and leverages its content fortress to drive synergies. M&A adds c64% and c36% to our FY 2023 EBITDA and EPS estimates respectively.
- **Attractive valuation:** MGI trades on EV/EBITDA and P/E of 10x and 18x respectively for FY 2022, a more than 20% discount to its peers.

Y/E 31/12, EURm	2019	2020	2021E	2022E	2023E
Net Sales	84	140	249	313	344
EBITDA	18	29	67	90	101
EBIT (adj.)	10	18	50	69	76
EPS (adj.)	0.11	0.11	0.21	0.28	0.32
Y/E net debt (net cash)	38	68	181	157	103
adj. EBITDA Margin	21.6%	20.8%	26.9%	28.7%	29.2%
EPS Growth	0.0%	-2.7%	94.3%	33.7%	13.2%
Net Debt (cash) / EBITDA	2.1x	2.3x	2.7x	1.8x	1.0x
EV/EBITDA	15.1x	17.2x	13.7x	10.2x	8.6x
P/E	46.1x	47.4x	24.4x	18.2x	16.1x
FCF Yield	1.2%	1.4%	3.2%	5.9%	7.1%

Source: Company data, Berenberg

16 August 2021

BUY **(Initiation)**

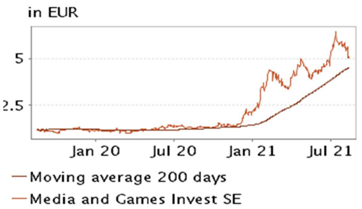
Current price	Price target
EUR5.12	EUR8.20

16/08/2021 XETRA Close

Market cap (EURm)		735
Reuters	M8G.DE	
Bloomberg	M8G GY	

Share data

Shares outstanding (m)	145
Enterprise value (EURm)	917
Daily trading volume	263,530



Source: Thomson Reuters Datastream

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Media and Games Invest SE (M8G GY)

UK Mid-Cap – Media

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BUY

Investment thesis

16 August 2021

Current price	Price target
EUR5.12	EUR8.20

16/08/2021 XETRA Close

Reuters	M8G.DE
Bloomberg	M8G GY
Market cap (EURm)	735
EV (EURm)	917
Trading volume	263,530
Free float	72.0%

Non-institutional shareholders

Remoco Westermann (CEO): 28%

Share performance

High 52 weeks	EUR6.47
Low 52 weeks	EUR1.25

Business description

MGI is a vertically integrated video game and adtech platform

Performance relative to

	SXXP	TecDAX
1mth	-20.1%	-21.3%
3mth	20.3%	13.4%
12mth	269.1%	275.9%

- MGI's content fortress – a video game portfolio that is integrated and supported by an internal advertising ecosystem – drives a number of synergies: 1) greater first-party data aggregation; 2) less reliance on third-party platforms; 3) higher video game user economics – higher user acquisition ROI, user life-time value and advertising monetisation; and 4) considerable acquisition synergies. Collectively, this not only protects MGI from the changing user data privacy landscape, but offers it meaningful growth and margin advantages versus peers.
- MGI's diverse video game portfolio of MMO and mobile casual games, combined with its strategy to leverage licence agreements and M&A to expand its IP portfolio, makes for a lower-risk and predictable model, in our view.
- We think that MGI is likely to continue to deploy significant capital on M&A in the coming years as it consolidates its fragmented end-markets, accelerates scale and leverages its content fortress to drive synergies.
- We value MGI using a blend of DCF, peer comparables and a bull-case scenario.

Profit and loss summary

EURm	2019	2020	2021E	2022E	2023E
Revenues	83.9	140.2	249.2	312.6	343.9
EBITDA	18.1	29.2	67.1	89.7	100.6
EBITA	18.1	29.2	67.1	89.7	100.6
EBIT	10.4	17.5	50.1	68.7	76.5
Associates contribution	0.0	0.0	0.0	0.0	0.0
Net interest	-5.8	-7.1	-11.4	-13.8	-13.5
Tax	2.0	-1.2	-8.5	-13.2	-15.7
Minorities	0.0	0.0	0.0	0.0	0.0
Net income adj.	6.7	9.2	30.1	41.7	47.2
EPS reported	0.02	0.03	0.13	0.21	0.25
EPS adjusted	0.11	0.11	0.21	0.28	0.32
Year end shares	60.4	85.5	144.7	149.7	149.7
Average shares	60.4	85.5	144.7	149.7	149.7
DPS	0.68	0.00	0.00	0.00	0.00

Cash flow summary

EURm	2019	2020	2021E	2022E	2023E
Net income	6.7	9.2	19.1	31.7	37.7
Depreciation	7.7	11.7	17.0	21.0	24.1
Working capital changes	4.7	-4.5	-0.5	-1.9	-0.9
Other non-cash items	-2.8	8.9	5.3	14.5	15.6
Operating cash flow	16.2	25.2	40.9	65.3	76.5
Capex	-12.6	-19.1	-17.7	-20.1	-22.1
FCFE	3.6	6.1	23.2	45.2	54.4
Acquisitions, disposals	-5.5	-36.4	-251.6	-21.2	0.0
Other investment CF	5.6	-0.3	-11.4	-6.9	-6.8
Dividends paid	0.0	0.0	0.0	0.0	0.0
Buybacks, issuance	30.4	43.6	115.0	0.0	-1.3
Change in net debt	37.8	30.3	113.3	-24.0	-54.4
Net debt	37.8	68.1	181.4	157.4	103.0
FCF per share	0.06	0.07	0.16	0.30	0.36

Growth and margins

	2019	2020	2021E	2022E	2023E
Revenue growth	86.4%	67.1%	77.7%	25.5%	10.0%
EBITDA growth	39.2%	186.3%	129.7%	33.8%	12.1%
EBIT growth	0.0%	201.7%	186.1%	37.2%	11.3%
EPS adj growth	0.0%	-2.7%	94.3%	33.7%	13.2%
FCF growth	-	70.2%	280.7%	94.4%	20.3%
EBITDA margin	21.6%	20.8%	26.9%	28.7%	29.2%
EBIT margin	12.4%	12.5%	20.1%	22.0%	22.2%
Net income margin	7.9%	6.5%	12.1%	13.3%	13.7%
FCF margin	4.3%	4.4%	9.3%	14.5%	15.8%

Key ratios

	2019	2020	2021E	2022E	2023E
Net debt / equity	-38.5%	-38.5%	-236.9%	-128.4%	-51.5%
Net debt / EBITDA	2.1x	2.3x	2.7x	1.8x	1.0x
Avg cost of debt	30.5%	13.5%	4.0%	5.0%	5.0%
Tax rate	-43.3%	11.5%	22.0%	24.0%	25.0%
Interest cover	1.8x	2.5x	4.4x	5.0x	5.6x
Payout ratio	617.2%	0.0%	0.0%	0.0%	0.0%
ROCE	9.2%	7.2%	18.7%	24.1%	24.8%
Capex / sales	15.0%	13.6%	7.1%	6.4%	6.4%
Capex / depreciation	163.8%	163.2%	103.8%	95.8%	91.9%

Valuation metrics

	2019	2020	2021E	2022E	2023E
P / adjusted EPS	46.1x	47.4x	24.4x	18.2x	16.1x
P / book value	0.0x	0.0x	0.1x	0.1x	0.0x
FCF yield	1.2%	1.4%	3.2%	5.9%	7.1%
Dividend yield	13.4%	0.0%	0.0%	0.0%	0.0%
EV / sales	3.3x	3.6x	3.7x	2.9x	2.5x
EV / EBITDA	15.1x	17.2x	13.7x	10.2x	8.6x
EV / EBIT	26.4x	28.7x	18.3x	13.4x	11.3x
EV / FCF	76.4x	82.3x	39.4x	20.3x	15.9x
EV / cap. employed	1.2x	1.9x	3.3x	3.1x	2.7x

Key risks to our investment thesis

- While the stay-at-home trend brought about by COVID-19 has grown MGI's addressable market, this will ultimately normalise – which could present a growth headwind for MGI's games division, in our view.
- Many of MGI's largest games are developed by third parties and published by MGI, creating IP licensing risk.
- Acquisitions play a very important role in MGI's growth strategy. Despite its strong MA& track record, risk surrounding identification, due diligence and performance still remain.
- Both the video game market and advertising markets are somewhat inherently cyclical given their link to consumer spending.

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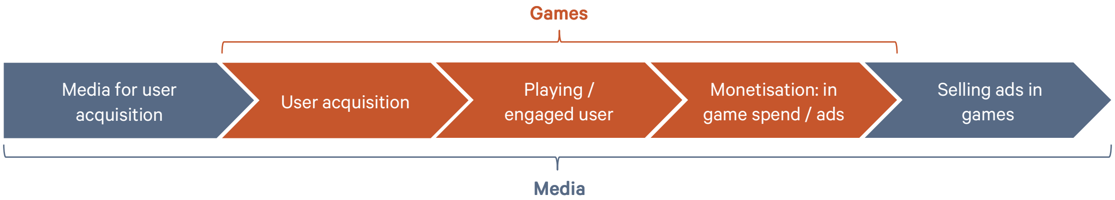
MGI – investment thesis in pictures

MGI's content fortress drives a number of synergies: 1) greater first-party data aggregation; 2) less reliance on third-party platforms; 3) higher video game user economics; and 4) considerable acquisition synergies. Collectively, this not only protects MGI from the changing user data privacy landscape, but offers it meaningful growth and margin advantages versus peers



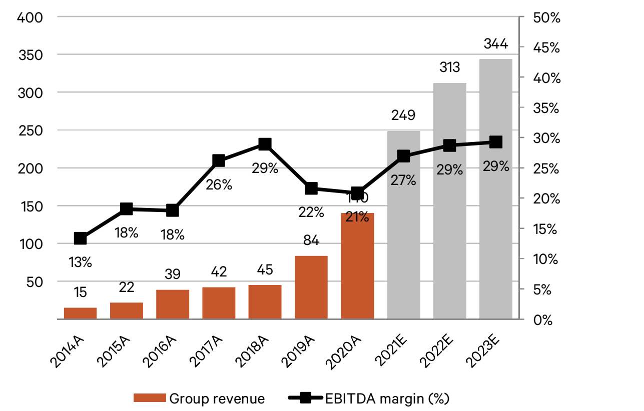
Higher traffic volumes
1. Additional UA budgets from advertiser enable high volumes but also lower per user acquisition cost
2. Margin from ad-buying stays in house

Higher traffic efficiency through data
1. Improved optimization using one customer data platform and optimized targeting
2. Full data transparency from ad-view to paying user

Additional ad revenue
1. MGI's in-game ad-space can be offered to advertisers within its own network providing more transparency
2. Margin from ad-selling stays in house

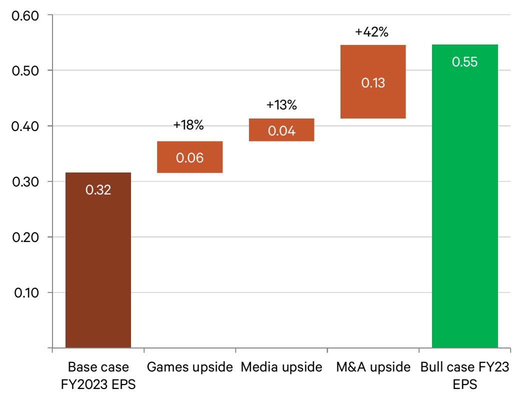
Source: Berenberg estimates

Sales and EBITDA have increased 6x from 2017-21. Our base-case forecast is for 80% and 130% respective sales and EBITDA growth in FY 2021, followed by 17% and 22% FY 2021-23 CAGRs respectively



Source: Berenberg estimates

With organic growth of more than 35% in FY 2020 and H1 2021 – well above our forecast for high-20% growth for FY 2021 and c10% for FY 2022-23 – combined with recent acquisitions that offer material synergies and a healthy pipeline of M&A, we think that there is more than c70% upside to our estimates by FY 2023



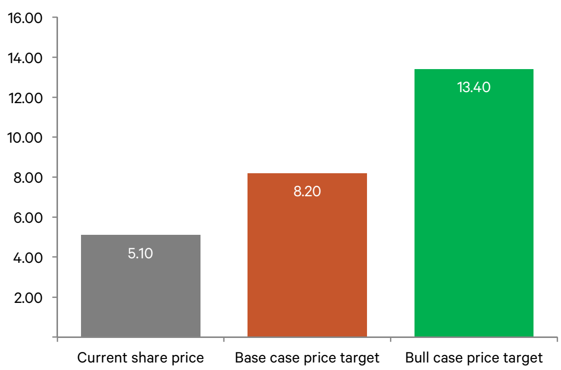
Source: Berenberg estimates

MGI's valuation is attractive given its market-leading growth profile and, in our view, the substantial organic and inorganic growth opportunities available to it over the coming years

Peer Group	EV/EBITDA		P/E	
	2021E	2022E	2021E	2022E
PC/Console dominant publishers	**15.5**	**13.0**	**28.3**	**23.0**
Mobile publishers	10.8	9.4	18.4	15.8
Adtech and Games	44.2	33.5	142.4	77.1
Adtech only	48.0	38.1	80.7	66.0
MGI (on Berenberg adj. estimates)	13.7	10.2	24.4	18.2
Discount to peer groups	*-12%*	*-21%*	*-14%*	*-21%*
	27%	*8%*	*33%*	*15%*
	-69%	*-69%*	*-83%*	*-76%*
	-72%	*-73%*	*-70%*	*-72%*

Source: Berenberg estimates

We initiate with a Buy rating and EUR8.20 price target. Our bull-case price target is EUR13.40



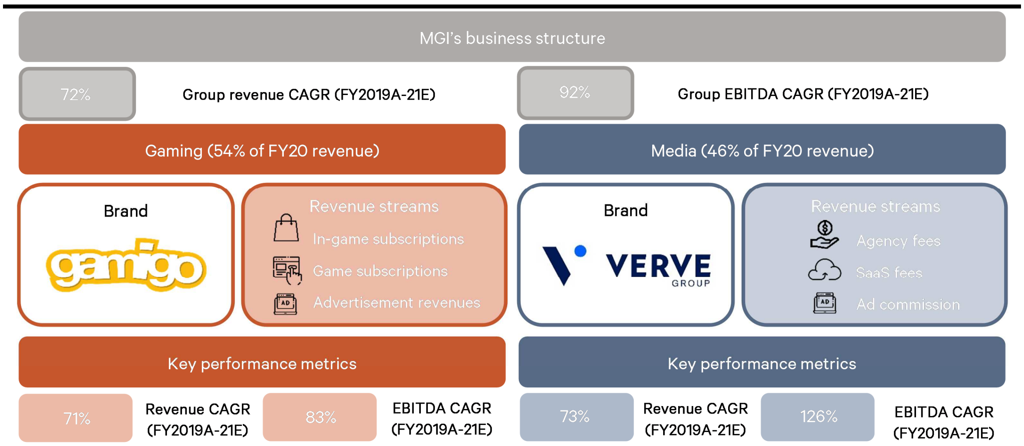
Source: Berenberg estimates

Business overview

MGI is a digitally integrated games and media company, with two divisions: games and media – they are roughly equal in revenue terms.

MGI's revenues are expected to reach cEUR250m in FY 2021, up 78% from FY 2020 and 5.5x larger than the FY 2018 level. While M&A has clearly been a big driver, organic growth has also been very strong – at 35% in FY 2020, accelerating to 38% and 36% in Q1 and Q2 2021 respectively. EBITDA margins are expected to reach 27% in FY 2021 – up from 21% in FY 2020, which drives a yoy increase in EBITDA of c130%.

MGI's business structure



Source: Company data

MGI's history

MGI started off as gamigo in 2000, an online PC and gaming magazine, which had a primary focus on publishing online role-playing games. In 2008, it became a 100% subsidiary of Axel Springer, a German media company. In 2012, Remco Westermann (the current CEO and chairman) acquired all shares in gamigo from Axel Springer. Mr Westermann immediately shifted gamigo's strategy towards an M&A "buy and build" business model and removed any games in development that were perceived to be financially uncertain at the time. Since 2012, MGI has carried out numerous acquisitions that have grown gamigo AG into one of the fastest growing video game publishers in Europe.

