



Research Report (Initial Coverage)



Dynamic and profitable investment group within the synergetic gaming and media sectors

Target Price: €1.90

Rating: BUY

IMPORTANT NOTE:

Please take note of the disclaimer/risk warning, as well as the disclosure of potential conflicts of interest as required by section § 85 WpHG und Art. 20 MAR on page 34

Note on research as a “minor non-monetary benefit” according to the MiFID II regulation: This research meets the requirements for being classified as a “minor non-monetary benefit”. For more information, see the disclosure under “1. Research under MiFID II”

Date (time) of completion: 11.11.2019 (9:42 am)
Date (time) of first distribution: 11.11.2019 (11:00 am)
Target price valid until: max. 31.12.2020

Media and Games Invest plc ^{*5a;11}

Rating: BUY

Target price: €1.90

Current price: 1.23
11.11.19 / XETRA / 09:07 am
Currency: EUR

Base data:

ISIN: MT0000580101
WKN: A1JGTO
Ticker symbol: M8G
Number of shares ³: 67.02
Market cap ³: 81.09
Enterprise Value³: 120.45
³ in Mio. / in Mio. EUR
Freefloat: 38.4%

Transparency level:
Entry Standard

Market segment:
Open Market

Accounting:
IFRS

Financial year: 31.12

Designated Sponsor:
Hauck & Aufhäuser Privatbankiers AG

Analysts:

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Company Profile

Industry: Entertainment, Media

Focus: gaming and media group

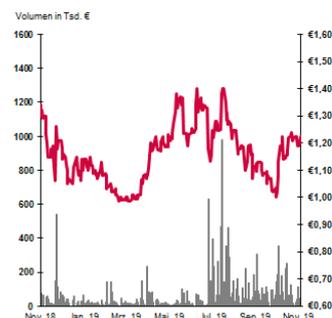
Employees: 500 Stand: 30.6.2019

Founded: (2000 gamigo)

Headquarter: Malta

CEO: Remco Westermann

The Media and Games Invest plc (formerly Blockscene plc) is a profitable investment holding with focus on game publishing and media sectors. Since May 2018 the group has changed its business purpose, deconsolidating the real estate business and acquiring the controlling stake in the game publishing platform gamigo AG. Currently the strategy is based on four pillars: "buy, integrate, build and improve" and is carried on with organic and non-organic growth. The business is divided into two segments: 1) game publishing, which includes a broad portfolio of online, mobile and console games and 2) digital media, related to online advertising and social marketing services for in-house games and third-party clients. The lion's share of consolidated revenue comes from gamigo free-to-play games where users can buy goods (virtual items) for a more intensive gaming experience or successful competition. On a daily basis the group registers traffic of more than 600k users while most of the revenues (over 50%) in the core games are generated by users that have been on the platform for more than 5 years. Hence, gamigo video games usually have a long life and high customer retention. Since H1/2019 the digital media business has been strengthened with the acquisitions of the online advertisers ReachHero, Applift and PubNative. The shares of MGI are listed in Frankfurt (XETRA) while two bonds with a total volume of EUR 55m outstanding are traded on the NASDAQ Stockholm and Frankfurt Stock Exchange.



P&L in EUR m, financial year-end	31.12.2018	31.12.2019e	31.12.2020e	31.12.2021e
Revenue	32.62	74.46	90.96	105.89
EBITDA	8.65	14.19	20.48	22.94
EBIT	2.33	1.19	5.98	8.44
Net income (loss)	4.32	-1.90	1.02	2.10

Key figures in EUR

Earnings per share	0.06	-0.03	0.02	0.03
Dividend per share	0	0	0	0

Key figures

EV/Revenues	3.69	1.62	1.32	1.14
EV/EBITDA	13,93	8.49	5.88	5.25
EV/EBIT	51.74	101.05	20.15	14.27
P/E	18.76	-42.77	79.66	38.62
P/B	0.51			

Financial calendar

29.02.2020: Year End Report - gamigo

** Last research by GBC :

Date: publication

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** oben aufgeführte Researchstudien können unter www.gbc-ag.de eingesehen, bzw. bei der GBC AG, Halderstr. 27, D86150 Augsburg angefordert werden

