

# Media and Games Invest SE

Malta / Entertainment

Xetra &amp; Nasdaq First North Premier

Bloomberg: M8G GR

ISIN: MT0000580101

Update

**RATING****PRICE TARGET**

Return Potential

Risk Rating

**BUY****€ 8.00**

65.8%

High

## MGI SET TO ACQUIRE MATCH2ONE

MGI is acquiring the Swedish programmatic advertising platform, Match2One (M2O). We regard this as a strategic deal to bolster its technology stack, while the initial financial impact will be low. Meanwhile, MGI shares have been weak of late after disappointing Q2 results from Swedish gaming peers. Plus, regulatory concerns have recently hurt sector sentiment after a crackdown by Chinese lawmakers on the country's video gaming industry. MGI does not have any direct exposure to China and already complies with tighter youth controls. The company also distinguished itself with a strong Q2 that included 36% organic growth. We think a good Q3 will further separate MGI from the Swedish pack. Our rating remains Buy with an unchanged €8 price target.

**More about the Match2One deal** M2O is a self-serve programmatic demand side platform (DSP) with a technically advanced user interface focused on e-commerce and SME's (small and medium size enterprises). Integration into the technology stack of MGI's Verve group should accelerate M2O's global rollout and provide Verve with new solutions for user acquisition and e-commerce marketers, while generally expanding the programmatic offerings for brands and agencies across the globe. The easy-to-execute platform is expected to open up good opportunities for SME's to scale outside beyond their walled gardens, and this focus should help widen Verve's SME customer base. Terms of the deal were not disclosed, but we gather the initial impact on earnings will be low ahead of M2O's global rollout and leave our estimates unchanged.

**MGI shares down from summer highs on sector sentiment** Several Swedish gaming peers published weaker than expected Q2 results. And gaming investors were rattled by the sudden resignation of the EG7 CEO, Robin Flodin, in late August. Plus, Chinese lawmakers recently tightened youth controls to heavily curtail video game playing time for minors. This raised fears of a global clampdown on video gaming. But we point out. . . (p.t.o.)

### FINANCIAL HISTORY & PROJECTIONS

	2018	2019	2020	2021E	2022E	2023E
Revenue (€m)	32.62	83.89	140.22	234.15	305.09	381.36
Y-o-y growth	n.a.	157.2%	67.1%	67.0%	30.3%	25.0%
EBITDA (€m)	8.65	15.54	26.55	66.25	92.23	112.92
EBITDA margin	26.5%	18.5%	18.9%	28.3%	30.2%	29.6%
Net income* (€m)	4.32	-0.32	3.06	24.75	33.97	44.79
EPS* (diluted) (€)	0.10	-0.01	0.03	0.17	0.23	0.30
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-7.17	3.13	-12.50	-172.24	5.96	52.06
Net gearing	24.0%	22.4%	34.8%	55.8%	53.6%	40.3%
Liquid assets (€m)	4.45	32.98	46.25	163.92	157.26	186.71

\* Adjusted for PPA-amortisation

### RISKS

Risks include but are not limited to: revenue diversity, financing, technology, and regulatory risks.

### COMPANY PROFILE

Media and Games Invest SE (MGI) is a digital integrated video game and media company that combines organic growth with value-accretive and synergetic acquisitions. The company's Gaming and Media segments generate nearly equal revenues.

### MARKET DATA

As of 04 Oct 2021

Closing Price	€ 4.82
Shares outstanding	149.70m
Market Capitalisation	€ 722.15m
52-week Range	€ 1.30 / 6.69
Avg. Volume (12 Months)	196,183

Multiples	2020	2021E	2022E
P/E	149.4	27.6	21.2
EV/Sales	5.4	3.3	2.5
EV/EBITDA	28.8	11.5	8.3
Div. Yield	0.0%	0.0%	0.0%

### STOCK OVERVIEW



### COMPANY DATA

As of 30 Jun 2021

Liquid Assets	€ 246.10m
Current Assets	€ 301.40m
Intangible Assets	€ 437.53m
Total Assets	€ 762.60m
Current Liabilities	€ 109.80m
Shareholders' Equity	€ 292.90m

### SHAREHOLDERS

Bodhivas GmbH	32.3%
Oaktree Capital Mngt	9.1%
Janus Henderson	3.1%
Free Float	55.5%



. . . that authoritarian states are prone to overreaction, and China is in the midst of a sweeping big-tech crackdown. Plus, moral panics in the media are nothing new with pop music, film, and even novels having been previously condemned by grumpy reactionaries. Now video games are the popular villain. MGI has no exposure to China's draconian regulations. The company does not actively offer any direct-to-consumer gaming there, and MGI's gaming revenues in China are < 0.1% of total gaming turnover. MGI has implemented procedures to cope with and avoid excessive gaming and addictive behaviour in its core markets. Among others, MGI now follows the UK's gaming regulations, which recently came into force. We thus see little regulatory risk for MGI and do not expect tighter laws to hamper growth.