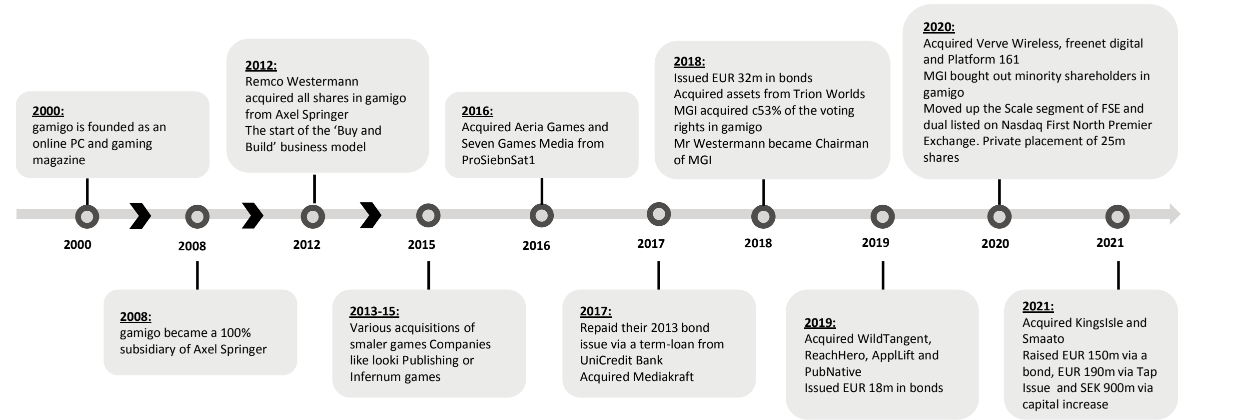
In 2016, gamigo acquired Aeria Games and Seven Games Media from ProSiebenSat1 Media SE, who also became a shareholder of gamigo during the transaction. This milestone not only expanded the company's portfolio of games, but also increased the products it had to offer as an online media advertising segment as a result of what was also included in the assets it acquired. This was the beginning of the media business. The following year, in 2017, the company repaid its 2013/2018 bond issued in 2013 via a term loan from UniCredit Bank. Also, in the same year, it acquired Mediakraft – a video and social media specialist – to strengthen its user acquisition capabilities.

In 2018, MGI acquired more than 53% of the voting rights in gamigo and Mr Westermann became a major shareholder and the chairman of MGI. With this new integration, the team decided to expand its "buy and build" strategy into the media division of its business.

gamigo also issued EUR32m in bonds in 2018, which are listed on the Nasdaq Stockholm and the Frankfurt Stock Exchange (FSE). MGI also acquired the major assets of Trion Worlds, a US publisher and game developer. Also in 2018, it closed the licensing agreement of ArcheAge with XL Games, a video game company. MGI continued to make acquisitions throughout 2019. It acquired WildTangent's assets, ReachHero, AppLift and PubNative. It also issued a further EUR18m in bonds with a premium. MGI carried out a bond issue worth more than EUR10m and a capital increase of EUR9.2m.

Furthermore, in January 2020, MGI acquired Verve Wireless and the following month MGI decided to buy out the minority shareholders of gamigo, which increased MGI's stake to 99.9%. To add to this, in July 2020, MGI also acquired all the shares of Platform161, an advertising specialist, and acquired the remaining minority stake of ReachHero. In the same month, MGI moved up into the Scale segment of the FSE. It also went on to acquire freenet digital in August 2020, a mobile games company, which helped to strengthen its mobile gaming business. In September 2020, MGI placed 25m shares in a private placement for SEK300m and dual listed its shares on Nasdaq First North Premier exchange in Stockholm. In January 2021, MGI signed an agreement to acquire US game developer KingsIsle. This added c60% to group EBITDA, as well as adding highly successful games to its portfolio – such as Wizard 101 and Pirate 101. In May 2021, MGI successfully raised SEK900m and in June the company raised EUR150m via a bond placement. The following month, in July 2021, MGI signed a deal with Smaato, a leading digital advertising platform.

MGI's history



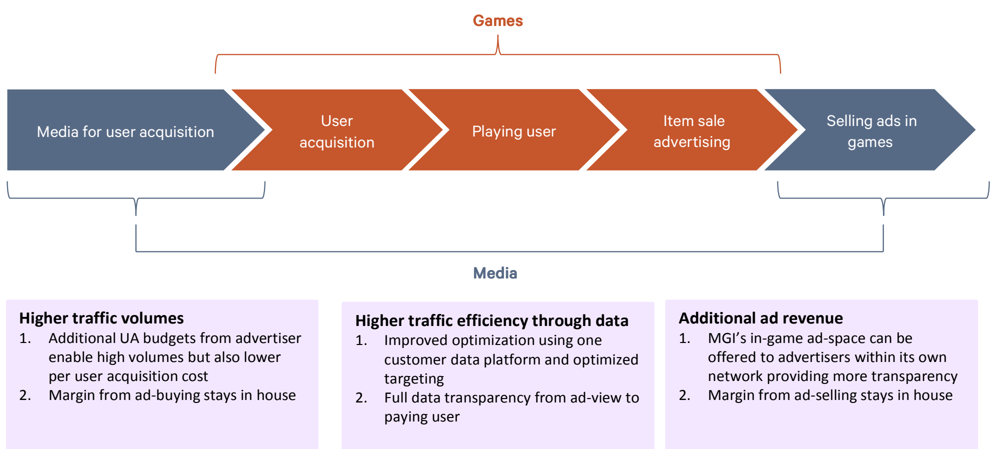
Source: Berenberg

Group strategy and target

Building a content fortress

The company divides its operations into two divisions: games and media. While it may seem strange at first to marry a video game and advertising technology (adtech) business together, this vertical integration does drive significant synergies. We term this vertical integration a "content fortress", which both protects the longevity of games intellectual property (IP) and also aids its unit economics.

Optimising the value chain



Source: Company data

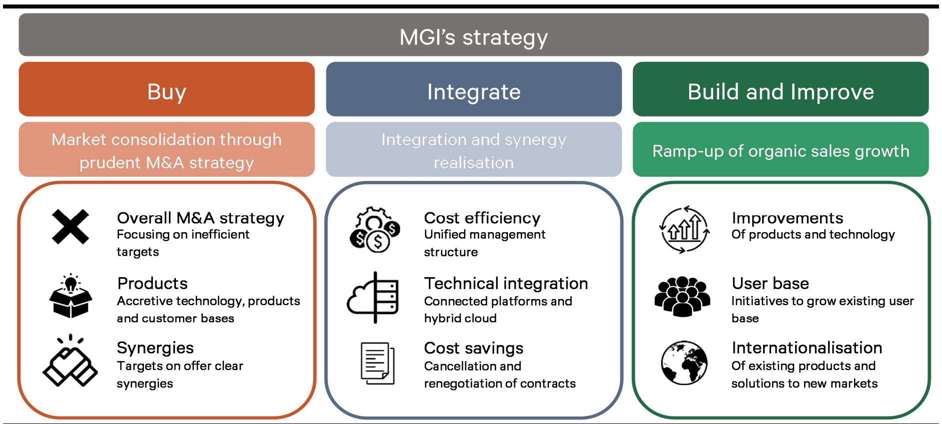
For the games business, a content fortress helps to drive higher user acquisition ROI and advertising monetisation. Moreover, it allows the company to reduce the reliance on third-party data sources and advertising marketing partners, and allows MGI to build a marketing tech stack that enjoys greater first-party data input. The latter point improves the user acquisition data feedback loop considerably which – in an increasingly privacy-centric world that has seen Apple deprecate its identifier for advertisers and with Google soon to remove third-party cookies – is particularly important. Therefore, the integration drives user acquisition efficiency, higher advertising monetisation and also aids the long-term preservation of the company's games IP. On the media side, being directly integrated into MGI's game business provides it with a greater publishing and supply network, as well as improving its first-party data pool that, in turn, drives its own platform's efficiencies.

Buy, integrate, build and improve

The company follows a "buy, integrate, build and improve" strategy in both segments of the business to take advantage of the significant fragmentation within its market; this offers the opportunity to accelerate its strategic initiatives and gain scale. Historically, MGI focused on companies that were under pressure from efficiency issues. However, given the success of the company – operating on a large scale and expanding its valuation multiple – it has also begun to target high-performing assets with already strong growth, margin and cash profile. Examples of such deals can be taken from this year alone: KingsIsle in January and Smaato in July 2021.

After successful integration, MGI then continues to invest in organic growth and realise further synergies between current and newly adopted business units. Over the years, this methodology has proven to be an efficient way to achieve high growth and profitability.

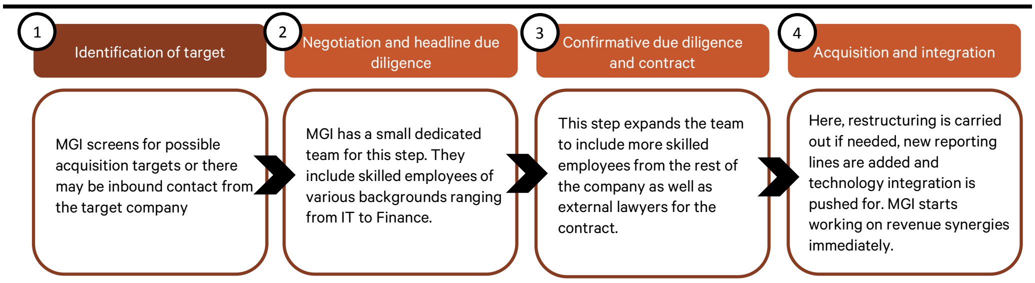
Buy, integrate, build and improve



Source: Company data

MGI has a strong track record of M&A, with over 35 acquisitions (cEUR5m-40m) across both the games and media divisions since 2013. MGI's payback time for negative EBITDA cases is less than 24 months and, for positive EBITDA cases, it usually pays less than 6x EBITDA (including synergies). It has a streamlined acquisition process, as shown below, which it uses to carry out deals. This allows the company to enhance the efficiency and profitability of the acquired assets to the best of its abilities. Targets usually contribute a c20-40% EBITDA margin post acquisition and integration.

MGI's acquisition process



Source: Company data

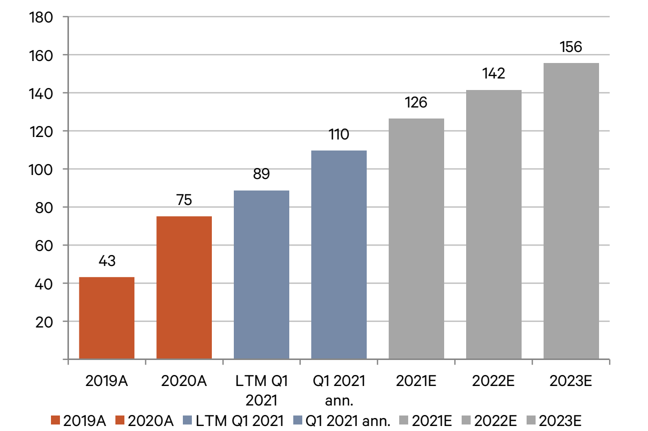
Typically, MGI's revenue split is almost equal between the segments. However, historically, there has been a significant difference in split when looking from an EBITDA perspective. As we will discuss later in the note, the games business has a naturally higher EBITDA margin (c38% FY 2021) compared to the media business (c15% FY 2021). MGI's medium-term targets are: 25-30% revenue CAGR; 25-30% EBITDA margin; 15-20% EBIT margin; and 2-3x net leverage. At present, MGI is materially outperforming these medium-term forecasts. Through a combination of improving organic growth, continued M&A and ongoing margin development – particularly in the media segment – we believe that MGI will at least meet these medium-term targets and will likely outperform them.

Games division (54% of FY20 revenues)

The games division of MGI operates under the subsidiary, gamigo group, and is currently focussed on the publishing, support and operations of online and mobile games for end-customers. Some games are also further developed in-house. Its current game portfolio consists of over 5,000 casual games and over 10 massively multiplayer online (MMO) games. To avoid any misunderstanding, we think that it is worth noting that MGI is not active in any form of gambling games.

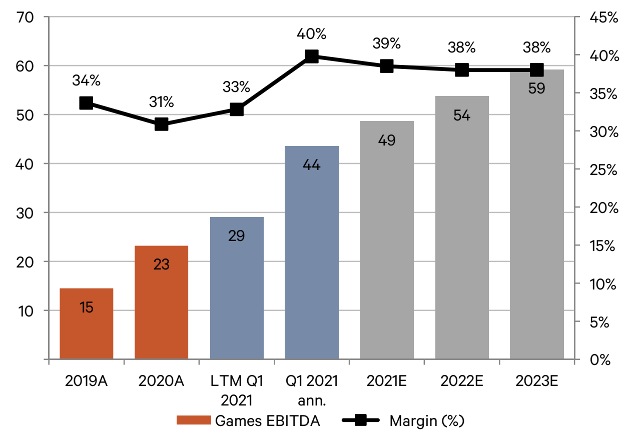
Revenue for the games division is expected to grow from only EUR43m in 2019A to cEUR126m by FY 2021, a 72% CAGR in that period, and reach more than cEUR155m by FY 2023. The increase in revenue over the last few years is down to organic growth – with MGI investing in expanding its content production and the live services of its existing game portfolio – as well as M&A. EBITDA has also increased significantly since 2017 and we expect it to more than double yoy in FY 2021E. Alongside strong expected sales growth, the acquisition of KingsIsle – which generates a 66% EBITDA margin – will drive EBITDA margins up from 31% in FY 2020 to an estimated 38.5% in FY 2021.

Games revenue growth (2019A-2023E)



Source: Company data

Games EBITDA and EBITDA margin growth (2019A-2023E)



Source: Company data

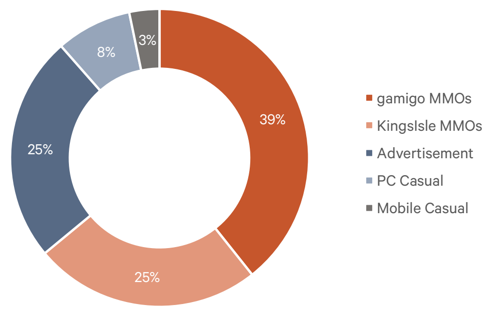
Revenue Model

The games division is split into three revenue streams: in-game purchases, game subscriptions and advertisement revenues. The largest portion of games revenue is accounted for by the free-to-play (F2P) MMO segment (64% of revenue in FY 2020). Through the F2P business model, users can download the game for free, but are later monetised via in-app purchases – ie purchasing virtual goods or currency that are subject to a fee or game subscriptions.

Many of its 5000 casual games are offered via various platforms. These games tend to be offered through a subscription-based model to players, thus creating another form of revenue for MGI. For instance, users may have to purchase a monthly subscription to have access to all, or a selection, of the games.

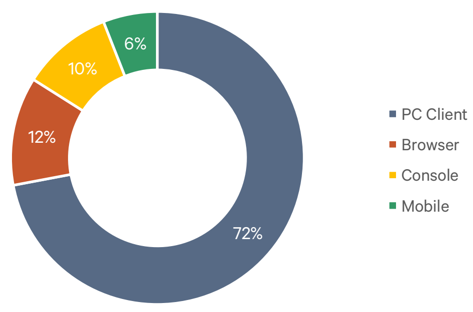
The final revenue stream is advertisement. This is often generated through advertising inserts and promotional videos within the casual segment. Usually a player will opt to watch a short advertisement from an external company offering a product or service to progress further in a game or gain premium features. This provides players with an alternative method to advance in the game without incurring an additional cost. The external companies will pay MGI a fee to have that advertising slot.

Games revenue split by game type – FY 2020



Source: Company data

Games revenue split by platform – FY 2020



Source: Company data

Game portfolio

MGI's games division has a large game portfolio, with over 5,000 casual games and over 10 top MMOs. Most games in the portfolio fall into the categories of casual, role-playing and strategy. As mentioned, the bulk of MGI's portfolio consists of F2P games. The games tend to be owned, or they are exclusively licensed worldwide or for certain regions.

Casual games: Most of these games are single player games and are offered on platforms such as Deutschland-spielt.de and WildTangent (both are owned by MGI). However, some of them can also be played via Facebook as well as mobile devices (iOS and Android). These games tend to be simpler in manner and are monetised through subscriptions to platforms or advertising revenue.

MMOs: These are games that allow thousands of players to meet and interact with each other. They are often connected through fixed player communities (eg guilds or clans) in a server environment or playing field. This allows for the strong bond formation between the users and the game. MMOs typically attract more loyal and recurring players due to the deep social engagement between players (both individuals and groups) that drives both higher engagement and monetisation. They usually have a much larger budget than casual games and have been developed over a long period of time.