* List of possible conflicts of interest on page 35

EXECUTIVE SUMMARY

- Media and Games Invest plc (formerly Blockescence plc) was created in May 2018 as a result of a business focus change from real estate to the current game and media segment. As a result of the new orientation, the group acquired a controlling stake in the gaming publishing platform gamigo AG. At the same time, the media sector was gradually strengthened, with a focus on social media and digital influencers companies.
- Under the brand gamigo AG, there are grouped several titles (e.g. Fiesta, Desert Operations or Trove) which have recorded a long lifetime among users and a high conversion rate from users to paying customers. The latter is a significant metric in free-to-play games where revenues are generated from the sales of in-game virtual items and micro-transactions. In order to expand the business in the high-value U.S. market, gamigo acquired first the assets of Trion Worlds Inc. in October 2018 (i.e. the titles Trove, Rift, Defiance and ArcheAge) and then the casual games publisher WildTangent Inc. As usual for a technology company, the acquisitions led to a sharp increase in intangible assets, which turned to € 38.84m (previous year: € 18.13m) at the end of 2018.
- Integrations and synergistic effects led to a higher level of profitability for gamigo AG in the first six months of 2019. A key metric in our financial analysis was the EBITDA margin, which was up to 29.3% in H1/2019 (from the previous 24.3%). In order to finance the growth, bonds with an outstanding volume of around EUR 55m have been issued: a) EUR 50m on gamigo level with a coupon of 7.75% and above the 3-month EURIBOR; b) a EUR 5m bond on MGI level with a coupon of 7.00%. However alone with its operating cash flows (around € 10.5m in 2018) gamigo was able to face acquisitions costs for the mentioned US assets.
- The group MGI plc also carried out important acquisitions in digital media. The acquisitions strengthened the offer in business intelligence such as data and performance analysis and in social media marketing services such as influencers or YouTube campaigns. Therefore, synergies are expected in customer acquisitions, user performance analyses or offering video games advertising space (e.g. in-game advertising) aimed at a wider panel of potential clients.
- The market for in-game virtual items has improved substantially in the last few years. According to the agency “game”, the in-game purchase sector improved by 28% from 2017 to 2018 in Germany. Video games are used almost equally among the different age cohorts in the country, with those 50 years old having the largest share. In free-to-play games, however, sales lie in making virtual items important to get new contents or having more of a chance to win the game, pushing purchase of goods and thus increasing the payment made per player.
- In Q2 2019 gamigo recorded an increase in monthly active users of 149% (1.3m vs. 0.5m) accompanied by an increase of +1.1% in average monthly spending per player to € 46.1. Basis for our organic growth assumptions are the game updates, the launch of new games along with the social media advertising services. We have forecasted revenues of EUR 74.46m in 2019 and EUR 90,96m in 2020. Under our DCF valuation model, we have calculated a stock price target of EUR 1.90, and the rating is BUY.

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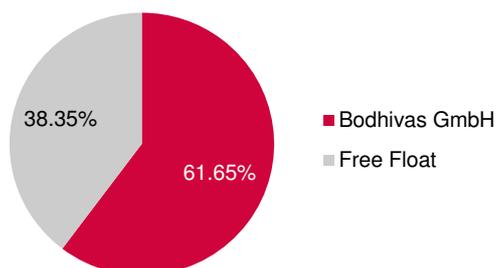
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MEDIA AND GAMES INVEST PLC

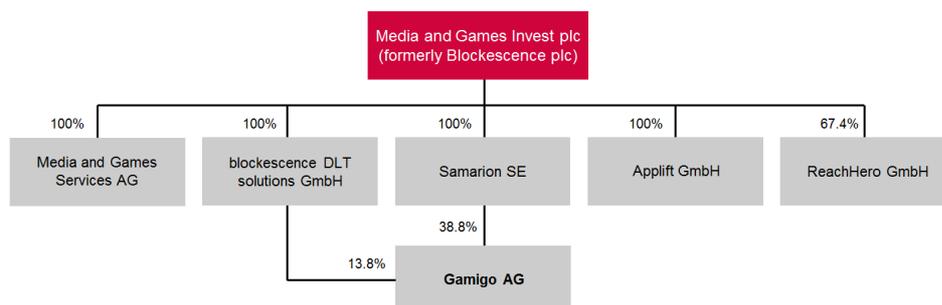
Capital Structure

Shareholders in %	June 30 th 2019
Bodhivas GmbH	61.65%
Free Float	38.35%

Sources: Media and Games Invest plc, GBC AG



Company structure 30 June 2019 (short representation)