MGI shares have retreated some 20% from late-summertime highs. We attribute this to poor sector sentiment. The company reported a strong second quarter that featured 36% OSG (organic sales growth), and we look for Q3 to also include a healthy OSG mix to compliment external growth and further distinguish MGI from its peers. Our rating remains Buy with an unchanged €8 price target.

## VALUATION MODEL

All figures in EUR '000	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
Revenue	234,145	305,091	381,364	446,196	490,816	515,357	535,971	552,050
NOPLAT	24,691	36,911	47,749	59,649	72,057	80,945	87,883	94,533
(+) depreciation & amortisation	29,668	37,543	42,179	47,819	44,993	39,682	35,910	31,467
<b>Net operating cash flow</b>	<b>54,359</b>	<b>74,454</b>	<b>89,928</b>	<b>107,468</b>	<b>117,049</b>	<b>120,628</b>	<b>123,793</b>	<b>126,000</b>
(-) Investments	-226,515	-64,129	-34,399	-40,247	-39,363	-41,332	-38,697	-33,233
(-) Working capital	-11,154	-10,886	-10,001	-9,832	-6,522	-3,224	-2,708	-2,112
<b>Free cash flows (FCF)</b>	<b>-183,310</b>	<b>-562</b>	<b>45,527</b>	<b>57,390</b>	<b>71,164</b>	<b>76,072</b>	<b>82,388</b>	<b>90,655</b>
PV of FCF's	-178,573	-508	38,243	44,765	51,546	51,166	51,457	52,577

All figures in thousands	WACC	Terminal EBIT margin							
		23.3%	25.3%	27.3%	29.3%	31.3%	33.3%	35.3%	
PV of FCFs in explicit period	223,674	4.7%	13.28	14.86	16.44	18.02	19.61	21.19	22.77
PV of FCFs in terminal period	930,048	5.7%	9.78	10.88	11.98	13.08	14.19	15.29	16.39
Enterprise value (EV)	1,153,722	6.7%	7.62	8.44	<b>9.25</b>	<b>10.07</b>	<b>10.88</b>	11.70	12.51
(+) Net cash / (-) net debt (pro-forma)	51,504	7.7%	6.17	6.79	<b>7.42</b>	<b>8.04</b>	<b>8.67</b>	9.30	9.92
(-) Non-controlling interests	-1,154	8.7%	5.11	5.61	<b>6.10</b>	<b>6.60</b>	<b>7.09</b>	7.58	8.08
Shareholder value	1,204,071	9.7%	4.32	4.71	5.11	5.51	5.91	6.31	6.71
Fair value per share (€)	8.00	10.7%	3.69	4.02	4.35	4.67	5.00	5.32	5.65

	WACC	Terminal growth rate							
		0.0%	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	
Cost of equity	9.5%	4.7%	12.85	14.16	15.83	18.02	21.03	25.41	32.38
Pre-tax cost of debt	5.0%	5.7%	10.08	10.89	11.87	13.08	14.63	16.65	19.43
Tax rate	32.5%	6.7%	8.16	8.70	<b>9.32</b>	<b>10.07</b>	<b>10.97</b>	12.10	13.52
After-tax cost of debt	3.4%	7.7%	6.76	7.13	<b>7.55</b>	<b>8.04</b>	<b>8.62</b>	9.31	10.15
Share of equity capital	70.0%	8.7%	5.69	5.95	<b>6.25</b>	<b>6.60</b>	<b>6.99</b>	7.44	7.98
Share of debt capital	30.0%	9.7%	4.85	5.05	5.27	5.51	5.79	6.10	6.47
<b>WACC</b>	<b>7.7%</b>	10.7%	4.18	4.33	4.49	4.67	4.87	5.10	5.36

\*Please note our model runs through 2030 and we have only shown the abbreviated version for formatting purposes



