

Media and Games Invest SE*5a,5b,7,11

Rating: Buy

Target price: 8.50 €
(previously: 8.00 €)

Current price: 5.45
30/08/2021 / Xetra
(closing price)

Currency: EUR

Master data:

ISIN: MT0000580101
WKN: A1JGT0
Ticker symbol: M8G
Number of shares³: 149.68
Market cap³: 815.76
Enterprise Value³: 895.52
³ in m / in m EUR

Free float: 57.7%

Transparency level:
Nasdaq First North Premier

Market segment:
Open Market
(Open Market)

Accounting:
IFRS

Financial year: 31/12/

Designated Sponsor:
Hauck & Aufhäuser
Privatbankiers AG
Pareto Securities AB

Analysts:

Marcel Goldmann
goldmann@gbc-ag.de

Cosmin Filker
filker@gbc-ag.de

* Catalogue of possible conflicts of interest on page 11

Date (time) of completion:
31/08/2021 (10:18 am)

Date (time) of distribution:
31/08/2021 (11:00 am)

Validity of the target price: until
max. 31/12/2022

Company profile

Industry: Entertainment, media

Focus: Video games (so-called MMOs) and Ad-Tech

Employees: >800

Foundation: 2000 (Headquarters: Malta)

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



Media and Games Invest SE is a profitable and growing company in the games and digital media sectors. In addition to their increasing focus on organic growth, strategic acquisitions of companies and their consistent integration into the Group form an important cornerstone in MGI's growth strategy. So far, this strategy has produced various synergies such as cost reductions, leverage and economies of scale. According to management, this strategy is followed by only a few competitors, especially in the gaming sector, leaving room for acquisitions at a favourable price. In 2021, the following has already been achieved: 1) Acquisition of renowned US game developer KingsIsle Entertainment Inc, the largest acquisition to date with an incremental pro-forma EBITDA of approximately 60.0% 2) The acquisition of North American connected TV platform LKQD, which has a reach of more than 200 million end users, and data targeting SaaS platform Beemray. In the current COVID-19 pandemic, video games have once again proven to be crisis-proof and non-cyclical, while the media market has suffered, especially in the second quarter of 2020, but will return to double-digit growth in 2021, according to analyst estimates. As consumers have had more free time, demand for entertainment, and thus video games, has surged. MGI shares have been listed on the Scale segment (previously Basic Board) of the Deutsche Börse since July 2020 and have had a dual listing on Nasdaq's First North Premier since October 6, 2020.

P&L in m EUR \ FY-end	31/12/2020	31/12/2021e	31/12/2022e	31/12/2023e
Revenues	140.22	234.15	289.88	362.41
Adj. EBITDA	29.10	65.71	86.53	111.83
EBITDA	26.55	61.21	82.33	107.63
EBIT	11.04	32.89	47.30	72.43
Net result after minorities	3.06	16.93	24.29	42.22

Key figures in EUR				
Earnings per share (EPS)	0.03	0.11	0.16	0.28
Dividend per share	0.00	0.00	0.00	0.00

Key figures				
EV/Revenue	6.39	3.82	3.09	2.47
EV/Adj. EBITDA	30.77	13.63	10.35	8.01
EV/EBITDA	33.73	14.63	10.88	8.32
EV/EBIT	81.12	27.23	18.93	12.36
P/E ratio (after minorities)	266.59	48.18	33.58	19.32
P/B ratio	4.61			

Financial calendar	
30/11/2021:	Financial statement Q3 2021
28/02/2022:	Financial statement Q4 2021
31/05/2022:	Financial statement Q1 2022

**Last research from GBC:	
Date:	Publication / Target price in EUR / Rating
07/07/2021:	RS / 8.00 / BUY
15/06/2021:	RS / 6.92 / BUY
11/05/2021:	RS / 6.92 / BUY

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

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Continuation of dynamic sales growth in H1 2021; Significant increase in profitability due to economies of scale and M&A effects; GBC estimates and target price also raised following increase in company guidance