Sources: Media and Games Invest plc, GBC AG

Media and Games Invest plc (MGI), formerly Blockescence plc, is a strategic holding company in the gaming and media sector, which is generating sustainable profitability through organic and non-organic growth. Until 9 May 2018, the group's business has been the development and trading of real estate. After this date all real estate assets have been disinvested and simultaneously the group has invested in Samarion SE, which includes the gamigo Group AG (currently 53% stake and 67% of voting). gamigo is an international game publishing platform which produces revenues from online, console and mobile games and business-to-business digital media services.

In May 2018, M&A transactions were performed according to the logic that gaming and digital advertising share similar conditions, integration potential and hence significant synergies. During the last months, gamigo has strengthened its presence in the USA with the acquisition of two firms: Trion Worlds and WildTangent. In May 2019, the MGI group acquired the majority share in ReachHero (a social media influencer platform) and later, in June 2019, the company Applift (a mobile performance agency) together with the subsidiary PubNative (a mobile app header solution). The whole MGI group is controlled by Bodhivas GmbH which is owned by Remco Westermann who is also CEO of MGI plc and gamigo AG. Around 38.4% is free float.

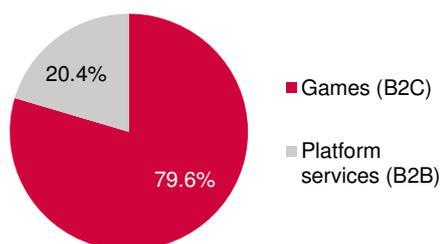
Business Activities



Sources: Media and Games Invest plc, GBC AG

The MGI group invests and develops game titles and synergetic digital advertising businesses. This strategic investment Group has shown sustainable financial numbers during the last few years, with anorganic growth generated by more than twenty related acquisitions in the last six years and organic growth with the development of their own games. As described above, the consolidation area is basically divided into the two divisions of B2C/publishing businesses and B2B/media and platform services. Approximately 80% of global revenues have been generated by selling virtual objects and micro-transactions in online, mobile and console games. Among the top 10 games, role-playing games (RPGs), in which players take the roles of characters, have the largest weight.

MGI Segment Revenues in H1/19, KEUR



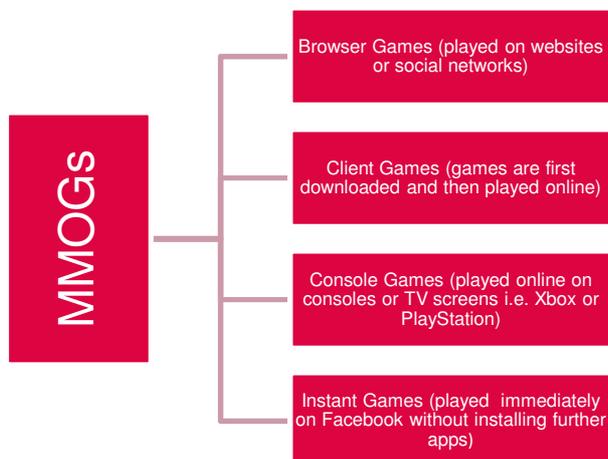
Sources: Media and Games Invest plc, GBC AG

Game Publishing

Most of the revenues stem from free-to-play Massively Multiplayer Online Games (MMOGs). Multiplayer video game models allow a large number of players (i.e. even hundreds or thousands) to play simultaneously online. Users can compete, cooperate or simply interact with each other worldwide free of charge and then purchase goods for a fee (virtual items) in order to increase gaming experience or win the game. An example might be the purchase of new equipment or additional functions for the game competition and success. The spirit of community makes customers motivated to buy game items

continuously and keep them committed to playing for several months. An additional revenue source for MMOGs is provided by advertisement and advertising video shown within the game.