## INCOME STATEMENT

All figures in EUR '000	2018	2019	2020	2021E	2022E	2023E
<b>Revenues</b>	<b>32,621</b>	<b>83,893</b>	<b>140,220</b>	<b>234,145</b>	<b>305,091</b>	<b>381,364</b>
Capitalised work	2,791	10,187	15,994	16,000	17,440	18,661
<b>Total output</b>	<b>35,412</b>	<b>94,080</b>	<b>156,214</b>	<b>250,145</b>	<b>322,531</b>	<b>400,025</b>
Cost of goods sold	-12,699	-45,803	-77,620	-101,853	-125,087	-156,359
<b>Gross profit</b>	<b>22,713</b>	<b>48,277</b>	<b>78,594</b>	<b>148,292</b>	<b>197,444</b>	<b>243,666</b>
Personnel expenses	-10,438	-27,359	-39,573	-59,707	-74,747	-91,527
Other OpEx	-10,135	-10,012	-18,745	-27,161	-35,391	-44,238
Other operating income	6,506	4,636	6,272	4,823	4,919	5,018
<b>EBITDA</b>	<b>8,646</b>	<b>15,542</b>	<b>26,549</b>	<b>66,247</b>	<b>92,225</b>	<b>112,918</b>
Depreciation & amortisation	-6,318	-10,543	-15,508	-29,668	-37,543	-42,179
<b>Operating income (EBIT)</b>	<b>2,328</b>	<b>4,999</b>	<b>11,041</b>	<b>36,579</b>	<b>54,682</b>	<b>70,739</b>
Net financial result	-1,641	-5,758	-7,139	-13,201	-17,613	-17,613
<b>Pre-tax income (EBT)</b>	<b>687</b>	<b>-759</b>	<b>3,901</b>	<b>23,378</b>	<b>37,070</b>	<b>53,126</b>
Income taxes	895	2,012	-1,194	-7,598	-12,048	-17,266
<b>Net income</b>	<b>1,582</b>	<b>1,253</b>	<b>2,707</b>	<b>15,780</b>	<b>25,022</b>	<b>35,860</b>
Discontinued operations	3,673	0	0	0	0	0
<b>Consolidated profit</b>	<b>5,255</b>	<b>1,253</b>	<b>2,707</b>	<b>15,780</b>	<b>25,022</b>	<b>35,860</b>
Minority interests	-932	-1,577	352	-32	-50	-72
<b>Net income to owners</b>	<b>4,323</b>	<b>-324</b>	<b>3,059</b>	<b>15,748</b>	<b>24,972</b>	<b>35,789</b>
<b>Diluted EPS (in €)</b>	<b>0.10</b>	<b>-0.01</b>	<b>0.03</b>	<b>0.11</b>	<b>0.17</b>	<b>0.24</b>
<b>Adj. EBIT (excl: PPA amor. &amp; one-offs)</b>	<b>2,328</b>	<b>4,999</b>	<b>11,041</b>	<b>49,079</b>	<b>64,682</b>	<b>81,739</b>
<b>Ratios</b>						
Gross margin on output	64.1%	51.3%	50.3%	59.3%	61.2%	60.9%
EBITDA margin on revenues	26.5%	18.5%	18.9%	28.3%	30.2%	29.6%
EBIT margin on revenues	7.1%	6.0%	7.9%	15.6%	17.9%	18.5%
Net margin on revenues	13.3%	-0.4%	2.2%	6.7%	8.2%	9.4%
Tax rate	n.a.	n.a.	30.6%	32.5%	32.5%	32.5%
<b>Expenses as % of revenues</b>						
Personnel expenses	32.0%	32.6%	28.2%	25.5%	24.5%	24.0%
Other OpEx	31.1%	11.9%	13.4%	11.6%	11.6%	11.6%
Depreciation & amortisation	19.4%	12.6%	11.1%	12.7%	12.3%	11.1%
<b>Y-Y Growth</b>						
Revenues	n.a.	157.2%	67.1%	67.0%	30.3%	25.0%
EBTIDA	n.a.	79.8%	70.8%	149.5%	39.2%	22.4%
Operating income	n.a.	114.7%	120.9%	231.3%	49.5%	29.4%
Net income/ loss	n.a.	n.m.	n.m.	414.8%	58.6%	43.3%