MGI's portfolio (non-exhaustive)

Source: Berenberg

The company's games are available to play on various platforms – such as PC, console, browser and mobile. gamigo's PC and browser games are offered through the company's portals, while console games are offered through Xbox and PlayStation, and mobile games are found via the App Store or the Google Play store.

Among MGI's most popular games are gamigo's MMO's: Grand Fantasia, Aura Kingdom, Fiesta and Trove. In January 2021, MGI acquired KingsIsle, which added two strong MMO franchises – Wizard 101 and Pirate 101.

Aura Kingdom: This game is an action-packed fantasy MMORPG game released in 2004, developed by X-Legend and published by Aeria Games (which gamigo acquired in 2018). Players are "Envoys of Gaia" and are given the task to save Azuria, the fantasy world of Aura Kingdom, from Darkness.

Fiesta: This is a F2P MMORPG for Microsoft Windows. gamigo acquired the global rights to the game from Ons On Soft – a South Korean game developer – in 2013, but has been published by gamigo since 2008. In the game, players adopt the role of a fantasy hero and take on enemies and quests.

Trove: This is an MMO voxel-based sandbox game that was first released in 2015 on PC and later released on console in the years following. In the game, players take a role within one of the multiple classes in the game, each with their own unique playing styles and abilities. Trove is played by over 18m players in more than 100 countries. It was acquired when MGI bought Trion Worlds, a US video game developer, in October 2018.

Wizard 101: This F2P MMO, as mentioned, was acquired when gamigo took over KingsIsle in January 2021 and was first launched in 2008, emphasising the longevity of the game. In the game, players take the role of students at Ravenwood School of Magical Arts in order to save the Spiral, a fictional galaxy. Revenue is generated via subscriptions, in-game transactions, retail packages and advertising; over 50% of the revenue comes from players who have been playing for over five years. Since its launch, the game has generated over USD375m in revenue and more than 50m user accounts have been created.

Pirate 101: This is a spin-off MMORPG from Wizard 101 that was released in 2012. The game is much smaller than Wizard 101, contributing only c10% of KingsIsle's revenue but, according to MGI, it offers significant opportunity and will be an area of investment post acquisition.

MGI's sustainable video game strategy

F2P games: MGI's core focus is on F2P PC MMO video games. This business model concentrates on converting free players into paying customers who purchase in-game items or eventually opt-in to pay for a premium version of the game. MGI has a very strong focus on live services, with regular events and competitions. This allows the company to drive higher player engagement, long-term retention, attract new players and, ultimately, monetise these players.

Long-life-cycle games: Due to the competitive nature of the game industry, many companies are often reliant on one-hit wonders to generate profit, leading to many games being discontinued after a short while of being released onto the market. gamigo, and the recently acquired KingsIsle, take an alternative approach to sustain profit over a longer period. Both focus on creating long-life-cycle games that can gain a reputation, which allow them to stay in the market for 10 years or more, through a combination of the F2P model and a continuing stream of new content. Players usually become invested for many years, leading to them investing in the game over a long period of time. As can be seen below, often more than 50% of revenues are generated by players who have been playing a game for over five years.

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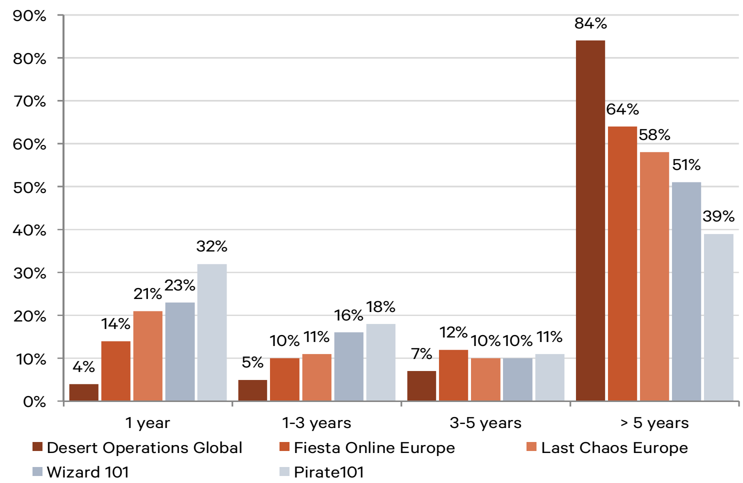
Revenue split by user tenure



Source: Company data

Successful MMO titles tend to have a much longer life cycle than the usual paid-for PC or console games with limited live services or ongoing content. This is because of the F2P business model, the deep social ecosystem and communities, the consistent flow of new content and events, and the fact the game evolves over time, which – combined with the aforementioned – generally results in the game experience improving as players play for longer. The chart below (overleaf) illustrates the longevity of MMO games versus traditional console PC games.

Examples of long-standing MMO titles include: World of War Craft by Blizzard (released in 2004), RuneScape by Jagex (released in 2001), Destiny 2 by Activision (released in 2017, but Destiny released in 2014), Elite Dangerous by Frontier Developments (released in 2014), Guild Wars by NCsoft (released in 2005) and Albion Online by Sandbox Interactive (now part of Stillfront Group, (released in 2017)). These games deliver long-term, and often growing, revenue streams.

Minimising risk using licensing and IP strategy: Generally, launching new games onto the market often poses a major risk as there is huge uncertainty around their success. To reduce this risk – as part of its strategy – MGI also seeks to acquire game licenses by taking over companies that are already established in the market and have a strong customer base. In addition, it also acquires new game licenses. In such cases, risk is controlled through a strict selection process, low upfront investments and a low initial marketing budget until certain thresholds of users and revenues are met. Any games that are launched or acquired that do not meet expectations are phased out of the business and discontinued.

As gamigo has grown into a leading developer and publisher of MMO's with a large customer base and good reputation, combined with its full end-to-end adtech stack, it has gained access to higher quality licenses and attracted higher quality acquisitions.

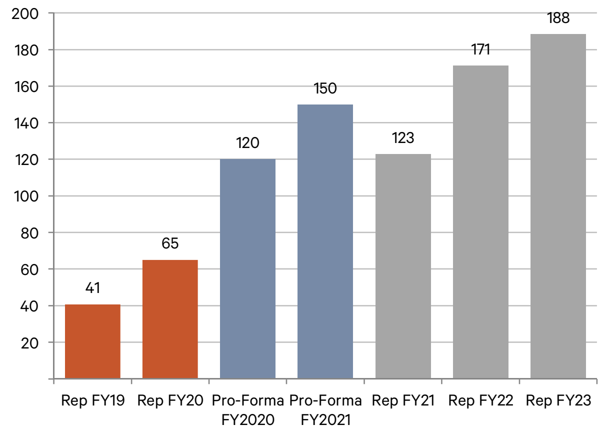
In recent years, gamigo had started to invest in IP and developmental rights. This allows the company to develop games further in-house and tailor games to meet customers' needs directly; as a result, this drives MGI's preferred revenue model. gamigo either owns a game directly, where it has IP rights for the fully or partially developed game or it licenses games from third-party developers. gamigo has acquired IP rights for eight of its 10 best-selling games. Further in-house development of these games has enabled MGI to achieve better margins by optimising monetisation, improving cost efficiency and being more focussed on development. The average gross margin for games where IP rights are owned by MGI is c75%, versus c50% for licensed games.

Media division (46% of FY20 revenues)

The media division of MGI operates under the brand Verve Group and offers services across the entire value chain of social and digital advertising. It provides a full-stake advertising platform for many Fortune 500 companies. The media segment covers all five main stages in the online advertising market.

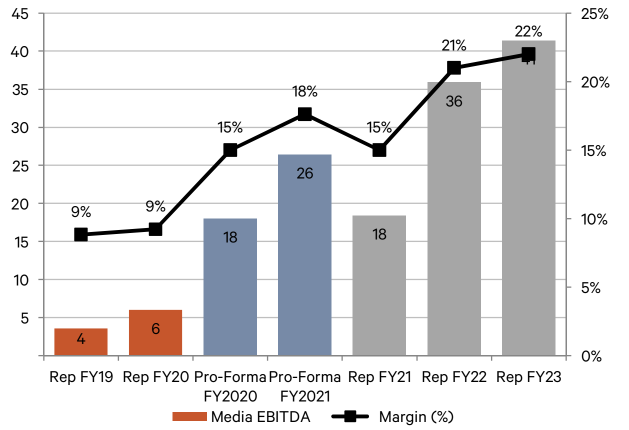
Media revenues are expected to surpass cEUR120m in FY 2021, representing a 73% CAGR since 2019. Revenues have been driven by strong organic growth and, more so, by a number of acquisitions. Since 2019, the division has made nine acquisitions: Reach Hero, Applift, PubNative, Verve Wireless, TVSmiles, Beemray, Platform161, LKQD Technologies and, most recently, Smaato – which is expected to complete in Q4 2021. In FY 2022, we expect revenues to surpass EUR170m – driven by continued organic growth and a full year's contribution from Smaato. EBITDA is expected to almost triple – from EUR6m in FY 2020 to cEUR18m in FY 2021 – driven by ongoing margin expansion as the division gains scale and an incremental contribution from Smaato. EBITDA is expected to double in FY 2022 thanks to a full year of contribution from Smaato, which is expected to generate a high-30% EBITDA margin in FY 2022.

Media revenue (EUR m): reported, Berenberg estimated pro-forma and forecasted reported revenue (2019A-2021E)



Source: Company data

Media EBITDA (EUR m): reported, Berenberg estimated pro-forma and forecasted reported revenue (2019A-2021E)



Source: Company data

Revenue model and clients

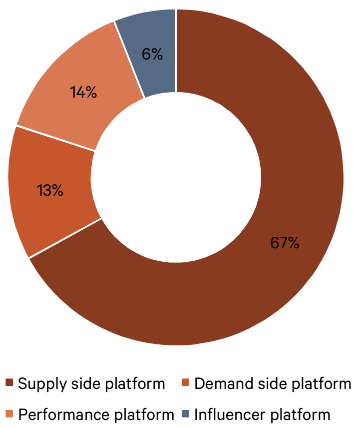
The media division consists of a full end-to-end advertising technology stack, including demand side platforms (DSPs), supply side platforms and data management platforms, as well as performance and influencer platforms. Within those revenue streams, MGI also charges agency fees, which is usually the first stage in the online advertising value chain. An agency's service will usually include the creation, planning and execution of advertising campaigns for which companies will pay a set fee to MGI for various packages.

DSPs are usually connected to multiple advertising exchanges and allow advertising agencies to automatically purchase advertising inventory through one interface. Examples of such inventory include: mobile adverts in apps, banner adverts on websites and in-video streams. Traditionally, the process was performed manually, with advertisers (the media company), publishers (where the adverts appear) and the audience (viewers of the adverts) all interacting with one another to negotiate prices. Instead, using a DSP allows advertisers to manage the real-time bidding that takes place for advertising inventory online. IT allows advertisers to track metrics and set buying parameters for their campaigns, using algorithms to determine a user's value – based on the targeted audience – before placing a bid to maximise the ROI of their advertising.

Supply side platforms (SSP) collect advertising space from many different publishers and analyse the associated user information to give advertisers the best possible audience intelligence and reach. SSPs help publishers to monetise their advertising space by interacting with advertising exchanges, DSPs and – sometimes – directly with advertiser-owned advertising networks.

A data management platform (DMP) is a technology that collects and manages data to generate audience segments that can then be used to target specific sets of users in online advertising campaigns.

Media revenue streams, Q1 2021



Source: Company data

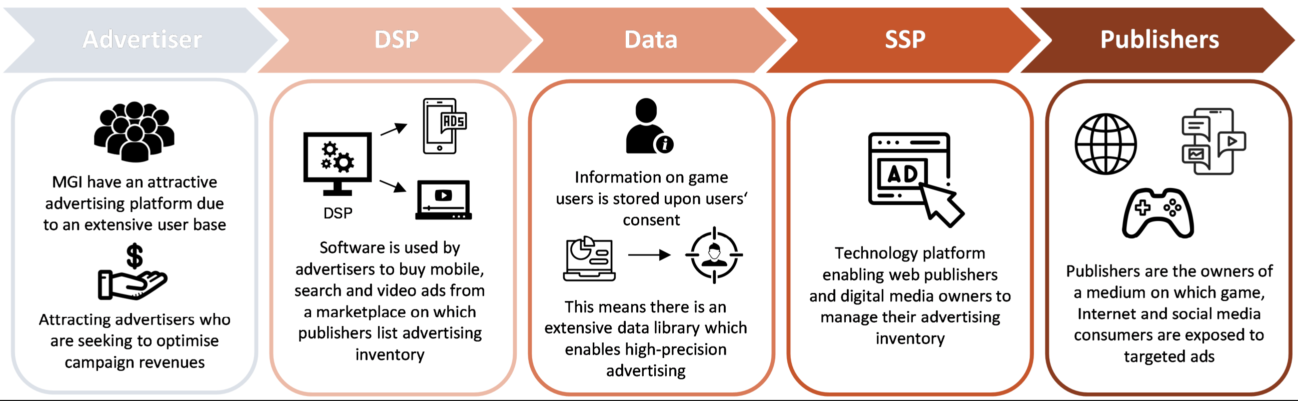
Long-term partnerships with blue chip companies

Source: Company data

Adtech value chain

MGI offers services covering the entire value chain of digital advertising, with a focus on optimising user acquisition costs in the games space. The adtech value chain encompasses advertisers, DSPs, SSPs and publishers.

Value chain



Source: Company reports

Data use and transparency

It is worth questioning whether the vertical integration between games and media – and the data transfer therein – presents a significant conflict of interest between MGI and its games media clients – such as King Entertainment and Zynga – who compete with gamigo and KingsIsle (MGI's owned studios). Indeed, if that is the case, does that not represent a risk that – as the games division grows – external games clients will cease to use the platform? A fair question, especially since many vertically integrated companies have been accused of using the data gathered from its games clients (eg Zynga) to drive game development and monetisation. However, we do not believe that this is the case at MGI – a company it has transparency at the core of its offering.

Some of the biggest games companies – including King Entertainment, Zynga, Tencent, Ubisoft and others – are media clients of MGI. All of these have been growing spend with MGI due to MGI's technology stack, its capabilities and – according to management – MGI's focus on transparency. To this effect, MGI operates a Chinese wall between its media division and its games division, and it does not use the data from media clients to power product development or user acquisition optimisation for its games division. In addition, MGI offers a self-service platform whereby clients can access MGI's adtech stack, but keep the data hidden entirely from MGI if they choose.

One might then ask how the vertical integration drives synergies. Simply, there are two angles. Firstly, MGI has full transparency and feedback of the entire marketing journey – for both user acquisition and the monetisation of advertising space of its own games – which aids user acquisition and monetisation. Secondly, the growing client base and, therefore, the volume of adverts that the media division services helps to gather data that powers product development to improve its adtech stake (like any other adtech business). MGI can then apply these updated technologies on its own games.

Financials

Guidance and Berenberg base-case forecasts

At a group level, revenues have increased three fold from 2018-2020 – driven mainly by M&A, but also by strong organic growth of 10% in FY 2019 and 35% in FY 2020. EBITDA has grown by 2.2x in that time, while margins have been impacted by the mix affect, with the lower margin media division growing its contribution.

For FY 2021, MGI has guided to revenue of EUR234m-254m, yoy growth of 67-81% and EBITDA of EUR65m-70m – representing an EBITDA margin of c27.5% and yoy EBITDA growth of 123-141%. This guidance includes the recent acquisitions of KingsIsle in Q1 and Smaato, which is expected to be consolidated in Q4 2021. Berenberg's FY 2021 revenue and EBITDA forecast is cEUR250m and cEUR67m (27% EBITDA margin) respectively. So far in 2021, MGI has delivered organic growth of 38% and 36% in Q1 and Q2 respectively, comfortably above our high-20% organic growth expectation for the full-year FY 2021.

For FY 2022, we forecast revenue of cEUR312m (+25% yoy), driven by low-double-digit organic growth and a full year of contribution from Smaato, and EBITDA of cEUR90m (29% margin; +34% yoy). In FY 2023, we forecast 10% yoy revenue and 12% yoy EBITDA growth.

Balance sheet position

Including the Smaato acquisition, we expect MGI to end FY 2021 with a net debt/EBITDA leverage ratio of 2.7x, within the target range of 2x-3x. By FY 2023, we forecast net debt/EBITDA to fall to under 1x, allowing ample room for further M&A.