Examples of Massively Multiplayer Online Games (MMOGs)



Sources: Media and Games Invest plc, GBC AG

Besides 30 MMOGs, around 5000 casual games are also marketed by the group. These are simpler games and usually played for a short time (i.e. puzzles, quizzes, and skill games). All the MGI products and services are marketed mainly in Europe and North America with additional sales in South America and Australia. Intellectual properties (IPs) and source codes are granted exclusively or for certain regions worldwide.

Media and Platform Services

The second consolidated revenue stream is related to the digital media business. Services such as online advertising, influencers and social marketing are offered to business customers or they are used for their own game publishing (B2C supporting). Advanced technologies in business intelligence are used to boost customer acquisition and retention evaluating and analysing, for instance, user activities with games, customer approach analysis and cost of acquisitions. As reported in greater detail below, media marketing and sales activities are concentrated under the acquired brands adspree media GmbH, Mediakraft and Applift, PubNative and ReachHero. Synergies can thus be boosted on the one hand by offering a broader range of products to clients and on the other hand by sharing expertise and knowledge internally.

- **adspree media GmbH** is a marketing agency with a focus on brand and performance advertising. The company creates search campaigns to find engaged users across Google Ads and Microsoft Bing. Its performance-oriented methods comprise the use of search engine optimization (SEO) or search engine advertising (SEA). adspree currently has a collaboration with ProSiebenSat.1 for TV campaigns.
- **Mediakraft Networks GmbH** specialises in the online TV field. Services include online videos contents (i.e. YouTube channels for firms) and influencer-marketing campaigns for brands and creators.
- **Applift GmbH** is a mobile performance network with focus on customer acquisition for mobile apps. Its technology serves for app or game testing and tries to keep users engaged (or re-engaged) after the test phase for a longer time. The services

turn around customer retention (i.e. keeping a user for more than seven days) and the user lifetime value (i.e. money per-user spent using the app). The company also owns the mobile publisher PubNative.

- **PubNative GmbH** is a mobile monetization platform that enables app publishers to execute their revenue strategy through advertising in mobile apps. With its native-first approach, proprietary cross-format optimization technology and mobile header bidding solution, PubNative enables app developers to maximize their revenue.
- **ReachHero GmbH** offers services of advertising through influencer and social media marketing. The platform connects brand campaigns with web-influencers. It is expected to make a contribution in the mid-single-digit million euro ranges with a positive EBITDA in 2019.

MGI-Bond

MGI plc bond issue details

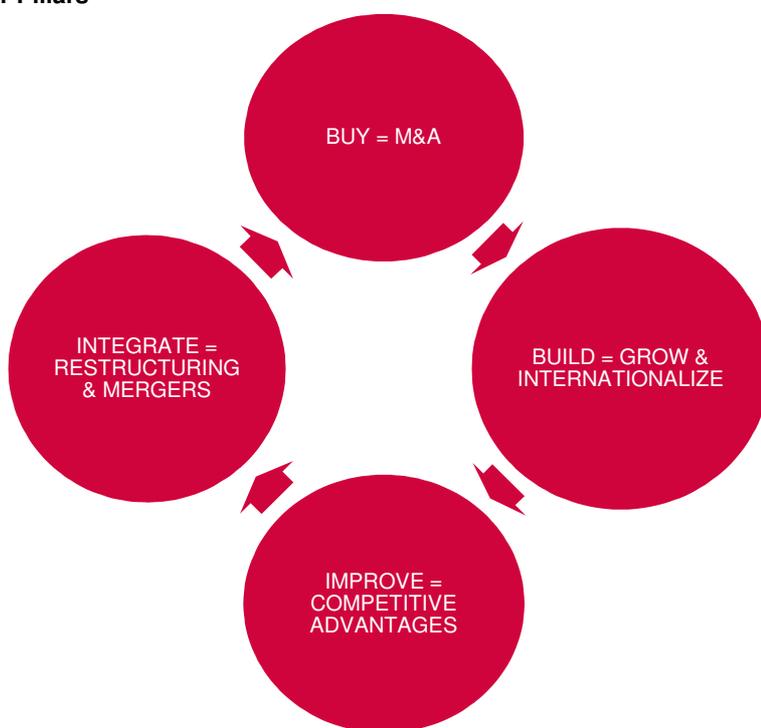
Volume:	Up to EUR 25 m
Coupon:	7.00% p.a.
ISIN:	DE000A2R4KF3
Issue date:	October 11th, 2019
Issue price:	100% of the nominal amount
Redemption:	October 11th, 2024