## BALANCE SHEET

All figures in EUR '000	2018	2019	2020	2021E	2022E	2023E
<b>Assets</b>						
<b>Current assets, total</b>	<b>16,250</b>	<b>55,856</b>	<b>92,375</b>	<b>237,690</b>	<b>253,387</b>	<b>306,864</b>
Cash and equivalents	4,447	32,984	46,254	163,918	157,262	186,708
Trade receivables	11,803	22,872	46,121	73,772	96,125	120,156
<b>Non-current assets, total</b>	<b>220,043</b>	<b>256,593</b>	<b>293,467</b>	<b>590,639</b>	<b>617,556</b>	<b>610,114</b>
Property, plant & equipment	4,189	3,521	1,742	1,789	1,850	1,926
Intangible assets	204,142	233,208	272,829	569,629	596,155	588,299
Deferred taxes	6,353	11,215	15,737	16,052	16,373	16,700
Long-term loans to investees	5,359	6,410	1,207	1,207	1,207	1,207
Other non-current assets	0	2,239	1,952	1,962	1,972	1,981
<b>Total assets</b>	<b>236,293</b>	<b>312,449</b>	<b>385,842</b>	<b>828,328</b>	<b>870,943</b>	<b>916,978</b>
<b>Shareholders' equity &amp; debt</b>						
<b>Current liabilities, total</b>	<b>24,358</b>	<b>54,544</b>	<b>78,205</b>	<b>158,333</b>	<b>170,441</b>	<b>185,121</b>
Trade payables	9,366	20,274	30,037	46,534	58,001	72,031
Financial debt	3,595	6,772	6,087	6,087	6,087	6,087
Provisions	7,031	12,585	17,257	17,516	17,779	18,045
Other current liabilities	4,366	14,913	24,824	88,196	88,574	88,958
<b>Long term liabilities, total</b>	<b>53,395</b>	<b>89,347</b>	<b>130,792</b>	<b>364,267</b>	<b>369,752</b>	<b>365,247</b>
Long-term debt	14,100	8,369	11,671	11,671	16,671	11,671
Bonds	24,877	63,988	95,355	285,355	285,355	285,355
Other LT liabilities	0	0	0	43,000	43,000	43,000
Deferred tax liabilities	14,418	16,990	23,766	24,241	24,726	25,221
<b>Shareholders' equity</b>	<b>158,540</b>	<b>168,558</b>	<b>176,845</b>	<b>305,728</b>	<b>330,750</b>	<b>366,610</b>
<b>Total consolidated equity and debt</b>	<b>236,293</b>	<b>312,449</b>	<b>385,842</b>	<b>828,328</b>	<b>870,943</b>	<b>916,978</b>
<b>Ratios</b>						
Current ratio (x)	0.7	1.0	1.2	1.5	1.5	1.7
Net debt	38,125	37,776	61,599	170,524	177,180	147,734
ICR (x)	5.0	2.7	3.7	5.0	5.2	6.4
Net gearing	24%	22%	35%	56%	54%	40%
Net debt / EBITDA (x)	4.4	2.4	2.3	2.6	1.9	1.3
Equity ratio	67%	54%	46%	37%	38%	40%
Return on equity (ROE)	1.0%	0.7%	1.5%	5.2%	7.6%	9.8%
Capital employed (CE)	211,935	257,905	307,637	669,995	700,502	731,857
Return on capital employed (ROCE)	1%	2%	4%	5%	8%	10%