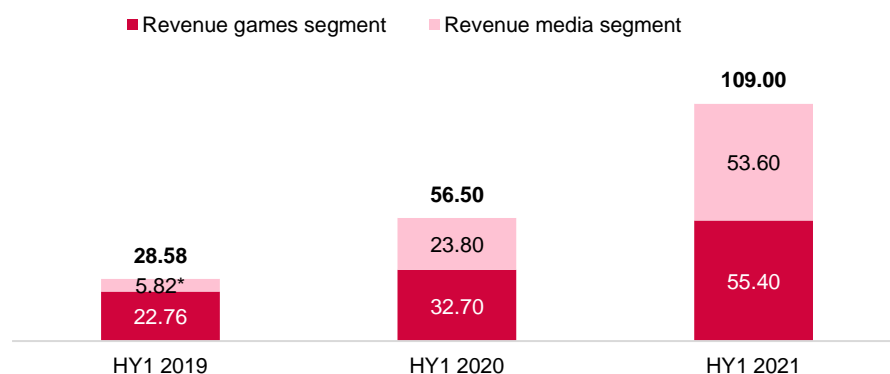
Business development in HY1 2021

P&L (in m €)	HY1 2019	HY1 2020	HY1 2021
Revenues	28.60	56.60	109.00
EBITDA (EBITDA margin)	7.50 (26.0%)	11.60 (21.0%)	26.60 (24.0%)
Adjusted EBITDA (Adjusted EBITDA margin)	n/s	12.70 (22.0%)	28.70 (26.0%)
Result for the period	0.90	0.50	5.60
EPS in €	0.01	0.01	0.04

Sources: Media and Games Invest SE; GBC AG

Media and Games Invest SE (MGI) was able to continue its dynamic growth course in the first six months of the current fiscal year. Compared to the same period of the previous year, consolidated revenues jumped by 92.6% to € 109.00 million (H1 2020: € 56.60 million).

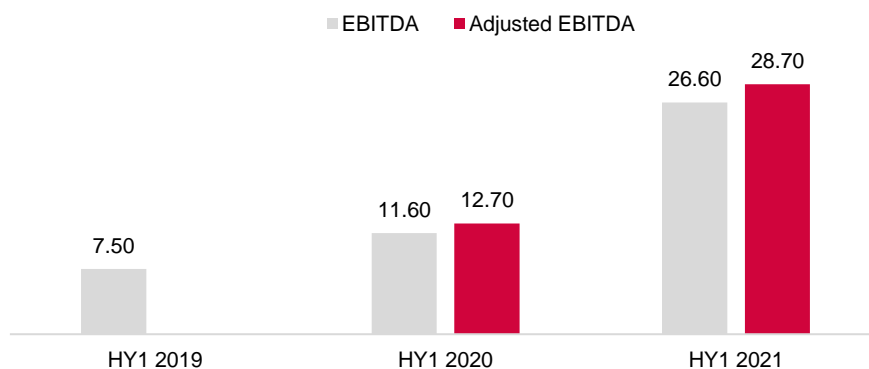
Development of Group and segment revenues (in € million)



Sources: Media and Games Invest SE; GBC AG *media segment also include platform services

This was mainly due to strong organic growth effects in the Gaming and Media segments as well as positive revenue synergies within the MGI Group. In addition, M&A activities (especially the KingsIsle transaction) also contributed to the positive Group revenue development.

Development of EBITDA and adjusted EBITDA on a half-year basis (in € million)



Sources: Media and Games Invest SE; GBC AG

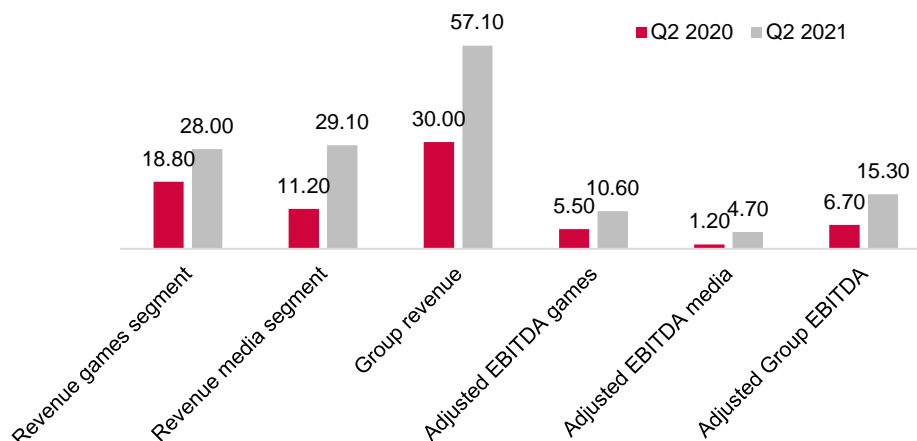
Parallel to this, the consolidated operating result (EBITDA) also increased significantly by 129.3% to € 26.60 million (previous year: € 11.60 million) compared with the same period of the previous year. Adjusted for special effects (e.g. M&A costs), the adjusted EBITDA for the first half of 2021 amounted to € 28.70 million, which also rose sharply by around 125.0% year-on-year (previous year: € 12.70 million).