In October 2019, MGI issued a bond with a volume up to EUR 25m and maturity in October 2024. The bond shall bear interest rate of seven per cent. At the time of writing it has been placed the amount of EUR 5m while the remaining part might be issued according financing requirements (i.e. acquisition, organic growth or buyout of further minority interests in subsidiaries). We noted that the net interest rate ratio to EBITDA was reduced from 7x in 2014 to 2x in H1/2019.

Strategy

The strategy revolves around the four buy-integrate-build-and-improve pillars and is implemented by M&A and organic growth (i.e. their own game development). In a nutshell, once a distressed or non-distressed target is found and acquired, it is restructured and integrated into the group generating cost reductions, leverage and scale advantages. Additionally, the company tries to invest in highly skilled personnel in order to upgrade and relaunch the titles. Business intelligence tools, such as real-time event-driven data solutions, may identify new business opportunities and improve decision making. Group data sources may also be standardized and unified to support supplementary acquisitions and asset deals.

The Four Pillars

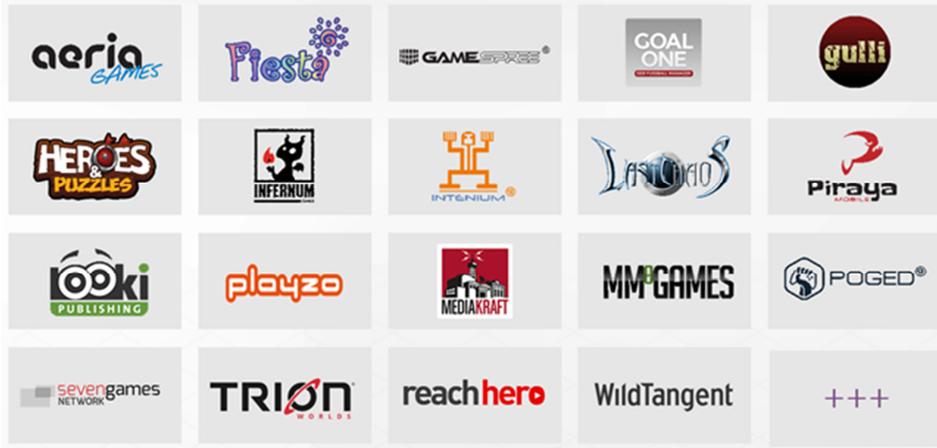


Sources: Media and Games Invest plc, GBC AG

Buy

Target profile includes sustainable long term revenues, potential synergies (i.e. geographically, channel, product), restructuring, technical optimization and amortization within an ideal timeframe of eighteen months. According to management, the following criteria are sought: revenues multiply in the range of 0.7x to 1.5x, EBITDA up to 6x while payback time (including restructuring) should be less than 24 months. With over twenty acquisitions (within gamigo AG) completed in less than six years, the management has a positive professional experience in deal-making and post-merger.

MGI's Purchases Track-record



Source: MGI plc

Moreover, large game players usually do not consider M&A transactions with small companies. Thus, there are few offerors to buy assets of small distressed companies. The latter suffer mostly financial difficulties due to unsuccessful games.

Integrate

Once acquired, the assets or firms are restructured and integrated into the MGI platform. The underlying assumption is that more volume means more efficiency and also standardized platform features. Therefore, significant cost reduction has been recorded in personnel, data-center and cloud services. As a general rule, high-risk assets or activities (i.e. games with negative ROI) become discontinued. Key goals are good management and finance reporting as well as improvements in business intelligence.