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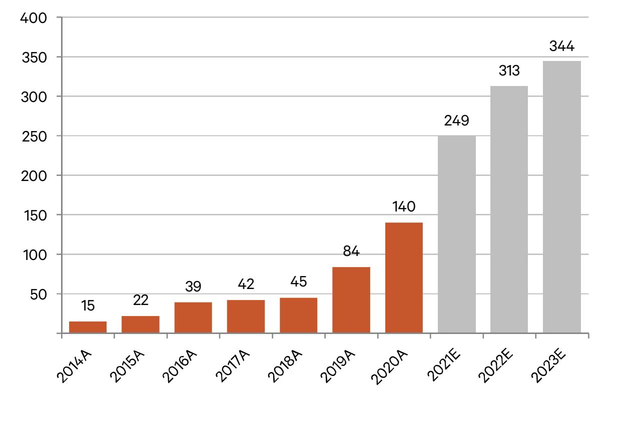
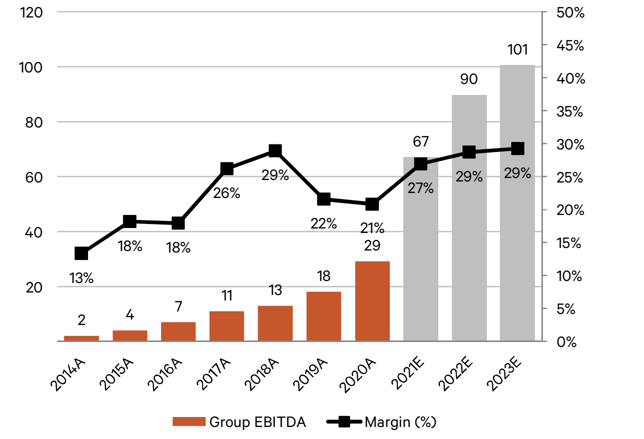
Group financials

Group revenue (EUR m) FY 2015A-2023E



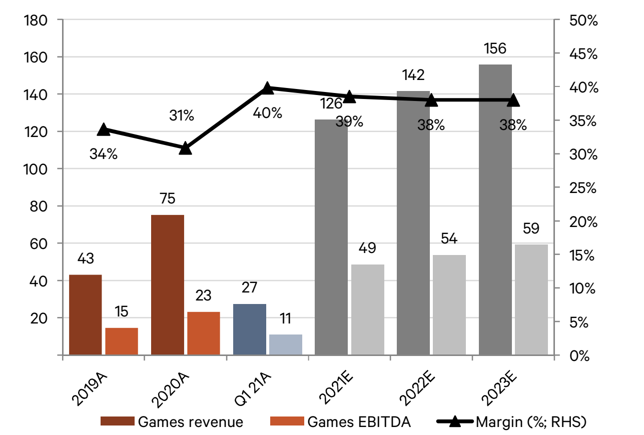
Source: Company data

Group EBTIDA (EUR m) and EBITDA margin (%), FY 2015A-2023E



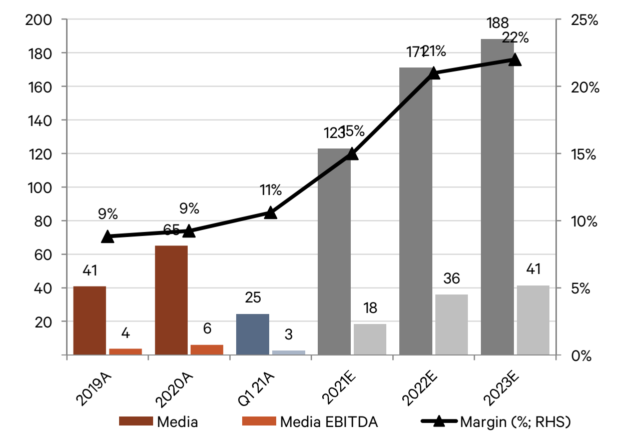
Source: Company data

Games revenue (EUR m), EBITDA (EUR m) and EBITDA margin (%), FY 2017A-2021E



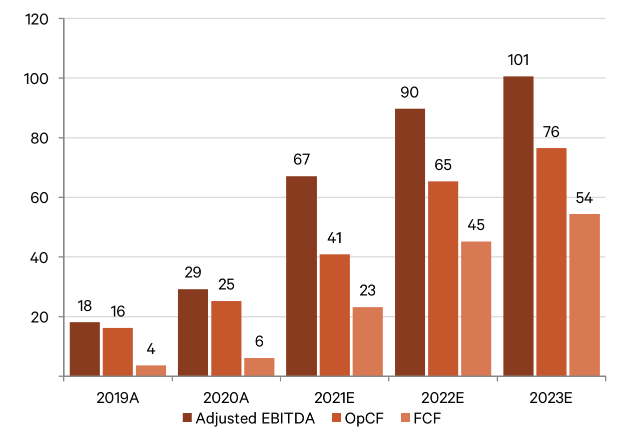
Source: Company data

Media Revenue (EUR m), EBITDA (EUR m) and EBITDA margin (%), FY 2017A-2021E



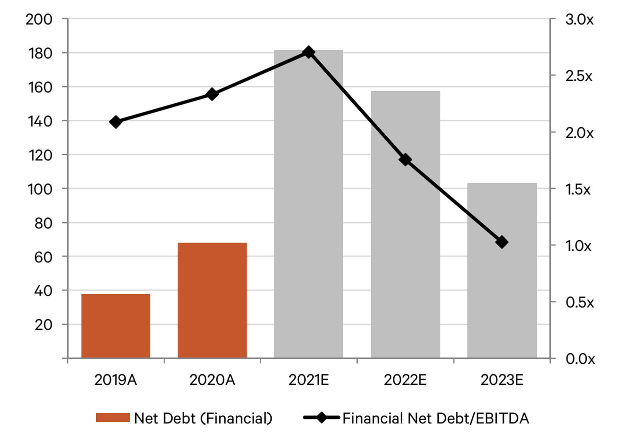
Source: Company data

EBITDA, OpFC and FCF (EUR m) , FY 2019A-2023E



Source: Company data

Net debt (cash; EUR m) and leverage (x), FY 2019A-2023E



Source: Company data

Key investment point one: MGI's content fortress

Content fortress explained

What is a content fortress?

The concept of a content fortress as we know it was first championed by Eric Seufert, the author of the Mobile Dev Memo blog; he is a thought leader on mobile game marketing strategy and "freemium" monetisation. Eric Seufert defines a content fortress as: a platform or portfolio of products (ie MGI's video game IP) supported by a rich advertising ecosystem (ie MGI's adtech stack – Verve Group) that serves an owned and operated inventory, using only – or predominantly – first-party data; as a consequence, the reliance on external sources of new users or data is minimised.

The increasing relevance of a content fortress in a post-IDFA and cookie world

Through the release of iOS 14.6 in May 2021, Apple has implemented its new App Tracking Transparency (ATT) policy. ATT is another incremental progression of Apple's privacy roadmap, which started with limit ad tracking (LAT) on Safari in 2016, SKAdNetwork's introduction in 2018 and Private Relay, which will be rolled out in iOS 15 and essentially makes Apple the gatekeeper of the services that iPhone users interact with.

The introduction of ATT has resulted in Apple's identifier for advertisers (IDFA) becoming explicitly opt-in for every single app. IDFA is a random device identifier assigned by Apple to a user's device that allows Apple and advertisers to track and analyse user data to accurately attribute advertising campaigns. Apple has introduced its own advertising network that makes aggregated (instead of user-level) data available. Since June, it has been widely evident that the effectiveness of advertising has fallen considerably – resulting in up to 40% declines in cost per mile (CPM), a form of ad pricing on iOS. Collectively, this is a headwind to user acquisition and advertising revenue monetisation for those companies that are heavily reliant on third-party data and external advertising networks and mobile marketing partners.

The deprecation of IDFA diminishes the ability for advertising to be personalised by limiting the user of third-party data to target users. In doing so, Apple has essentially depreciated the value of third-party data, while significantly increasing the value of first-party data. Similarly, Google has initiated the removal of third-party cookies on Chrome by 2022 – following Safari's move to do so in 2016. Like Apple's deprecation of IDFA, this reduces the effectiveness of advertising that is reliant on the aggregation and use of third-party data to target users, thereby increasing the value of first-party data.

First-party data has, therefore, fast become a commercial necessity – driving the need for vertical integration between games and media to develop a content fortress. Those companies that can combine strong IP and also own their marketing ecosystem, enabling first-party data collection and usage, have a distinct advantage. These companies, like MGI, can – at least in some form – operate as a self sufficient content ecosystem, incorporating all content and user interaction into and through their own properties. This should allow both the aggregation and use of first-party data for complex personalisation.

The vertical integration of games and adtech should, therefore, drive higher user acquisition ROI and allow for greater advertising monetisation of MGI's existing game IP, as well as help in the launching of new titles. In addition, it provides a stronger platform to drive cross-promotion within the company's IP ecosystem in order to elongate a user's life-time value. Finally, a content fortress can also help a firm's acquisition strategy as newly acquired games IP will then be able to enjoy significant synergies when it is integrated into the company's ecosystem.

Content fortress or castle in the sand

While building a content fortress is a strategy many will begin to explore, in our view, there are barriers to success that suggest not every company will be successful. In order to build a cohesive ecosystem that generates the synergies discussed above, we believe that three core attributes are needed: managerial experience in ad tech; and a consolidated operating infrastructure, as discussed over the page. We believe that MGI possesses both of these characteristics and, in our view, these have been central to their success of building their fortress.

1. Core expertise in operating a standalone and financially functional adtech business.
2. In order to drive successful cross-promotion that should be inherent within a content fortress strategy, as well as to fully leverage the collective data across one's app and game ecosystem, a company must implement a strong central infrastructure – at least in terms of the operation of its user acquisition, advertising monetisation and advertising network functions.
3. The company must have clear data transparency and usage rules, particular pertaining to the use (or non-use) of third-party client data to fuel internal product development of its tech stack and its games IP.

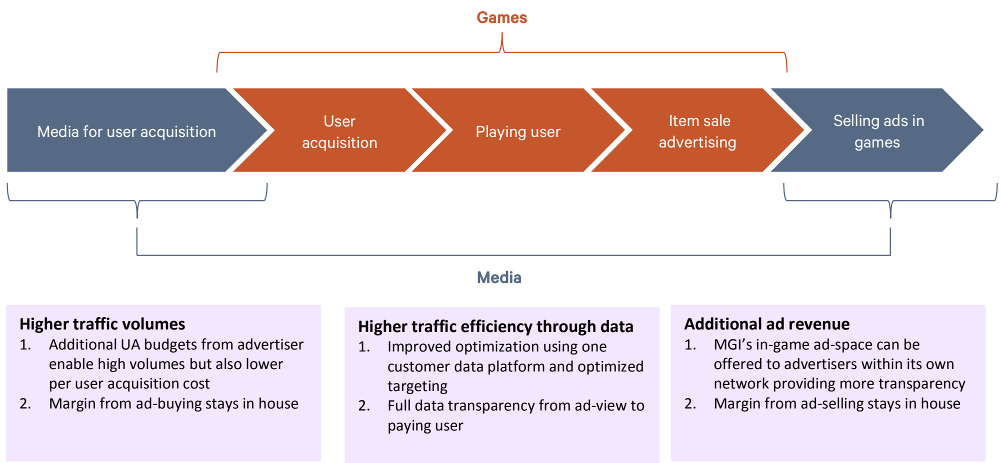
MGI's vertical integration offers a number of opportunities

MGI's strategy drives considerable synergies

MGI's core strategy is, in our view, a great example of a content fortress and one of, if not the best, example across European-listed video games. Since the acquisition of gamigo and adtech assets from ProSiebenSat.1 Media in 2016, MGI has been focused on the integration of media and games and, therefore, has been able to lay the foundations for its content fortress long before most other peers.

As the chart below illustrates, MGI now covers the entire value chain. Its media capabilities include: an open exchange advertising network and private market place advertising network; a supply side platform; a demand side platform; a data management platform; a creative agency; an advertising attribution platform; audience segmentation tools; and its latest IDFA solution, Atom – which is a probabilistic audience segmentation and targeting tool. This broad array of capabilities underpins its large and growing game IP portfolio.

Optimising the value chain



Source: Company data

The synergies that this vertical integration drives are considerable. The chart (overleaf) shows how the value chain is optimised by MGI. The left side depicts gamigo as if it were a standalone business. The right side illustrates the games business when integrated with the media segment. MGI's content fortress enables it to achieve lower integration costs and higher advertising CPM – driving a 200% increase in efficiency.

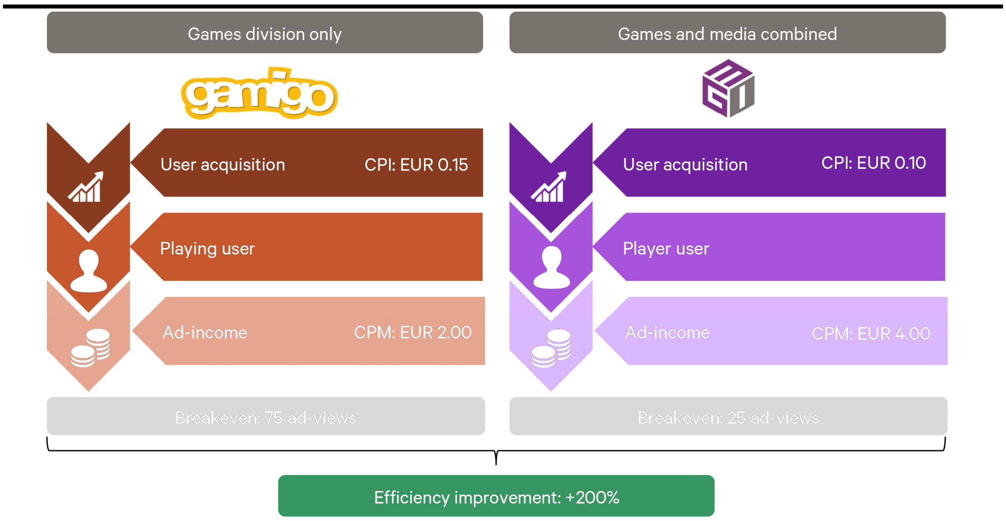
Lower cost-per-ad impression: MGI can leverage its media scale and collective purchasing power to reduce advertising impression costs.

Increased first-party data driving greater advertising efficiency and conversion: Due to its integrated ecosystem, MGI reduces its reliance on third-party data sources and advertising marketing partners. It also allows MGI to build a marketing tech stack that enjoys greater first-party data input and significantly improved user acquisition targeting.

Higher user acquisition ROI: The combination of the two points above result in higher user acquisition ROI as both the cost to acquire the incremental user is lower and the quality of the user being targeted is higher, versus non-targeted advertising. This drives a higher effective ROI than the market average.

Improved advertising monetisation: By owning its own adtech ecosystem, MGI internalises all advertising margin that would otherwise be lost to third parties. In addition, the vertical integration allows MGI to collect, aggregate and analyse more first-party data than it would be able to otherwise – enabling greater data transparency and user targeting, which increases the value of its advertising space to external advertisers and supports high advertising yields compared to the rest of the market.

The value of MGI's content fortress

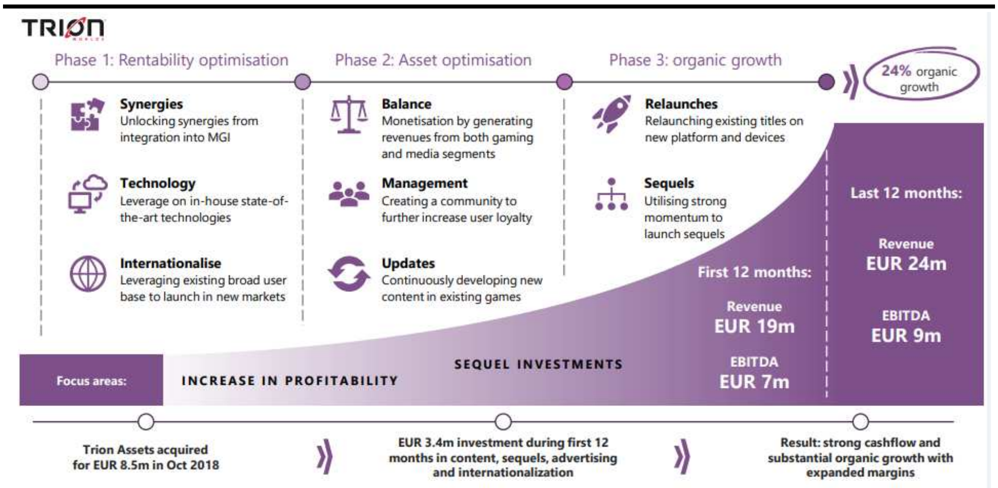


Source: Company reports

Content fortress amplifies the value of acquisitions

As we have witnessed with the likes of Stillfront and Zynga – who have delivered material acquisition and monetisation synergies – MGI's vertical integration will, as history has already shown, allow it to deliver much more meaningful synergies across user acquisition and advertising monetisation as well as efficient IP expansion and preservation. This is especially true when applied to strong game IP that, as is usual with MGI's strategy, will experience an increase in live services content investment in order to drive existing player engagement and to attract new players to its games. The chart below illustrates the collective affect of MGI's content fortress, which mainly drives synergies in phase 2 – ie asset optimisation, alongside its wider reaching "buy, integrate, build and improve" acquisition strategy.