MGI also made significant gains at the net level in the first six months of the current fiscal year as a result of their significant improvement in profitability, leading to a jump in earnings to € 5.60 million in H1 2021 (H1 2020: € 0.50 million).

Business development in Q2 2021

Their dynamic growth course is particularly evident in the quarterly view. Following their strong opening quarter, MGI also posted another record quarter in the second quarter of the current fiscal year with a 90.0% increase in consolidated revenues to € 57.10 million (Q2 2020: € 30.0 million). The strong growth resulted primarily from revenue synergies and organic growth within the Gaming and Media segment. It should be noted here that organic growth of 36.0% was significantly above the company's planning and was also significantly increased despite a particularly strong prior-year quarter due to the Corona pandemic.

Quarterly performance of the segments (in € million)



Sources: Media and Games Invest SE; GBC AG

Group EBITDA adjusted for special effects (e.g. M&A costs) grew even more strongly than revenues in the second quarter due to the strong performance of the acquired gaming company KingsIsle in combination with economies of scale and thus increased by around 128.0% to € 15.30 million (Q2 2020: € 6.70 million). The economies of scale came to bear here primarily in the media segment due to the revenue growth achieved and the synergies realized and led to an adjusted EBITDA margin of 16.0% (Q2 2020: 11.0%).

Guidance raised against the backdrop of accelerated inorganic growth

In addition, MGI announced on July 13, 2021 that an agreement was successfully concluded with the current Smaato shareholder Shanghai Qiugu Investment Partnership for the acquisition of 99.9% of the shares in Smaato's holding company "Shanghai Yi Qiu Business Management Co. Ltd. As part of the transaction, MGI will acquire all but one share of Smaato and will receive a call option to acquire the remaining share, exercisable no earlier than March 31, 2022. According to company sources, the Smaato transaction is expected to close on September 1, 2021.

With locations in San Francisco and Hamburg, Smaato operates a leading digital programmatic advertising platform with a clear focus on mobile devices. This advertising specialist offers its programmatic services to publishers on a software-as-a-service (programmatic SaaS) basis. With expected revenues of € 39.0 million in 2021, representing organic growth of approximately 20.0% compared to 2020, and expected adjusted EBITDA of € 13.0 million in 2021 (corresponding to a 33.0% EBITDA margin), Smaato is showing a very positive development, according to the company. Through its platform, Smaato reaches over 1.30 billion unique users worldwide every month. This would significantly increase the reach of MGI's Verve Group media segment to a total of 2.70 billion users worldwide.

Against the backdrop of the signed Smaato acquisition, MGI's management recently decided to increase the company's previous guidance. MGI now expects consolidated revenues for the current fiscal year 2021 to be in the range of € 234.0 million to € 254.0 million (previously: € 220.0 million to € 240.0 million) and adjusted EBITDA to be in the range of € 65.0 million to € 70.0 million (previously: € 60.0 million to € 65.0 million).

Overall, it should be noted that the revenue and earnings performance of the MGI Group was very satisfactory in the first half of 2021. In particular, the Media segment was able to make significant gains in terms of profitability. In addition, the performance also showed how highly scalable the Group's platform-based business model is and what positive synergy effects are possible through the combination of the two complementary business segments (Games & Media).