## CASH FLOW STATEMENT

All figures in EUR '000	2018	2019	2020	2021E	2022E	2023E
<b>Net income</b>	<b>5,255</b>	<b>1,253</b>	<b>2,707</b>	<b>15,780</b>	<b>25,022</b>	<b>35,860</b>
Depreciation and amortisation	6,318	10,543	15,508	29,668	37,543	42,179
Change in trade rec & other assets	-8,083	1,437	-4,334	-27,966	-22,674	-24,359
Change in payable & other liabilities	14,501	3,928	-209	17,604	12,592	15,175
Results from sale of subsidiaries	-5,645	0	0	0	0	0
Other non-cash adjustments	-6,150	-5,752	4,072	0	0	0
Net interest expense	1,641	5,529	6,264	13,201	17,613	17,613
Tax result	-895	-822	1,194	7,598	12,048	17,266
<b>Operating cash flow</b>	<b>6,942</b>	<b>16,116</b>	<b>25,202</b>	<b>55,885</b>	<b>82,144</b>	<b>103,734</b>
Tax expense	0	0	0	-7,598	-12,048	-17,266
Interest income	1	83	0	0	0	0
<b>Net operating cash flow</b>	<b>6,943</b>	<b>16,199</b>	<b>25,202</b>	<b>48,287</b>	<b>70,096</b>	<b>86,468</b>
Payments for intangible assets	-11,042	-12,606	-17,380	0	0	0
Acquisition of subsidiaries	-3,919	-6,214	-22,930	-220,000	-63,458	-33,560
CapEx	0	0	0	-515	-671	-839
Deposits / payments for other assets	848	5,750	2,603	-10	-10	-10
<b>Cash flow from investing</b>	<b>-14,113</b>	<b>-13,070</b>	<b>-37,707</b>	<b>-220,525</b>	<b>-64,139</b>	<b>-34,409</b>
<b>Free cash flow (FCF)</b>	<b>-7,170</b>	<b>3,129</b>	<b>-12,505</b>	<b>-172,237</b>	<b>5,957</b>	<b>52,059</b>
Equity inflow, net	3,792	8,845	26,876	113,103	0	0
Debt inflow, net	-15,992	-12,011	-1,420	0	5,000	-5,000
Corporate debt, net	25,800	38,699	27,678	190,000	0	0
Interest paid	-2,014	-5,345	-6,018	-13,201	-17,613	-17,613
Payments for non-controlling interests	0	-5,000	-17,480	0	0	0
Other adjustments	-489	220	-3,862	0	0	0
<b>Cash flow from financing</b>	<b>11,097</b>	<b>25,408</b>	<b>25,774</b>	<b>289,902</b>	<b>-12,613</b>	<b>-22,613</b>
<b>Net cash flows</b>	<b>3,927</b>	<b>28,537</b>	<b>13,269</b>	<b>117,664</b>	<b>-6,656</b>	<b>29,446</b>
Fx adjustments	114	0	0	0	0	0
Cash, start of the year	406	4,447	32,984	46,254	163,918	157,262
<b>Cash, end of the year</b>	<b>4,447</b>	<b>32,984</b>	<b>46,253</b>	<b>163,918</b>	<b>157,262</b>	<b>186,708</b>
<b>EBITDA/share (in €)</b>	<b>0.20</b>	<b>0.26</b>	<b>0.28</b>	<b>0.47</b>	<b>0.62</b>	<b>0.75</b>
<b>Y-Y Growth</b>						
Operating cash flow	n.m.	133.3%	55.6%	91.6%	45.2%	23.4%
Free cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	773.9%
EBITDA/share	n.m.	26.2%	8.5%	66.8%	32.3%	22.4%

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**PRICE TARGET DATES**

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**AGREEMENT WITH THE ANALYSED COMPANY AND MAINTENANCE OF OBJECTIVITY**

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**ASSET VALUATION SYSTEM**

First Berlin's system for asset valuation is divided into an asset recommendation and a risk assessment.

**ASSET RECOMMENDATION**

The recommendations determined in accordance with the share price trend anticipated by First Berlin in the respectively indicated investment period are as follows:

Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy <sup>1</sup>	An expected favourable price trend of:	> 50%	> 30%
Buy	An expected favourable price trend of:	> 25%	> 15%
Add	An expected favourable price trend of:	0% to 25%	0% to 15%
Reduce	An expected negative price trend of:	0% to -15%	0% to -10%
Sell	An expected negative price trend of:	< -15%	< -10%

<sup>1</sup> The expected price trend is in combination with sizable confidence in the quality and forecast security of management.

Our recommendation system places each company into one of two market capitalisation categories. Category 1 companies have a market capitalisation of €0 – €2 billion, and Category 2 companies have a market capitalisation of > €2 billion. The expected return thresholds underlying our recommendation system are lower for Category 2 companies than for Category 1 companies. This reflects the generally lower level of risk associated with higher market capitalisation companies.

**RISK ASSESSMENT**

The First Berlin categories for risk assessment are low, average, high and speculative. They are determined by ten factors: Corporate governance, quality of earnings, management strength, balance sheet and financial risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, strength of brandname, market capitalisation and free float. These risk factors are incorporated into the First Berlin valuation models and are thus included in the target prices. First Berlin customers may request the models.

**RECOMMENDATION & PRICE TARGET HISTORY**

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	7 November 2019	€1.23	Buy	€2.10
2...9	↓	↓	↓	↓
10	2 December 2020	€1.49	Buy	€2.80
11	19 January 2021	€2.76	Buy	€4.00
12	5 March 2021	€3.48	Buy	€5.30
13	27 April 2021	€4.80	Buy	€6.10
14	7 May 2021	€4.30	Buy	€5.80
15	2 July 2021	€5.26	Buy	€6.80
16	16 July 2021	€5.93	Buy	€8.00
17	23 August 2021	€5.30	Buy	€8.00
18	Today	€4.82	Buy	€8.00



### INVESTMENT HORIZON

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

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#### Legally required information regarding

- key sources of information in the preparation of this research report
- valuation methods and principles
- sensitivity of valuation parameters

can be accessed through the following internet link: <https://firstberlin.com/disclaimer-english-link/>

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