The value of MGI's content fortress



Source: Company reports

A world of fortresses

Despite the above, some investors may still question why MGI are one of only a few companies building a content fortress if it is so important. We believe that this is a misconception as there are a variety of companies that have been employing this strategy – some long before 2021 – and more will continue to emerge. Examples of these are as follows.

- **Zynga:** Zynga has made two acquisitions as it begins to build its fortress. First was the acquisition of hyper-casual game developer Rolic in October 2020. Due to the viral – but short-retention – nature of the games, hyper-casual games attract an enormous amount of new users and, therefore, first-party data compared to other titles. In addition, they are only monetised via adverts; in that respect, they are a paid publishing network. This deal made even more sense when, in May 2021, Zynga announced the acquisition of advertising network Chartboost for c$250m in cash. In a recent earnings call, Zynga stated:"By building an advertising network, we will unlock more value from our portfolio games and capture more of the economics in the mobile advertising ecosystem… expanding our user acquisition funnel, cross-promotion opportunities, and advertising inventory".

- **AppLovin:** Mobile advertising network AppLovin has been aggressively taking majority stakes in games studios for years. Notable acquisitions include: Machine Zone (in 2020), the developer behind Game of war; Firecraft (in 2019); Belka Games (in 2019); and PeopleFun (2019). More recently, in February 2021, AppLovin purchased Adjust, a mobile advertising attribution company, as it continues to build a self sufficient advertising ecosystem that can connect its first-party properties.

- **ironSource:** ironSource has long since been one of the leading mobile marketing companies – hosting an advertising network, a user acquisition platform and an advertising mediation business. In 2020, it took its first steps into video game development and publishing through the opening of Supersonic Games, which will focus on games that are monetised solely through advertising.

- **TikTok:** In late June, TikTok revealed Jumps, a tool that allows TikTok creators to bring "mini-apps" into their videos, which is very similar to Snapchat Minis and Facebook Instant Games. While it remains to be seen whether this contravenes Apple's "no app store within the app store" rule, it is nevertheless attempting to imbed games into its media and engagement network.

Key investment point two: games upside

Upside to FY 2021-23 games forecasts

MGI's games division revenues amounted to EUR75.2m in FY 2020, which we conservatively expected to grow to cEUR126m in FY 2021 (+68% yoy) – driven by c20% organic growth and the acquisition of KingsIsle. On an annualised pro-forma basis, KingsIsle adds more than 30% and more than 65% to divisional FY 2020 sales and EBITDA respectively and, therefore, will be contributing much of the growth in FY 2021. Thereafter, we assume 12% and 10% yoy organic growth in FY 2022 and FY 2023 respectively.

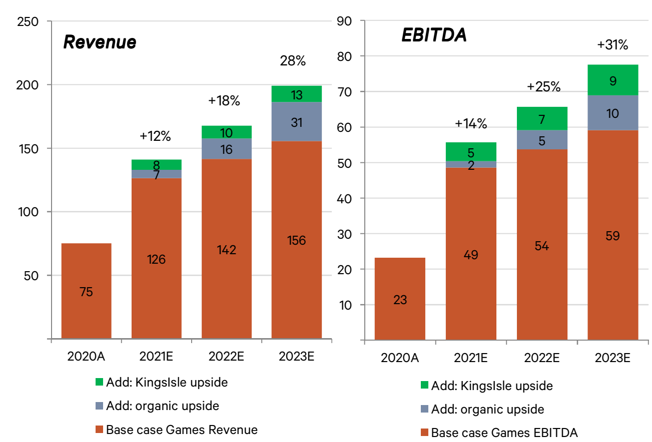
EBITDA has also increased significantly since 2017 and we expect it to more than double yoy in FY 2021E. Alongside strong expected sales growth, the acquisition of KingsIsle – which generates a 66% EBITDA margin – will drive EBITDA margins up from 31% in FY 2020, to an estimated c38% in FY 2021-23.

As we discuss below, we believe that this is conservative due to: the current trading momentum; a strong pipeline of updates for existing games and new game releases; and our view that management's guidance for KingsIsle is very conservative as it does not bake in the numerous and – potentially significant – opportunities for revenue synergy. In addition, the acquisition of Smaato – which is expected to complete in Q4 2021 – should also allow for improved user acquisition reach and the advertising monetisation of its games' IP, with management pointing to the potential for 10-15% revenue synergies once fully integrated.

We believe that the games division on its own can drive 12-28% and 14-31% upside to our FY 2021-23 games division revenue and EBITDA estimates respectively. At a group level, this translates into 6-13% upside to group revenue and 10-18% upside to our group EBITDA estimates for FY 2021-23 respectively. These are driven by a combination of the following.

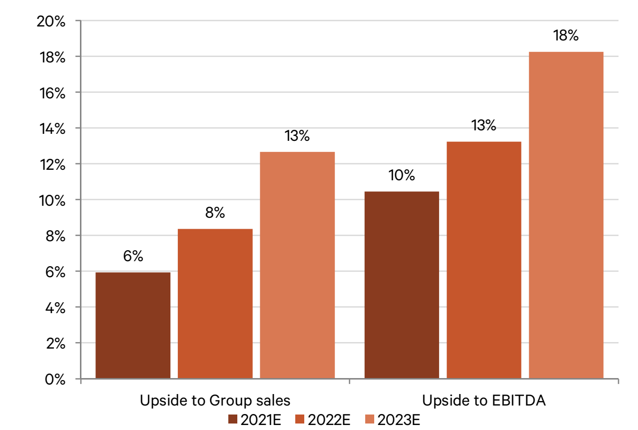
- Respective organic games division growth of 30%, 20% and 20% in FY 2021, FY 2022 and FY 2023 – versus our base-case assumption of 20%, 12% and 10% in that period respectively.
- KingsIsle delivering revenue of EUR34m in FY 2021 (versus guidance of EUR26m) and grows at 15% CAGR in FY 2022-23.

Base case versus bull case games revenue and EBITDA, FY 2020-23)



Source: Company reports, Berenberg estimates

Bull case games scenario impact on group revenue and EBITDA estimates, 2020-23



Source: Company reports, Berenberg estimates

Multiple growth levers

Strong games pipeline for 2021-23

Already in Q1 2021, MGI has released a number of large updates and expansions to existing titles that will materially add to the growth outlook of its core titles. As is usual for most successful MMO titles, given their large and highly engaged audience base, when large expansions are released it drives an increase in player engagement and monetisation, while also helping to attract new players to the game. The expansions to Trove, Echo of Soul and ArcheAge in Q1 2021 will continue to scale throughout 2021 and into 2022

- **Trove – South Korea:** Trove is one of gamigo's longest standing and most successful titles. After a successful closed beta phase in cooperation with its publishing partner Aprogen Games, the public servers for the Korean version of the popular voxel MMO Trove are live for its Korean players.
- **Trove – Nintendo Switch:** Trove was also successfully launched on Nintendo Switch at the end of June, which has opened the game up to an entirely new audience.
- **Echo of Soul – update:** gamigo released what it calls "a massive 3.0 update" in Q1 2021.
- **Fiesta** – Realm of the Gods update. With the game in its 13th year, gamigo has announced the largest expansion in Fiesta's history – Realm of the Gods, which was released on 28 July.
- **Wizard101:** The first update, since the acquisition of KingsIsle, was released in Q2. The update expands player versus environment and player versus player gameplay, adds new content and new social features to the game.

In addition to the above updates and the ongoing live services model of its portfolio, MGI also has four new titles and expansions in the pipeline. These include the following.

- **Heroes of Twilight:** Heroes of Twilight is a new F2P mobile game that will be released on Android and iOS in 2021. The game is being developed by a leading Canadian developer, BKOM, and will be published by gamigo. The game is a mix of genres that bring turn-based tactical combat into real time player versus player battles.
- **Skydome:** Skydome, which is being developed by Kinship Entertainment and published by gamigo in Europe and North America, is due for release in 2021. It is a four versus four tower defence arena game.
- **Golf Champions – Swing of Glory:** MGI has acquired the worldwide development rights of the AAA mobile game: Golf Champions – Swing of Glory, which is set to be released in 2021. It is a competitive F2P game that allows users to compete in different leagues and improve skills by competing against each other.
- **Desert Operations mobile edition:** Desert Operations is among gamigo's largest titles and is at the core of its game portfolio. The game is currently only available on browser and PC. gamigo will expand the title to mobile in a completely new setting, which – with strategy games having proven to be successful on mobile devices – should enable gamigo to reach a broad and new audience. No release date has been announced, but development is well underway.

In addition to the above, management has pointed to a healthy pipeline opportunities slated for FY 2021-23. These include the following.

- Sequels and new platform launches of existing games.
- In-licencing deals for various MMO's and mobile games, some of which are ready to launch.
- Out-licencing deals with publishers in China and South-East Asia for some of MGI's games – IP's have already been initiated in some cases.

All in all, we believe the strength of gamigo's IP, its announced game pipeline and the breadth of opportunities available to it to continue to monetise its existing IP will enable it to outperform our organic growth forecast of c20% in FY 2021 (Q1 2021: estimated to be c30%) and 12% and 10% in FY 2022 and FY 2023 respectively. We believe that it is likely that organic growth can remain nearer 30% in FY 2021 and c20% FY 2022-23.

KingsIsle revenue guidance likely to be upgraded

Acquired in January 2021, KingsIsle adds two very high quality franchises to gamigo's portfolio: Wizard 101 (c90% of KingsIsle revenue) and Pirate 101 (c10% of KingsIsle revenue). Both games have very strong audience engagement and recurring revenue bases. Since Wizard 101's release in 2012, it has generated over USD375m in revenue – with over 50m accounts created. While 51% of revenues are generated by players who have been playing for over five years providing a strong recurring revenue base, 23% of players have entered the game in the last year – demonstrating that the title is still growing its player base. Pirate 101, released in 2012, has a similar make up; 39% of revenue is generated by players who have been playing the game for over five years, which provides a strong recurring revenue base, while 32% of players have entered the game in the last year. Both games have very high free-to-paid conversion ratios of 15% and 11% respectively and have multiple points of sale: subscription, in-game transactions and retail packages.

MGI outlined a number of growth opportunities that we believe will likely result in KingsIsle delivering mid-teen revenue CAGR over the coming years – compared to our expectations for only mid- to high-single-digit yoy revenue growth in FY 2021-23. These include the following.

- **Expansion through internationalisation:** KingsIsle's revenues are highly concentrated in the US. There are opportunities to expand its franchises into new territories by leveraging gamigo's in-house publishing competence and its localisation expertise, as well as its access to a network of international third-party publishers in Asia, for example.
- **Launch on new platforms:** KingsIsle could expand its IP to mobile and introduce versions for console, Nintendo Switch and other hardware to maximise audience reach and cross-platform playability.
- **Better-user management:** KingsIsle could focus on regular content updates to continue to drive engagement and monetisation performance
- **Synergies with the wider MGI group:** KingsIsle could look to Integrate into MGI's media platform to drive synergies, particularly in regards to user acquisition and marketing.

KingsIsle's earn-out consideration structure (as we outline below) also suggests that the sellers are confident of outperforming MGI's base-case guidance for FY 2021. MGI has guided to revenues of USD32m (cEUR26m) and EBITDA of USD21m (cEUR17m) in FY 2021, which is the mid point of the lowest level of earn-out payments. There are two additional earn-out hurdles that are achieved if KingsIsle reaches revenues of USD35m (cEUR30m) and USD55m (cEUR46m) in FY 2021.

Based on the strength of the IP, the momentum in the business and available synergies, in a realistic bull case, we believe that KingsIsle could reach USD40m (cEUR34m) of revenue in FY 2021 and could be able to grow at a 15% CAGR to FY 2023 – while maintaining a 66% EBITDA margin. As the chart shows below, this would drive meaningful upside to our group FY 2021-23 estimates.

KingsIsle transaction structure, guidance and deferred consideration table

Transaction structure

Purchase price table	USDm	EV/EBITDA
Closing Consideration Payment	**63**	**3.0x[1]**
Deferred cash consideration	**63**	**3.0x[1]**
(i) Deferred payment on 30 June 2021	*25,2*	*4.2x[1]*
(ii) Deferred payment on 31 December 2021	*12,6*	*4.8x[1]*
(iii) Deferred payment on 30 June 2022	*25,2*	*6.0x[1]*
Total fixed consideration	**126**	**6.0x[1]**
Earn out consideration	**84**	
(i) Earn Out, if revenue 2021 ranges between USD 30-35m	*10*	*6.5x[1]*
(ii) Earn Out if revenue 2021 is more than USD 35m	*32*	*7.3x[2]*
(iii) Earn Out, if revenue 2021 is more than USD 55m	*42*	*5.8x[3]*
Up to total consideration	**210**	**5.8x[3]**

Note: 1) Based on the current EBITDA Guidance 2) Based on USD 23m EBITDA 3) Based on USD 36m EBITDA

Source: Company reports

KingsIsle bull-case impact on base-case group revenue and EBITDA (2021-23)

KingsIsle upside scenario	Revenue			EBITDA @ 66% margin		
	FY21	FY22	FY23	FY21	FY22	FY23
Base case	**26**	**29**	**31**	**17**	**19**	**21**
FY2021 sales USD35m (EUR30m), 15% CAG R in FY22-23	30	35	40	20	23	26
Berenberg upside scenario	**34**	**39**	**45**	**22**	**26**	**30**
FY2021 sales USD55m (EUR46m), 15% CAG R in FY22-23	46	53	61	30	35	40
Upside to Games diviion expectations	3%	4%	5%	5%	7%	9%
	6%	**7%**	**9%**	**11%**	**13%**	**15%**
	16%	17%	19%	27%	30%	33%
Upside to our group expectations	2%	2%	2%	4%	4%	5%
	3%	**3%**	**4%**	**8%**	**8%**	**9%**
	8%	8%	9%	20%	18%	19%

Source: Company reports, Berenberg estimates

Smaato synergies not baked in

At the time of the Smaato acquisition, MGI outlined that it could yield up to 10-15% revenue synergies for its games division, which we believe are not in its estimates. The benefits of these synergies include: 1) Smaato increasing MGI's audience reach by 30% in terms of its advertising network; 2) Smaato adding significantly to MGI's adverting SSP and its monetisation technology; and 3) Smaato growing MGI's omni-channel delivery capability. This will both help drive greater user acquisition, as well as better advertising monetisation for its games portfolio.

Growing advertising revenue, despite IDFA

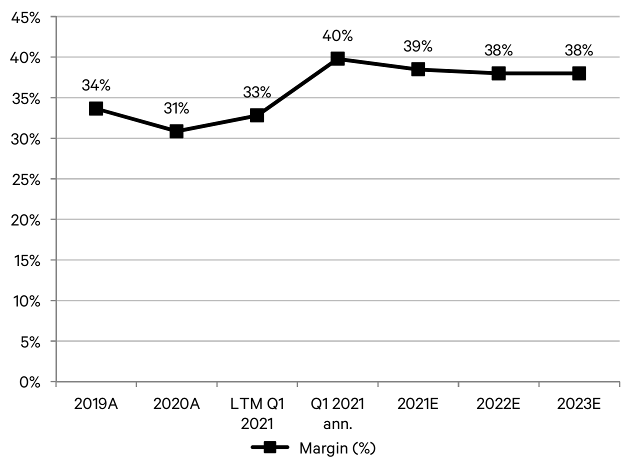
Despite the deprecation of IDFA – due to its content fortress strategy – MGI has been able to significantly grow its games advertising revenue over the last year, with momentum likely to remain strong according to management. In-game adverts account for c26% of the company's revenue from games and, therefore, c15% of group revenue (as of Q1 2021).