Forecast and evaluation

P&L (in m €)	FY 2020	FY 2021e (New)	FY 2021e (Old)	FY 2022e (New)	FY 2022e (Old)	FY 2023 (New)	FY 2023 (Old)
Revenues	140.22	234.15	223.15	289.88	276.29	362.41	345.64
Adjusted EBITDA	29.10	65.71	62.71	86.53	80.80	111.83	105.22
EBITDA	26.55	61.21	58.71	82.33	76.60	107.63	101.02
EBIT	11.04	32.89	30.89	47.30	49.57	72.43	74.40
Net result (after minorities)	3.06	16.93	15.98	24.29	26.05	42.22	43.49

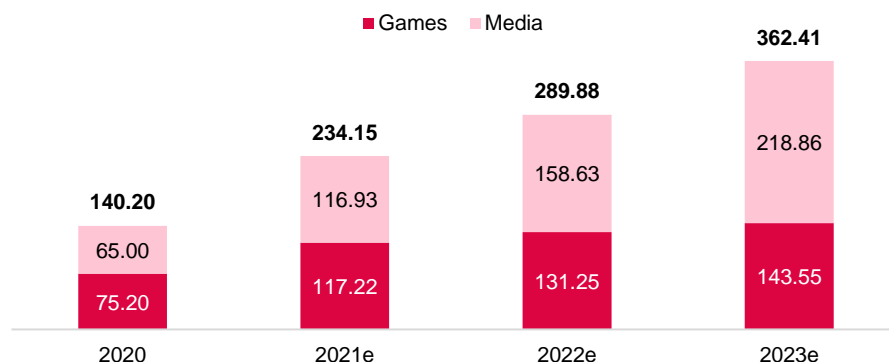
Sources: Media and Games Invest SE; estimates GBC AG

In view of their convincing half-year business development, the Group's extensive growth pipeline and their once again increased guidance, we have also raised our previous forecasts for the current financial year and subsequent years.

From a conservative perspective, we now expect consolidated revenues of € 234.15 million (previously: € 223.15 million) and EBITDA of € 61.21 million (previously: € 58.71 million), which are both at the lower end of the adjusted forecast range. For the current fiscal period, we assume that around 50.0% of consolidated revenues will be generated in both

the Gaming and Media segments. For the latter segment, we also anticipate a positive revenue contribution from the expected consolidation of Smaato (from September 2021).

Expected segment revenue development (in € million)



Sources: Media and Games Invest SE; estimates GBC AG

We also expect a continuation of the successful growth strategy for the following fiscal years and anticipate significant revenue and earnings growth in both business segments. Thanks to the good market position of the Gaming segment and the numerous growth projects announced by the division, MGI should succeed in profiting sustainably from the booming gaming sector. Thus, their profitable growth in this business segment should be further expanded significantly in the coming years.

With regard to the Media segment, we also expect dynamic revenue development in the coming years. Here, the business unit should be able to benefit in particular from its strong focus on gaming and e-commerce companies and the increased marketing of digital programmatic advertising (programmatic SaaS advertising). At this point, it should be emphasized that, according to media experts, the area of programmatic advertising is considered one of the fastest growing segments in the digital advertising market.

As a result of the M&A transactions carried out in the recent past, the Media division also has a strong market position and critical size, which should enable MGI to continue to achieve dynamic growth in this division in the future. In particular, the transformative Smaato transaction should significantly advance the group's own advertising division (Verve Group) in terms of revenue volume, profitability and reach. MGI said it expects Smaato's digital advertising technology platform to further strengthen its programmatic SaaS offering and EBITDA margin profile.

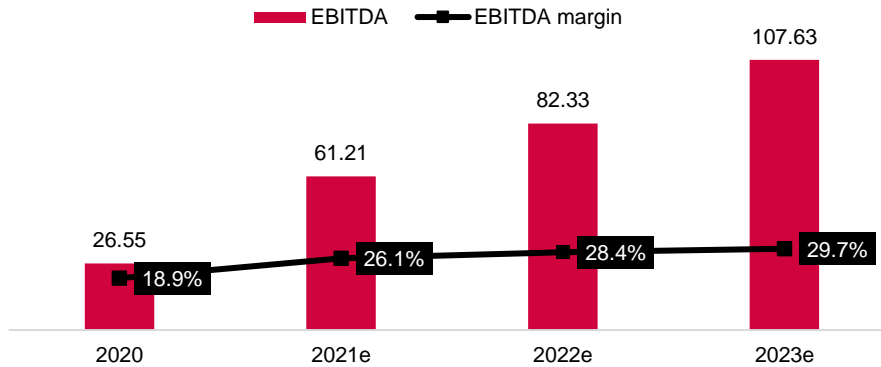
In addition, the even closer integration of the various media units should enable further positive synergy effects to be achieved within the Verve Group, which will additionally boost the profitability and revenue growth of the media division.