The majority of advertising revenue is generated on PC and browser MMO and PC casual, with a smaller contribution from mobile casual games. The company's limited exposure to mobile, as well as its content fortress strategy, has enabled MGI to drive up advertising yields throughout FY 2021. Growing its advertising volumes – through both growing demand and its own strategy to expand its in-game publishing network – has driven strong advertising revenue growth, which is likely to continue in FY 2021.

Margins to remain strong

The games division margin profile has been boosted by the KingsIsle acquisition given its 66% EBITDA margin profile. Specifically, in Q1 2021, EBITDA margin increased to 40%, compared to 31% in FY 2020 and 36% in Q1 2020. We forecast divisional EBITDA margins of c38% in FY 2021-23, which is in line with management's target range for the division of 35-40% and allows for additional investment in its already strong content pipeline.

Games division EBITDA margin (2019-23)



Source: Company reports, Berenberg estimates

Key investment point three: media undergoing a step change

Upside to our FY 2021-23 forecasts

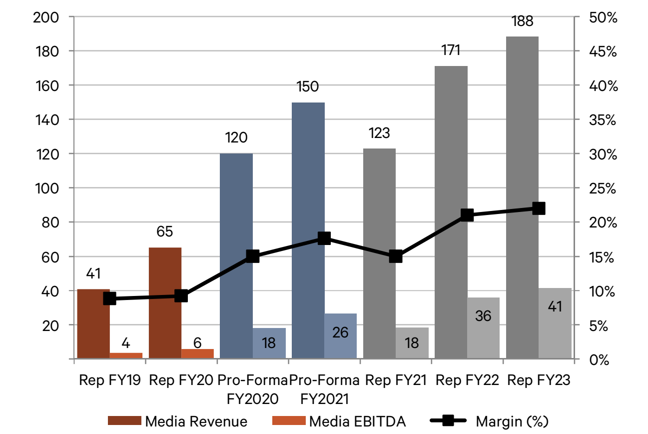
MGI's media division – which operates as Verve Group – is currently undergoing a step change in revenue and profitability, accelerated by the acquisition of Smaato – which is due to be completed in Q4 2021. Specifically, MGI's media division revenues have grown from EUR41m in FY 2019 to EUR65m (+59% yoy) in FY 2020 and are expected to almost double to cEUR123m in FY 2021 (+89% yoy). Growth has been driven by strong organic growth, which we expect to be upwards of 30% in FY 2021, and by a number of acquisitions. Since 2019, the division has made nine acquisitions: Reach Hero, Applift, PubNative, Verve Wireless, TVSmiles, Beemray, Platform161, LKQD Technologies and, most recently, Smaato – which is expected to complete in Q4 2021. With Smaato still annualising into reported figures, and forecasting 10% organic growth, we expect revenue to climb above EUR170m in FY 2022 (+39% yoy) and then settle at 10% organic growth in FY 2023.

The EBITDA progression will be more impressive. Specifically, EBITDA margins are expected to rise from 9% in 2020 to 15% in 2021 – yielding a 200%-plus increase in EBITDA in 2021; this is driven by strong organic growth, operating leverage and the contribution from the high-margin Smaato acquisition, which will also deliver meaningful synergies. Once fully consolidated, Smaato will help to drive media margins up to more than 20% in FY 2022, leading to close to 100% EBITDA growth in 2022.

While the growth is impressive and the acquisition of Smaato is clearly driving a step change for the division, we believe that these forecasts are conservative. As we discuss next, Smaato provides MGI with critical mass, a material increase in audience reach and an improved array of omni-channel capabilities. Together, it will form one of the leading omni-channel exchanges worldwide and become one of the top 10 in-app mobile exchanges. The combination, therefore, will not only help to continue the strong sales momentum of Smaato, but also help to accelerate the growth of the broader media division – while also allowing for cost synergies as duplicated costs are removed.

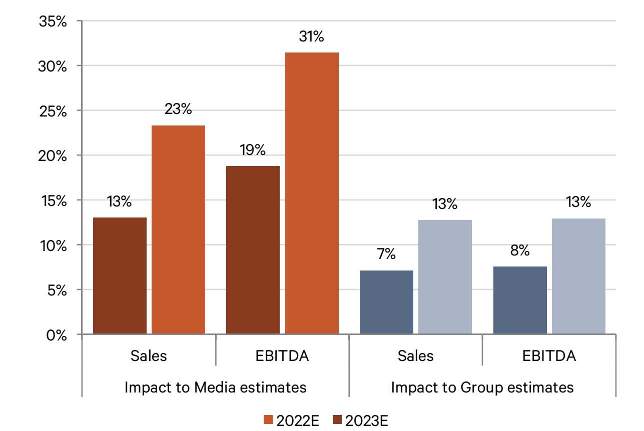
Management has indicated that this could drive upwards of 15% revenue synergies for the media division as a whole. Using our pro-forma FY 2021 divisional revenue estimate of EUR150m, 15% revenue synergies would imply cEUR20m additional revenue. Assuming half of these synergies occur in FY 2022 and the full amount in FY 2023 – combined with a continuation of the 20% organic growth MGI's existing media division has historically delivered– it could drive 19-31% upside to divisional EBITDA estimates and 8-13% at a group level in FY 2022-23.

Media revenue (EUR m): reported, Berenberg estimated pro-forma and forecasted reported revenue, EBITDA and EBITDA margin (2019A-2021E)



Source: Company data

Upside to media and group sales and EBITDA estimates, 2022-23



Source: Company data

Smaato acquisition adds significant scale and capabilities

Smaato drives a financial step change for the media division

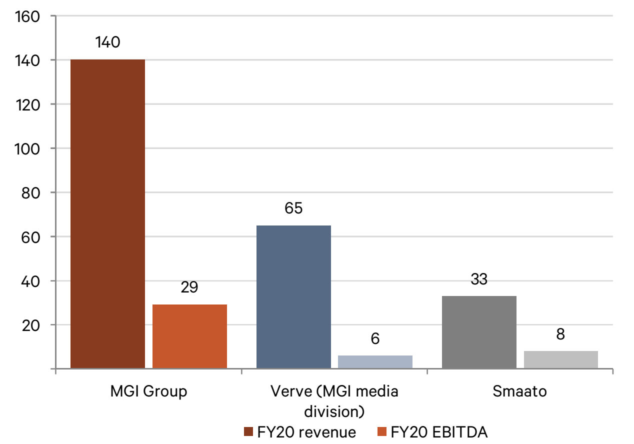
On 13 July, MGI announced the acquisition of Smaato – a leading mobile-first digital advertising technology platform – for EUR140m. This corresponds to an EV/EBITDA multiple of 10.7x on the EBITDA guidance for 2021. The deal is expected to close at the start of Q4 2021. Founded in 2005, Smaato is a mobile-centric and cloud-native digital adtech platform and monetisation platform. The platform enables publishers to create tailor-made user experiences, which in turn allows them to generate better revenue generation through adverts in apps.

In FY 2020, Smaato generated EUR33m in revenue and EUR8m EBITDA. On a pro-forma basis, this increases the media division's (Verve Group's) FY 2020 revenues and EBITDA by 55% and 133% respectively. At a group level, this lifts MGI's group pro-forma FY 2020 revenue and EBITDA by 23% and 29% respectively.

Management has guided for Smaato to grow revenues by c20% yoy to EUR39m and EBITDA to grow c60% yoy to EUR13m (34% margin) in FY 2021. In FY 2022, guidance is for Smaato to reach revenue of cEUR50m and EBITDA of cEUR20m (40% margin).

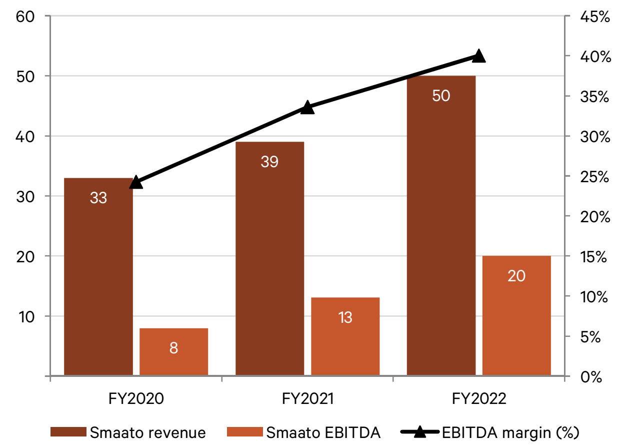
In addition, MGI aims to maintain a strong relationship with the prior owner of Smaato, SQI – a Shanghai-based investment fund, with a strong focus on digital media and a focus on Asia. MGI's relationship with SQI will likely lead to further M&A opportunities in Asia, with MGI aiming to expand further in that region and, particularly, given Smaato's supply network in the region – which is currently under monetised, in our view.

FY 2020 Revenue and EBITDA (EUR m) of MGI group, Verve Group and Smaato



Source: Company reports, Berenberg estimates

Smaato FY 2020-23 revenue and EBITDA (EUR m)



Source: Company reports, Berenberg estimates

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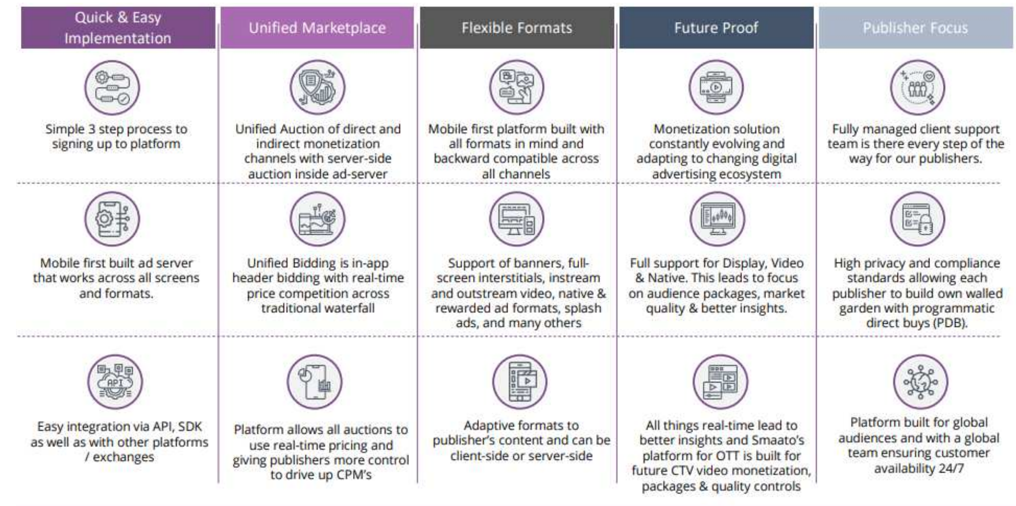
Smaato builds critical mass and offers many opportunities

We think that the added capabilities outlined in the graphic above will significantly enhance MGI's adtech capabilities.

Smaato product suite



Source: Company data

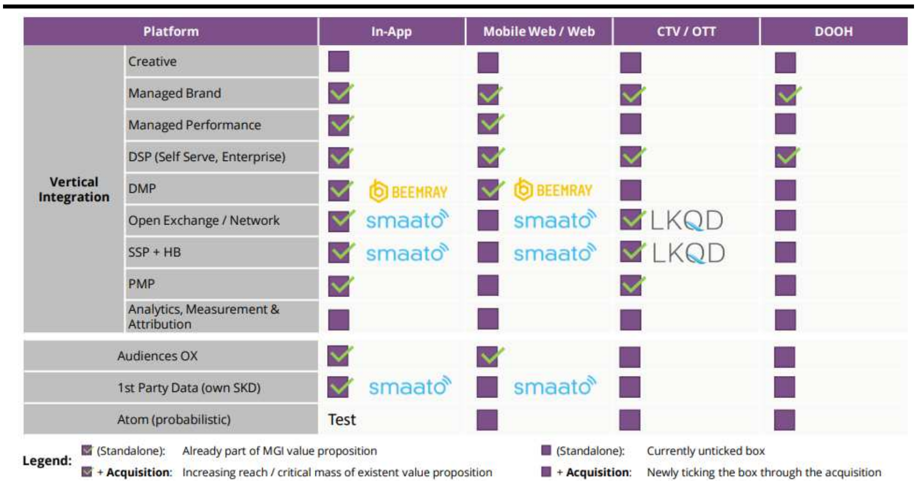
Growing omni-channel adtech platform: Combined with MGI's existing media platform, Verve Group, it will form one of the leading omni-channel exchanges worldwide and become one of the top 10 in-app mobile exchanges, with a joint team of over 300 employees – according to management.

Audience reach: Smaato increases MGI's audience reach by over 30% – up to 1.8bn-2bn.

The acquisition adds significantly to MGI's overall demand and supply network: On the demand side, Smaato has over 100 partners – of which, 30 drive the majority of revenues, many of which MGI did not have an existing relationship with; therefore, this should drive significant synergies. On the supply side, there is an opportunity to consolidate the respective networks of MGI and Smaato to gain scale and reach, particularly in Asia where Smaato has a much more significant presence than MGI.

Smaato plugs a number of holes in MGI's platform: As the chart shows below, Smaato adds to MGI's open exchange and its SSP, as well as its first-party data across in-app (mobile) and – more meaningfully – on mobile web and PC web where it previously had limited to no presence.

The combination of MGI and Smaato, as well as the prior acquisitions of LKQD Technologies and Beemray, adds significantly to MGI's adtech platform



Source: Company data

Key investment point four: more M&A to come

More M&A to come

Games: portfolio expansion and entering mobile

From our conversations with management, we expect two types of acquisitions within the games division. The first is a continuation of what there has been already – buying quality IP, likely F2P MMO games, with strong audience engagement and a model that drives long-term monetisation. The second is management's ambition to scale the company's position within premium F2P games. The expansion into mobile games makes a lot of strategic sense for a number of reasons.

1. Mobile games are the largest and fastest growing area of the video game market.
2. Given the deprecation of IDFA, MGI's content fortress strategy (ie vertical integration between media and games) gives it a greater advantage over peers in mobile compared to PC. MGI's platform should drive significant revenue and cost synergies for the acquired mobile studio, mainly through more efficient user acquisition and advertising monetisation.
3. Adding mobile games would enlarge MGI's advertising supply network.

Media: adding general scale and presence in Asia

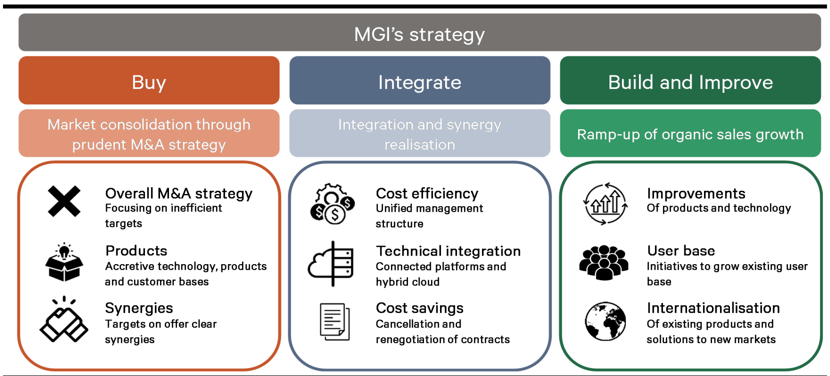
Within its media segment, MGI is likely to target acquisitions that continue to increase the group's scale and grow its demand and supply partner network. From a geographical perspective, Asia is likely to be a focus. As discussed earlier in the note, MGI will maintain a strong relationship with the prior owner of Smaato – the Shanghai-based investment fund SQI, which has a strong track record in digital media in Asia. MGI's relationship with SQI will likely lead to further M&A opportunities in Asia, with MGI aiming to expand further in that region – particularly given Smaato's supply network in the region, which – in our view – is under monetised at present.

M&A playbook

MGI has completed over 30 acquisitions since 2013, with all transactions being materially value enhancing and accretive – following its "buy, integrate, build and improve" strategy (as shown below). MGI's payback time for negative EBITDA cases is less than 24 months and, for positive EBITDA cases, it usually pays less than 6x EBITDA.

After successful integration, MGI then continues to invest in organic growth and realises further synergies between current and newly adopted business units. Over the years, this methodology has proven to be an efficient way to achieve high growth and profitability.