Specifically, we expect consolidated revenues of € 289.88 million for the following fiscal year 2022 (previously: € 276.29 million). In the following year 2023, revenues should then be able to increase further to € 362.41 million (previously: € 345.64 million). With regard to the prospective revenue composition, we expect a balanced revenue mix from the Games and Media segments in the medium and long term. Both complementary business segments should also be able to benefit from significant synergy effects with each other in the future.

Our expected dynamic revenue development is also reflected in our earnings forecasts. We expect a significant increase in the operating result (EBITDA) in the coming years. In parallel, we also expect a significant increase in the EBITDA margin to around 30.0% in the long term due to expected economies of scale based on the platform approach of the

MGI Group. In this context, it should be possible to generate EBITDA in the order of € 107.63 million in fiscal year 2023.

Expected development of EBITDA and EBITDA margin



Sources: Media and Games Invest SE; GBC AG

Overall, we believe that the MGI Group is well positioned in the two business segments Gaming and Media to continue their previous dynamic growth course in the growth areas of online/mobile gaming and digital media/ad-tech at a high growth rate in the future. Thanks to the company's platform approach in the gaming and media segment and the extensive synergy potential between the two complementary business areas, MGI should succeed in further increasing group profitability in the future. In addition, the company currently has around € 230.0 million in cash and cash equivalents at its disposal in order to provide additional support for the profitable growth course it has embarked upon through targeted acquisitions, which are also planned as part of the corporate strategy.

Within the framework of our DCF valuation model, we have determined a new price target of € 8.50 per share on the basis of our increased estimates for the financial years 2021, 2022 and 2023, thus significantly raising our previous price target (€ 8.00) significantly. In view of the current share price level, we continue to issue a "buy" rating and see significant upside potential. The results of our peer group analysis (see page 7 below) also support our assessment of the share's attractiveness and price potential.

Peer group analysis

Parallel to the DCF valuation of Media and Games Invest SE, we performed a peer group analysis. This also showed an undervaluation of MGI on the basis of various comparative variables used, such as traditional earnings multiples. The results of the peer group analysis thus additionally support our DCF valuation result.

Company	Ticker	EV/Revenue 20	EV/Revenue 21e	EV/Revenue 22e	EV/Revenue 23e	EV/EBITDA 20	EV/EBITDA 21e	EV/EBITDA 22e	EV/EBITDA 23e
Games - gamigo Business Model									
Embracer Group AB	EMBRAC B (OM)	13.10	8.69	4.85	4.28	75.70	19.68	10.72	9.33
Stillfront Group AB	SF (OM)	4.90	4.09	3.49	3.16	17.40	11.42	8.84	7.76
Paradox Interactive AB	PDX (OM)	8.60	9.95	7.18	6.55	18.30	16.41	11.56	10.41
Enad Global 7 AB	EG7 (OM)	8.40	2.46	1.96	1.81	99.44	8.14	6.21	5.51
G 5 Entertainment AB	G5EN (OM)	2.50	2.61	2.41	2.16	16.20	9.13	8.11	7.10
Roblox Corp.	RBLX (NYSE)	51.70	17.40	14.45	11.65	k.A.	74.44	69.61	51.27
Skillz Inc.	SKLZ (NYSE)	18.04	10.65	7.39	5.63	k.A.	k.A.	k.A.	k.A.
Zynga Inc.	ZNGA (NasdaqGS)	4.30	3.15	2.77	2.59	50.70	13.11	11.24	9.88
Media / AdTech - Verve Standalone Business Model									
The Trade Desk Inc.	TTD (NasdaqGM)	46.80	33.26	26.02	20.35	184.00	85.73	69.08	54.98
Viant Technology Inc.*	DSP (NasdaqGS)	5.96	4.79	3.92	3.43	31.01	37.79	27.15	19.09
Magnite Inc.	MGNI (NasdaqGS)	18.80	11.39	8.89	k.A.	189.40	37.81	27.74	k.A.
PubMatic Inc.	PUBM (NasdaqGM)	10.80	7.62	6.10	4.97	38.60	23.62	20.14	16.25
Games & Media / AdTech - MGI Business Model									
AppLovin Corp.	APP (NasdaqGS)	15.90	8.69	7.13	5.86	76.20	33.37	24.74	19.16
IronSource Ltd.	IS (NYSE)	26.90	16.11	12.22	9.26	94.6	47.44	36.96	27.13
Ø Peer group (all peers)		16.91	10.06	7.77	6.28	74.30	32.16	25.55	19.82
Ø Peer group (direct peers)		21.40	12.40	9.68	7.56	85.40	40.41	30.85	23.15
Media and Games	XTRAM8G	5.20	3.07	2.60	2.18	36.50	11.54	9.00	7.27
MGI vs. Ø Peer group (all peers)		-69.2%	-69.5%	-66.5%	-65.3%	-50.9%	-64.1%	-64.8%	-63.3%
MGI vs. Ø Peer group (direct peers)		-75.7%	-75.2%	-73.1%	-71.2%	-57.3%	-71.4%	-70.8%	-68.6%

Sources: GBC AG; S&P Capital IQ * based on implied enterprise value

Rating

Model assumptions

We have valued Media and Games Invest SE using a three-stage DCF model. Starting with the concrete estimates for the years 2021 to 2023 in phase 1, the forecast is made from 2024 to 2028 in the second phase by applying value drivers. We expect revenue to increase by 5.0% (previously: 5.0%). We have assumed an EBITDA target margin of 29.7% (previously: 29.2%). We have included the tax rate of 30.0% in phase 2. In the third phase, a residual value is also determined after the end of the forecast horizon using the perpetual annuity. In the terminal value we assume a growth rate of 2.0%.

Determination of the cost of capital

The weighted average cost of capital (WACC) of Media and Games Invest SE is calculated from the cost of equity and the cost of debt. To determine the cost of equity, the fair market premium, the company-specific beta and the risk-free interest rate must be determined.

The risk-free interest rate is derived from current yield curves for risk-free bonds in accordance with the recommendations of the Fachausschuss für Unternehmensbewertungen und Betriebswirtschaft (FAUB) of the IDW. This is based on the zero bond interest rates published by the Deutsche Bundesbank using the Svensson method. To smooth short-term market fluctuations, the average yields of the previous three months are used and the result rounded to 0.25 basis points. The value currently used for the risk-free interest rate is 0.25% (previously: 0.25%).

We set the historical market premium of 5.5% as a reasonable expectation of a market premium. This is supported by historical analyses of equity market returns. The market premium reflects the percentage by which the equity market is expected to yield better than low-risk government bonds.

According to the GBC estimation method, a beta of 1.36 is currently determined.

Using the assumptions made, we calculate a cost of equity of 7.7% (beta multiplied by risk premium plus risk-free interest rate). As we assume a sustainable weighting of the cost of equity of 80.0% (previously: 80.0%), the weighted average cost of capital (WACC) is 7.1% (previously: 7.1%).

Valuation result

Our fair value per share at the end of fiscal 2022 corresponds to a target price of € 8.50 per share (previously: € 8.00 per share). Our significant price target increase results from our raised estimates for fiscal years 2021, 2022 and 2023 and the associated higher starting level for the subsequent years.

DCF model

Media and Games Invest SE - Discounted Cashflow (DCF) model

Value driver used in the DCF-model's estimate phase:

consistency - Phase		final - Phase	
Revenue growth	5.0%	Perpetual growth rate	2.0%
EBITDA-margin	29.7%	Perpetual EBITA margin	25.5%
Depreciation on fixed assets	47.0%	Effective tax rate in terminal value	30.0%
Working capital to sales	10.0%		

Three-phase DCF - model:

Phase in mEUR	estimate			consistency					final value
	FY 21e	FY 22e	FY 23e	FY 24e	FY 25e	FY 26e	FY 27e	FY 28e	
Revenue (RE)	234.15	289.88	362.41	380.53	399.56	419.53	440.51	462.54	
Revenue change	67.0%	23.8%	25.0%	5.0%	5.0%	5.0%	5.0%	5.0%	2.0%
Revenue to fixed assets	2.29	3.46	5.66	7.77	9.76	11.43	12.79	13.91	
EBITDA	61.21	82.33	107.63	113.02	118.67	124.60	130.83	137.37	
EBITDA margin	26.1%	28.4%	29.7%	29.7%	29.7%	29.7%	29.7%	29.7%	
EBITA	32.89	47.30	72.43	82.90	95.66	105.36	113.58	121.18	
EBITA margin	14.0%	16.3%	20.0%	21.8%	23.9%	25.1%	25.8%	26.2%	25.5%
Taxes on EBITA	-8.22	-11.83	-18.11	-24.87	-28.70	-31.61	-34.07	-36.35	
Tax rate	25.0%	25.0%	25.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
EBI (NOPLAT)	24.67	35.48	54.33	58.03	66.96	73.75	79.51	84.83	
Return on capital	19.2%	31.0%	54.5%	61.2%	77.0%	91.2%	101.1%	108.1%	106.0%
Working Capital (WC)	12.15	15.99	30.80	38.05	39.96	41.95	44.05	46.25	
WC to sales	5.2%	5.5%	8.5%	10.0%	10.0%	10.0%	10.0%	10.0%	
Investment in WC	3.94	-3.84	-14.81	-7.25	-1.90	-2.00	-2.10	-2.20	
Operating fixed assets (OFA)	102.30	83.77	64.07	48.96	40.95	36.70	34.45	33.26	
Depreciation on OFA	-28.32	-35.03	-35.20	-30.11	-23.01	-19.25	-17.25	-16.19	
Depreciation to OFA	27.7%	41.8%	54.9%	47.0%	47.0%	47.0%	47.0%	47.0%	
CAPEX	-18.00	-16.50	-15.50	-15.00	-15.00	-15.00	-15.00	-15.00	
Capital employed	114.45	99.76	94.88	87.01	80.90	78.66	78.50	79.51	
EBITDA	61.21	82.33	107.63	113.02	118.67	124.60	130.83	137.37	
Taxes on EBITA	-8.22	-11.83	-18.11	-24.87	-28.70	-31.61	-34.07	-36.35	
Total Investment	-262.07	-20.34	-30.31	-22.25	-16.90	-17.00	-17.10	-17.20	
Investment in OFA	-18.00	-16.50	-15.50	-15.00	-15.00	-15.00	-15.00	-15.00	
Investment in WC	3.94	-3.84	-14.81	-7.25	-1.90	-2.00	-2.10	-2.20	
Investment in goodwill	-248.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Free cashflows	-209.07	50.17	59.21	65.90	73.07	76.00	79.66	83.82	1631.11

Value operating business (due date)	1377.63	1424.89
Net present value explicit free cashflows	366.61	342.36
Net present value of terminal value	1011.03	1082.52
Net debt	183.93	148.55
Value of equity	1193.71	1276.34
Minority interests	-3.50	-3.74
Value of share capital	1190.21	1272.60
Outstanding shares in m	149.68	149.68
Fair value per share in €	7.95	8.50

Cost of Capital:

Risk-free rate	0.3%
Market risk premium	5.5%
Beta	1.36
Cost of equity	7.7%
Target weight	80.0%
Cost of debt	6.0%
Target weight	20.0%
Taxshield	25.0%
WACC	7.1%

Return on Capital	WACC				
	6.5%	6.8%	7.1%	7.4%	7.7%
105.5%	9.71	9.05	8.47	7.95	7.49
105.8%	9.73	9.07	8.48	7.97	7.51
106.0%	9.75	9.09	8.50	7.98	7.52
106.3%	9.77	9.11	8.52	8.00	7.54
106.5%	9.79	9.12	8.54	8.02	7.55

ANNEX

I.

Research under MiFID II

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

II.

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Marcel Goldmann, M.Sc., Financial Analyst

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

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

Email: compliance@gbc-ag.de



GBC AG®
- RESEARCH & INVESTMENT ANALYSEN -

GBC AG
Halderstraße 27
86150 Augsburg
Internet: <http://www.gbc-ag.de>
Fax: ++49 (0)821/241133-30
Tel.: ++49 (0)821/241133-0
Email: office@gbc-ag.de