MGI's M&A strategy

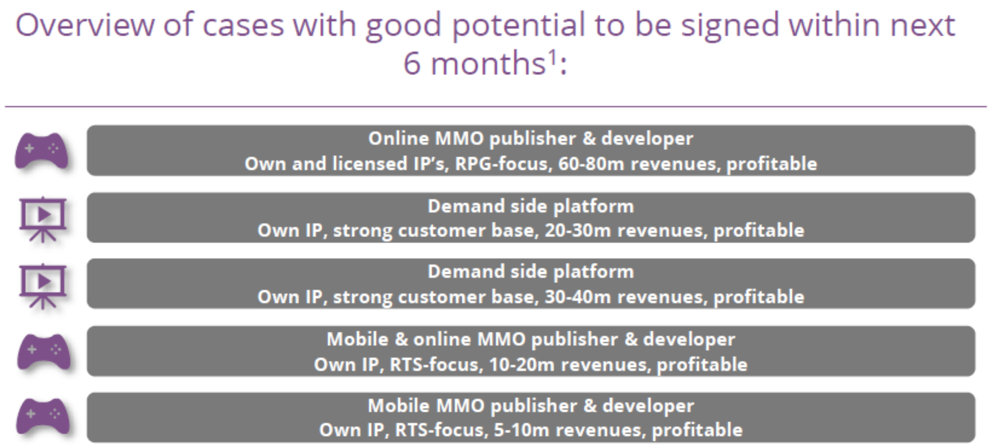


Source: Company reports

MGI has historically focused on companies that had strong IP, but were operationally mismanaged and/or lacked scale. However, the company's success and growing scale has allowed it to now focus on high-performing assets with strong IP, revenue growth and a margin profile that would benefit from being a part of the group. Examples of these are the recent acquisitions of KingsIsle in January and Smaato in July 2021, both of which are high-growth and high-margin businesses

As shown below, from the Q1 2021 trading update, MGI has a strong pipeline of M&A opportunities that – given its strategy – suggest there is plenty more M&A on the horizon.

MGI M&A pipeline as of Q1 2021. One of the demand-side platforms listed below is very likely to be Smaato, which MGI announced the acquisition of in July this year



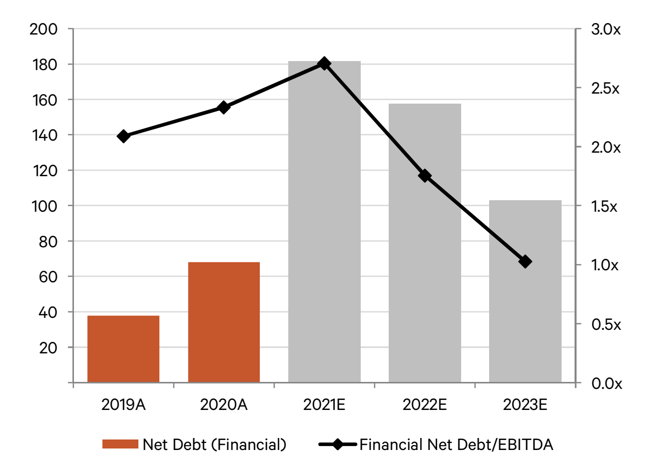
Source: Company reports

M&A scenario analysis

Financial headroom

We expect MGI to end FY 2021 with net debt/EBITDA of 2.7x – within its 2x-3x target range. However, this includes the full cash outflow of Smaato, but it only incorporates one quarter of contribution from Smaato towards EBITDA. Therefore, on a pro-forma basis, the leverage ratio is much less. We believe that leverage will fall to c1.8x in FY 2022 and to below 1.0x in FY 2023. Assuming MGI allows leverage to run up to 3x, the top end of its target, it does allow cumulative headroom of cEUR600m in FY 2022-24. We do expect MGI to continue to use a mix of equity, cash and debt to fund acquisitions – equity raises have been undertaken by the company in the past, both in anticipation of future M&A opportunities and alongside announced transactions.

Net debt/EBITDA (2019-23)



Source: Company reports, Berenberg estimates

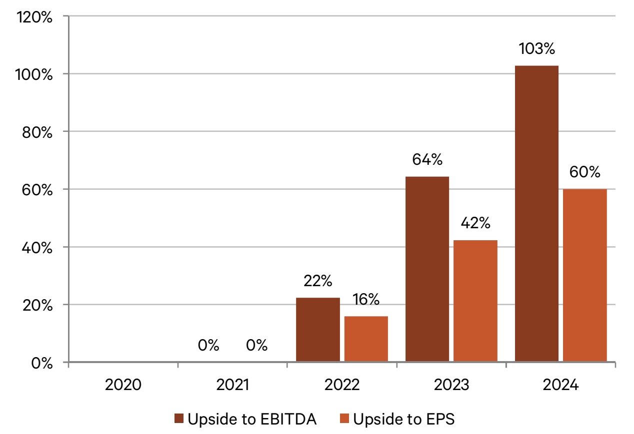
M&A scenario analysis

The assumptions that underpin our M&A scenario analysis are detailed below.

- **Transaction size:** We assume that MGI completes acquisitions to the value of EUR200m per year from 2022-24.
- **Valuation:** MGI targets a less-than 6x EV/EBITDA (or 6.5x EV/EBIT assuming a normalised depreciation and amortisation profile) acquisition valuation on a post-synergy basis.
- **Funding:** We assume half the consideration is paid in cash and debt, for which MGI has ample headroom for given its stated leverage target of 2-3x EBITDA, and half is financed through an equity raise completed at a share price of EUR5.00.
- **Transaction timing:** We assume that MGI completes its next deal only in 2022. In FY 2022-24, we assume deals are evenly distributed throughout the resulting year (ie assume an average of six months contribution to the year).
- **Acquisition performance:** We assume the acquired asset does not grow in the year acquired, but then achieves 10% CAGR from year two onwards.

In our view, these assumptions are entirely reasonable and it would not surprise us if MGI was to complete significantly more M&A – and, therefore, deliver greater EBITDA and EPS accretion – than our assumptions imply. This should be even more likely to transpire if the share price continues to respond strongly to MGI's trading and acquisitions – thereby reducing the dilutive impact of potential equity raises to finance the acquisitions. As the chart shows below, M&A is likely to be a source of significant growth and upside to our estimates from FY 2021-23.

M&A scenario analysis: EBITDA and EPS upside (2020-24)



Source: Berenberg estimates

Valuation

We value MGI using a blend of DCF, target FY 2022 EV/EBITDA, target FY 2022 P/E and upside scenario valuation methodologies. As shown below, this returns a price target of EUR8.20.

Berenberg valuation methodology

Berenberg Equity Valuation	%	EUR per share
DCF: 8% WACC; 3% terminal growth rate; 23% terminal EBIT margins	30%	8.00
EV/EBITDA multiple 15x FY 2022: in line with video game peers; substantial discount to adtech peers	30%	8.00
P/E multiple: 25x FY 2022, in line with video game peers; substantial discount to adtech peers	30%	7.00
Bull case: Strong organic growth, Smaato synergies and M&A propells FY 2023 EPS 70% above base-case estimate	10%	13.40
Price Target (EUR)		8.20

Source: Berenberg estimates

MGI DCF

Our base-case DCF valuation gives an equity value of EUR8.00, assuming the following.

- **Long-run sales growth:** We assume 3.0% sales growth over the long term.
- **Long-run EBIT margin:** We assume a 23% EBIT margin in the medium term.
- **Group WACC:** We use a 8.0% WACC.

We believe that the above assumptions are not particularly ambitious, given that the industry is expected to deliver nearly 10% growth pa into the medium term, with high-single-digit growth thereafter. Therefore, our base-case long-run growth rate of 3% appears conservative. Our EBIT margin assumption is in line with MGI's current margin level.

Berenberg DCF

EURm	2019A	2020A	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
	Actual Figures		Explicit Forecast Period				Fade Period						Terminal
Sales	83.9	140.2	249.2	312.6	343.9	378.3	411.1	444.7	478.9	502.9	523.0	538.7	
Growth		67.1%	77.7%	25.5%	10.0%	10.0%	8.7%	8.2%	7.7%	5.0%	4.0%	3.0%	
EBIT	10.4	17.5	50.1	68.7	76.5	84.1	91.7	99.4	107.3	115.7	120.3	123.9	
Margin	12.4%	12.5%	20.1%	22.0%	22.2%	22.2%	22.3%	22.4%	22.4%	23.0%	23.0%	23.0%	
(-) Tax	2.0	(1.2)	(8.5)	(13.2)	(15.7)	(17.8)	(20.0)	(22.4)	(24.8)	(26.9)	(28.1)	(29.0)	
Tax Rate	(43.3%)	11.5%	22.0%	24.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	
NOPAT	12.4	16.3	41.6	55.5	60.8	66.3	71.6	77.1	82.5	88.7	92.2	94.9	
(-) Capex	(12.6)	(19.1)	(17.7)	(20.1)	(22.1)	(24.3)	(26.6)	(29.0)	(31.4)	(35.2)	(36.6)	(37.7)	
Capex as % sales	15.0%	13.6%	7.1%	6.4%	6.4%	6.4%	6.5%	6.5%	6.6%	7.0%	7.0%	7.0%	
Capex / Depreciation	1.6x	1.6x	1.0x	1.0x	0.9x	0.9x	0.9x	0.9x	0.9x	1.0x	1.0x	1.0x	
(+/-) Change in WC	5	5	(1)	(2)	(1)	(1)	(1)	(1)	(1)	(5)	(5)	(5)	
WC as % sales	5.6%	3.2%	(0.2%)	(0.6%)	(0.3%)	(0.3%)	(0.2%)	(0.2%)	(0.2%)	(1.0%)	(1.0%)	(1.0%)	
(+) Depreciation	7.7	11.7	17.0	21.0	24.1	26.5	28.8	31.1	33.5	35.2	36.6	37.7	
Depreciation as % sales	9.2%	8.3%	6.8%	6.7%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	
FCF pre other cash costs	0.0	13.5	40.4	54.5	61.8	67.4	72.8	78.2	83.6	83.7	87.0	89.5	
Cash exceptionals		-7.6	-5.7	-2.4	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Free Cash Flow		5.9	34.7	52.1	61.1	68.3	72.8	78.2	83.6	83.7	87.0	89.5	1,840.5
Growth			487.6%	50.4%	17.3%	11.8%	6.6%	7.4%	6.9%	0.2%	3.9%	2.9%	
WACC			8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Period			0.0	1.0	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0
Discount factor			1.0	0.9	0.9	0.8	0.7	0.7	0.6	0.6	0.5	0.5	0.5
Discounted FCF			34.7	48.2	52.4	54.2	53.5	53.2	52.6	48.8	47.0	44.7	851.7

Valuation	
Sum NPV	489
Terminal growth rate	3.0%
Terminal multiple	20.6x
Discounted terminal value	852
Total EV	1,341
Net (Debt) / Cash	(181)
Provisions	
Pensions	
Total Equity Value	1,160
Total NOSH	145
Equity value per share €	**8.00**

WACC calculation	
Market Risk Premium	6.0%
Market Cost of Equity	9.0%
Beta	1.0
Cost of equity	9.0%
Gross cost of debt	6.0%
Tax rate	25.0%
Net cost of debt	4.5%
LT D/(D+E)	22%
WACC (post-tax, nominal)	**8.0%**

Source: Berenberg estimates

Peer analysis

Due to MGI's vertically integrated business model – combing adtech and video games – there are two sets of peers to look at. Frist, there are the European mid-cap and global large-cap video game developers and publishers. This peer group trades on a one-year forward EV/EBITDA of c14x, EV/EBIT of 18x and P/E of 24x. Second are MGI's adtech peers, some of which also have vertically integrated business models (ie AppLovin and ironSource); this group trades on EV/EBITDA of 36x, EV/EBIT of 62x and P/E of 70x.

Ordinarily, we do not use EV/EBITDA to compare valuations for video game businesses. This is principally because video game publishers often have different accounting policies when dealing with development costs that can distort the comparison. Some publishers expense these costs through their COGS (ie Team17), some through opex (few and far between) and some first capitalise and then amortise these charges once a game is released (the industry norm). However, the opposite is true for adtech peers as it is EV/EBITDA that is often used. In the case of MGI, we have used EV/EBITDA – as well as P/E – in our peer comparison as that is the only profit figure the company guides to and, therefore, should exhibit the most consistency across consensus.

As the table shows below, MGI trades on a significant discount to video game and adtech peers across all metrics. This is despite delivering sales and profit growth towards the top end of the peer set through a combination of very strong organic growth and M&A. We, therefore, conclude that MGI is materially undervalued on our base-case numbers alone. However, as we have discussed throughout the note, we believe our base-case forecasts are conservative. Next, we discuss our bull-case price target.

MGI peer comparison as of 13 August 2021

Company	Market Cap ($m)	EV/Sales		EV/EBITDA		EV/EBIT		P/E		2021 margins	
		2021E	2022E	2021E	2022E	2021E	2022E	2021E	2022E	EBITDA	EBIT
PC/Console dominant Publishers											
Embracer	9,800	5.0x	4.0x	11.3x	9.0x	14.5x	11.6x	19.7x	16.4x	44.0%	34.2%
Paradox	1,841	8.9x	6.8x	15.0x	10.9x	26.7x	18.9x	34.2x	24.6x	59.1%	33.3%
Frontier Developments	1,402	8.4x	6.3x	22.3x	16.8x	37.8x	28.9x	43.0x	32.7x	37.5%	22.1%
Team17	1,440	11.0x	9.8x	29.4x	26.3x	33.1x	29.7x	41.5x	37.6x	37.2%	33.1%
Nacon	497	2.1x	1.7x	5.7x	4.6x	10.7x	8.6x	18.5x	13.8x	36.2%	19.3%
Focus Home	362	2.0x	1.7x	10.2x	8.0x	14.7x	12.0x	24.5x	17.6x	19.4%	13.5%
Activision	66,105	6.8x	6.0x	15.7x	13.5x	16.3x	13.9x	22.3x	19.3x	43.4%	41.9%
Electronic Arts	39,517	5.3x	4.8x	14.8x	13.4x	16.4x	14.7x	21.6x	19.2x	35.6%	32.0%
TakeTwo Interactive	18,635	4.5x	4.0x	19.6x	16.4x	22.0x	17.9x	30.6x	25.8x	23.1%	20.6%
Ubisoft	7,384	2.8x	2.5x	5.9x	5.1x	14.4x	12.9x	21.7x	19.2x	47.2%	19.5%
CD Projekt	4,324	12.1x	11.6x	20.7x	18.8x	24.3x	23.9x	33.2x	26.2x	58.3%	49.7%
Mean		**6.2x**	**5.4x**	**15.5x**	**13.0x**	**21.0x**	**17.5x**	**28.3x**	**23.0x**	**40.1%**	**29.0%**
Mobile publishers											
Zynga	8,670	3.0x	2.7x	13.1x	11.1x	14.5x	12.4x	23.0x	18.8x	23.0%	20.7%
Stillfront	1,971	3.6x	3.1x	9.9x	8.2x	12.4x	10.2x	13.3x	10.9x	36.3%	29.0%
Rovio	641	1.5x	1.4x	9.4x	9.1x	12.0x	11.2x	18.9x	17.7x	16.0%	12.6%
Mean		**2.7x**	**2.4x**	**10.8x**	**9.4x**	**13.0x**	**11.3x**	**18.4x**	**15.8x**	**25.1%**	**20.8%**
Service companies											
Keywords	2,947	4.9x	4.3x	25.8x	23.1x	32.8x	29.7x	42.2x	38.1x	19.1%	15.0%
Sumo	1,146	7.9x	6.5x	34.9x	29.3x	43.0x	36.2x	54.3x	46.7x	22.7%	18.4%
Mean		**6.4x**	**5.4x**	**30.4x**	**26.2x**	**37.9x**	**32.9x**	**48.2x**	**42.4x**	**20.9%**	**16.7%**
Video Game Mean		**5.6x**	**4.8x**	**16.5x**	**14.0x**	**21.6x**	**18.3x**	**28.9x**	**24.0x**	**34.9%**	**25.9%**
Adtech and Games											
Applovin	20,765	8.3x	6.8x	31.9x	23.7x	93.1x	49.9x	174.8x	79.2x	26.1%	9.0%
Ironsource	9,802	19.1x	14.3x	56.5x	43.3x	99.0x	62.3x	110.1x	74.9x	33.7%	19.2%
Mean		**13.7x**	**10.6x**	**44.2x**	**33.5x**	**96.1x**	**56.1x**	**142.4x**	**77.1x**	**29.9%**	**14.1%**
Adtech only											
Trade Desk	40,979	34.7x	27.0x	90.6x	73.1x	175.9x	119.9x	122.4x	105.8x	38.3%	19.7%
Pubmatic	1,232	5.4x	4.3x	16.8x	14.3x	34.7x	30.4x	62.7x	54.4x	32.0%	15.5%
Magnite	4,119	11.4x	8.8x	36.6x	26.7x	neg.	47.7x	57.1x	37.9x	31.2%	neg.
Mean		**17.2x**	**13.4x**	**48.0x**	**38.1x**	**105.3x**	**66.0x**	**80.7x**	**66.0x**	**33.8%**	**17.6%**
Adtech average		**15.8x**	**12.3x**	**46.5x**	**36.2x**	**100.7x**	**62.0x**	**105.4x**	**70.4x**	**32.3%**	**15.9%**
MGI (on Berenberg adj. estimates)		**3.7x**	**2.9x**	**13.7x**	**10.2x**	**20.3x**	**15.9x**	**24.4x**	**18.2x**	**26.9%**	**20.1%**
Premium / discount to video game peers		*(34.3%)*	*(39.3%)*	*(17.1%)*	*(26.8%)*	*(6.0%)*	*(13.2%)*	*(15.6%)*	*(24.1%)*	*(22.8%)*	*(22.5%)*
Premium / discount to video game peers		*(76.7%)*	*(76.1%)*	*(70.6%)*	*(71.8%)*	*(79.8%)*	*(74.4%)*	*(76.9%)*	*(74.1%)*	*(5.4%)*	*4.2%*

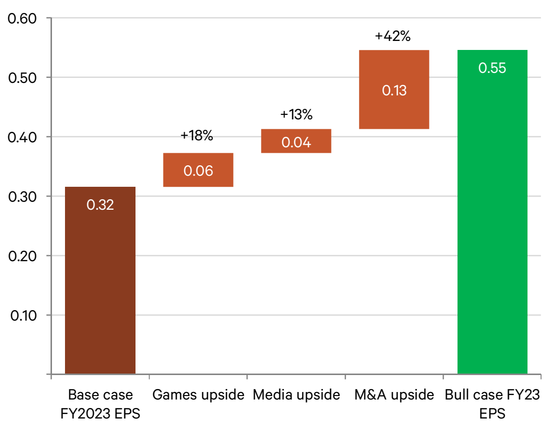
Source: Factset; Berenberg estimates

FY 2023 bull-case scenario

In key investment points one to four, we discussed why we believe that there is meaningful upside risk to our base-case forecasts. In total, we believe that there is c100% and c75% upside to our FY 2023 EBITDA and EPS estimates respectively. Applying the market average multiples – as used in our base-case valuation – to our bull-case FY 2023 estimates returns a bull-case price target of EUR13.40. We believe that this price better encapsulates the multi-year investment case for MGI compared to a one-year forward multiple on our base-case estimates. As a reminder, the key drivers of our bull-case estimates are as follows.

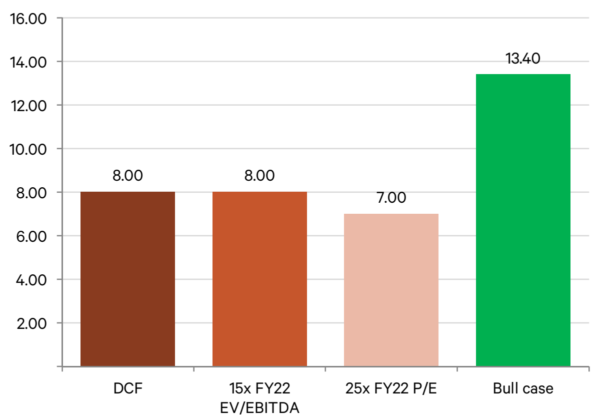
- **Video games upside:** We believe that the games division could drive 18% upside to our group earnings estimates in FY 2023. This is primarily due to: the current trading momentum; a strong pipeline of updates for existing games and new game releases; KingsIsle's growth potential and synergies; and the synergies from the Smaato acquisition.
- **Media upside:** The acquisition of Smaato is transformative for the media division, adding capabilities and scale that will improve the growth outlook of the division. Management suggested Smaato could deliver c15% revenue synergies for the division that, combined with a continuation of the 20% organic growth that has been delivered by MGI's existing media division, could drive 13% upside to our group FY 2023 earnings estimate.
- **M&A:** Our scenario analysis suggests that the ongoing delivery of MGI's M&A strategy could add 42% to our FY 2021-23 estimates.
- **Bull-case EBITDA and EPS:** In our bull-case scenario, we estimate that EBITDA and EPS could reach cEUR200m and cEUR0.55/share respectively.

FY 2023 bull-case EPS build



Source: Berenberg estimates

Bull-case price target versus base case



Source: Berenberg estimates

Key risks

- **Evolving advertising ecosystem and regulation:** The advertising technology market is under constant evolution, with recent examples being Apple's deprecation of IDFA and Google's move to remove third-party cookies. With the adtech ecosystem likely to continue to evolve, it will place pressure on MGI, and its peers, to continue to invest and stay abreast of market developments. There is the risk that changes to the ecosystem or new regulation could negatively impact MGI's media division's business model and/or its ability to drive synergies between its media and games division.
- **The loss of a major publishing licence:** Many of MGI's largest games are developed by third parties and published by MGI. This licence agreement and the renewal thereof are key to maintaining its revenue base. A loss of major gaming licence IP could reduce the games division's outlook materially.
- **COVID-19 normalisation:** The increase in stay-at-home habits brought about by COVID-19 in 2020 resulted in a major tailwind for video game engagement. While this has grown the addressable market, it will ultimately normalise – this is likely to create a yoy growth headwind for MGI's games division, in our view.
- **Difficulty in forecasting single game performance:** As with any video game company, financial performance is essentially driven by the collective performance of individual games, which – in themselves – are hard to forecast. Games can increase in popularity and fall out of favour very quickly, which can cause very rapid changes in a company's outlook. That said, we think that MGI's strategy to focus on long life-cycle games – mainly MMO's and its diversified portfolio of titles – should help to mitigate this risk to a degree.
- **M&A and integration risk:** Acquisitions play a very important role in MGI's growth strategy, particularly the synergies that it reaps from the integration between its games and media divisions. Despite its strong MA& track record, we believe that risk surrounding identification, due diligence and performance still remain.
- **Cyclicality:** Both the video game market and advertising markets are inherently cyclical given their link to consumer spending. Therefore, this cyclicality is an inherent risk to the consistency of MGI's growth trajectory, in our view.

Financials

MGI P&L

Income Statement		2019A	2020A	2021E	2022E	2023E
Revenue	**€ m**	**83.9**	**140.2**	**249.2**	**312.6**	**343.9**
Change (%)		*86%*	*67%*	*78%*	*25%*	*10%*
Games		**43.1**	**75.2**	**126.4**	**141.5**	**155.7**
Change (%)		*0%*	*207%*	*68%*	*12%*	*10%*
Media		**40.8**	**65.0**	**122.8**	**171.1**	**188.2**
Change (%)		*0%*	*169%*	*89%*	*39%*	*10%*
Other		-	-	-	-	-
Adjusted EBITDA	**€ m**	**18.1**	**29.2**	**67.1**	**89.7**	**100.6**
Change (%)		*39%*	*186%*	*130%*	*34%*	*12%*
Margin (%)		*22%*	*21%*	*26.9%*	*28.7%*	*29.2%*
Games EBITDA		**14.5**	**23.2**	**48.6**	**53.8**	**59.2**
Change (%)		*0%*	*201%*	*110%*	*11%*	*10%*
Margin (%)		*34%*	*31%*	*39%*	*38%*	*38%*
Media EBITDA		**3.6**	**6.0**	**18.4**	**35.9**	**41.4**
Change (%)		*0%*	*140%*	*207%*	*95%*	*15%*
Margin (%)		*9%*	*9%*	*15%*	*21%*	*22%*
EBITDA		**15.5**	**26.5**	**63.1**	**88.2**	**100.6**
Change (%)		*0%*	*195%*	*138%*	*40%*	*14%*
Margin (%)		*18%*	*19%*	*25.3%*	*28.2%*	*29.2%*
Games EBITDA		***12.6***	***21.4***	***46.1***	***52.8***	***59.2***
Media EBITDA		***2.9***	***5.1***	***16.9***	***35.4***	***41.4***
Underlying D&A		**(7.7)**	**(11.7)**	**(17.0)**	**(21.0)**	**(24.1)**
Depreciation as % of sales		*9.2%*	*8.3%*	*6.8%*	*6.7%*	*7.0%*
Adjusted EBIT	**€ m**	**10.4**	**17.5**	**50.1**	**68.7**	**76.5**
Change (%)		*0%*	*202%*	*186%*	*37%*	*11%*
Margin (%)		*12%*	*12%*	*20.1%*	*22.0%*	*22.2%*
PPA Amortisation		**(2.8)**	**(3.9)**	**(11.0)**	**(10.0)**	**(9.5)**
Reported EBIT	**€ m**	**5.0**	**11.1**	**39.1**	**58.7**	**67.0**
Net Financial Expenses	**€ m**	**(5.8)**	**(7.1)**	**(11.4)**	**(13.8)**	**(13.5)**
Reported PBT	**€ m**	**(0.8)**	**3.9**	**27.7**	**44.9**	**53.4**
Adjusted PBT	**€ m**	**4.6**	**10.4**	**38.7**	**54.9**	**62.9**
Tax	**€ m**	**2.0**	**(1.2)**	**(8.5)**	**(13.2)**	**(15.7)**
Profit After Tax (Accounts)	**€ m**	**1.3**	**2.7**	**19.1**	**31.7**	**37.7**
Adjusted Net Income	**€ m**	**6.7**	**9.2**	**30.1**	**41.7**	**47.2**
Change (%)		*0%*	*116%*	*229%*	*38%*	*13%*
Margin (%)		*8%*	*7%*	*12%*	*13%*	*14%*
Number of Shares						
W.av Number of Shares (Basic)		60	85	145	150	150
W.av Number of Shares (Diluted)		67	96	145	150	150
-	-	-	-	-	-	-
EPS						
EPS (Basic)	c/share	0.02	0.03	0.13	0.21	0.25
Change (%)		*0%*	*53%*	*318%*	*60%*	*19%*
EPS (Adjusted)	c/share	**0.11**	**0.11**	**0.21**	**0.28**	**0.32**
Change (%)		*0%*	*(3%)*	*94%*	*34%*	*13%*

Source: Company reports, Berenberg estimates

MGI balance sheet and net debt

Balance Sheet	2019A	2020A	2021E	2022E	2023E
	-	-	-	-	-
Non-Current Assets	**256.6**	**293.5**	**294.1**	**314.2**	**336.3**
Intangible Assets	233.2	272.8	272.8	272.8	272.8
Goodwill	147.3	164.0	164.0	164.0	164.0
Intangible Fixed Assets	85.9	108.8	124.0	141.0	159.6
PP&E	3.5	1.7	(12.8)	(9.6)	(6.2)
Other financial assets	6.4	1.1	1.1	1.1	1.1
Deferred tax assets	11.2	15.7	15.7	15.7	15.7
Other Non-Current Assets	2.2	2.1	2.1	2.1	2.1
Current Assets	**55.9**	**92.4**	**194.3**	**234.2**	**295.1**
Inventories	-	-	-	-	-
Receivables	17.0	37.0	62.3	78.2	86.0
Other debtors	5.8	9.1	9	9.1	9.1
Current tax assets	-	-	-	-	-
Cash (of which cash)	33.0	46.3	122.9	147.0	200.0
Cash (of which banking fac.)	-	-	-	-	-
Other Current Assets	-	-	-	-	-
Total Assets	**312.4**	**385.8**	**488.5**	**548.5**	**631.4**
Current Liabilities	**(54.5)**	**(78.2)**	**(91.1)**	**(105.0)**	**(111.9)**
ST Debt	(6.8)	(19.0)	(19.0)	(19.0)	(19.0)
Payables	(20.3)	(30.0)	(54.8)	(68.8)	(75.7)
Provisions	(12.6)	(17.3)	(17.3)	(17.3)	(17.3)
Income tax payable	-	-	-	-	-
Other Current Liabilities	(14.9)	(11.9)	-	-	-
Non-Current Liabilities	**(89.3)**	**(130.8)**	**(320.8)**	**(320.8)**	**(319.5)**
LT Debt	(64.0)	(95.4)	(285.4)	(285.4)	(284.0)
Provisions	-	-	-	-	-
Pension Provisions	-	-	-	-	-
Deferred tax liabilities	(17.0)	(23.8)	(24)	(24)	(24)
Other Non-Current Liabilities	(8.4)	(11.7)	(11.7)	(11.7)	(11.7)
Equity	**(168.6)**	**(176.8)**	**(76.6)**	**(122.6)**	**(200.1)**
Shareholders' Equity	(98.1)	(176.8)	(76.6)	(122.6)	(200.0)
Minorities	(70.5)	(0.1)	(0.1)	(0.1)	(0.1)
Total Liabilities and Equity	**(312.4)**	**(385.8)**	**(488.5)**	**(548.5)**	**(631.4)**
Net Debt (Financial)	**37.8**	**68.1**	**181.4**	**157.4**	**103.0**
Financial Net Debt/EBITDA	**2.1x**	**2.3x**	**2.7x**	**1.8x**	**1.0x**

Source: Company reports, Berenberg estimates

MGI cash flow

Cash Flow	2019A	2020A	2021E	2022E	2023E
	0.000	-	-	-	-
adj Net Income	6.7	9.2	19.1	31.7	37.7
D&A	7.7	11.7	17.0	21.0	24.1
Working Capital	4.7	(4.5)	(0.5)	(1.9)	(0.9)
(+) P&L interest	-	7.1	11.4	13.8	13.5
(+) P&L tax	(0.8)	1.2	8.5	13.2	15.7
(+/-) cash interest paid/received	5.6	0.2	(11.4)	(6.9)	(6.8)
(+/-) cash tax paid/received	-	(1.1)	(4.3)	(6.6)	(7.9)
Non-recurring	(5.8)	-	-	-	-
Other Operating Cash Flow	(1.9)	1.4	1.0	1.0	1.0
Cash From/(For) Operations	**16.2**	**25.2**	**40.9**	**65.3**	**76.5**
	-	-	-	-	-
CAPEX	(0.0)	(1.7)	(2.5)	(3.1)	(3.4)
Acquisitions and Disposals	(5.5)	(36.4)	(251.6)	(21.2)	-
Capitalised development costs	(12.6)	(17.4)	(15.2)	(17.0)	(18.7)
Other Investment Cash Flow	0.0	(0.0)	-	-	-
Cash From/(For) Investments	**(18.1)**	**(55.5)**	**(269.2)**	**(41.3)**	**(22.1)**
	0%	0%	-	-	-
Dividend	-	-	-	-	-
Buybacks and Equity Issuance	8.8	26.9	115.0	-	-
Borrowings	21.6	16.7	190.0	-	(1.3)
Other Financing Cash Flow	-	-	-	-	-
Cash From/(For) Financing	**30.4**	**43.6**	**305.0**	**-**	**(1.3)**
	-	-	-	-	-
Change in Cash (Continuing)	28.5	13.3	76.7	24.0	53.0
Change in Cash (Discontinued)	-	-	-	-	-
Cash Flow Effect of FX	-	-	-	-	-
Other Cash Flow Movements	-	-	-	-	-
Cash at Begining of Period	**4.4**	**33.0**	**46.3**	**122.9**	**147.0**
Net Change in Group Cash	**28.5**	**13.3**	**76.7**	**24.0**	**53.0**
Cash at End of Period	**33.0**	**46.3**	**122.9**	**147.0**	**200.0**

Source: Company reports, Berenberg estimates

Media and Games Invest SE (M8G GY)

UK Mid-Cap – Media

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Production of the recommendation completed: 16.08.2021, 16:16 GMT

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Date	Price target - EUR	Rating	First dissemination GMT	Initiation of coverage
16 August 21	8.20	Buy	-	16 August 21

Click here for a list of all recommendations on any financial instrument or issuer that were disseminated during the preceding 12-month period.

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Hold	36.71 %	1.84 %

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