Build

The moment for asset organic growth is carried on under this third step. Assets such as customer base, platforms, social media and access to capital can be strengthened at this stage. Moreover, investing in products (e.g. new licenses) and business intelligence will drive up at this stage users' loyalty (low churn rate) and the spending per game. As supporting services, MGI implements advanced direct marketing solutions and technical optimization (e.g. anti-fraud advertising).

Improve

Last step of the four pillars is related to technology development and competitive advantages. An example of improvement may be the shift from traditional data-center technology with cloud based systems. The latter is cost-effective, especially for small companies and has scalable effects. Further areas include real-time streaming, blockchain and anti-fraud technology.

Management

Remco Westermann, Chief Executive Officer and Chairman

Remco Westermann received his M.A. in Business Economics and has more than 25 years of work experience, 15 of which he spent in the mobile and online entertainment sector. During his remarkable career, Remco Westermann founded the listed company Bob Mobile AG (later Cliq Digital AG), and helped in the initial establishment of the mobile media company Sonera Zed, which he later led as CEO for a couple of years. Before that, Remco was a manager for market-leading firms such as Balance Point and acted, amongst others, as an advisor to Rost & Co. After the acquisition and repositioning of gamigo AG, using a successful M&A Strategy, Remco Westermann has built a fast-growing, leading online games company within this dynamic, highly competitive and quickly growing games market.

Paul Echt, Chief Financial Officer

After successfully completing his studies and receiving a Bachelor of Laws degree as well as a Finance M.A., Paul Echt worked in the corporate development field at Shopgate Inc. in Silicon Valley. He was headhunted by UniCredit Bank and returned to Germany in 2015, where he went through several corporate & investment banking departments in Munich, Berlin and New York. From 2016 on, Paul Echt strengthened UniCredit's Tech Team in Berlin location as a Relationship Manager for tech clients. During this time he, inter alia, assisted the IPO of Delivery Hero. Regarding MGIs group's global expansion strategy, Paul secures the financial basis of the company with years of valuable experience.

Jens Knauber, Chief Operative Officer

Jens Knauber has over 10 years of experience as manager in the entertainment industry. He is a game publishing expert with over 300 internationally released games. Mr Knauber occupied also several management positions at the Hamburg-based publishing house dtp. Currently he is responsible for the B2C Gaming Business of the MGI group.

Gary Coffey, Chief Technical Officer

Gary Coffey uses his expertise in all areas of technology – from infrastructure, development and engineering to business intelligence. After successfully completing his studies in "Computer Applications" in Ireland (Dublin), Gary Coffey worked for more than ten years in the tech industry, including areas such as financial technology and engineering. During his work for leading companies, such as the Bank of Ireland, HP, Norcom Technologies and BAE Systems Applied Intelligence, Gary has developed into a highly specialized technology leader.

Stefan Rascher, Chief Strategy Officer

Stefan Rascher has over 20 years' experience in sales, e-commerce and telecommunication. He worked in several positions at E-Plus, Quam and in his own consulting company. Mr Rascher is responsible for sales and the B2B group companies Adspree and Mediakraft.

René Müller, Executive Director

René Müller has over 25 years of experience in international corporate finance advisory in various fields such as M&A, equity/debt financing and venture capital. During that time he was the CEO of a publicly listed private equity firm for six years. For five years he managed as CEO an investment management firm. Before that, he was a partner in the largest mid-cap principal investment firm in Switzerland.

Tobias Weitzel, Non-executive Director

Tobias Weitzel has extensive experience in the fields of political and economic journalism, PR, capital market & crisis communication. He is Managing Director of BSK Becker + Schreiner Kommunikation GmbH. Furthermore, since 2012, he has been a member of the board of the Financial Experts Association e.V.

GAMIGO GROUP AG

gamigo Group AG is a publisher and distributor of PC client and browser games. The revenue model refers to the sales of in-game items and advertisements on free-to-play massively multiplayer online role-playing games (MMORPGs) and massively multiplayer online games (MMOGs). Founded in 2000, the game portfolio includes more than 30 MMOG, over 5000 casual games and over 20 portals. In total, the Hamburg-based gamigo group employs more than 350 employees, engaged in games, media and technology services with international offices in the USA, Poland, Turkey and South-Korea as well.



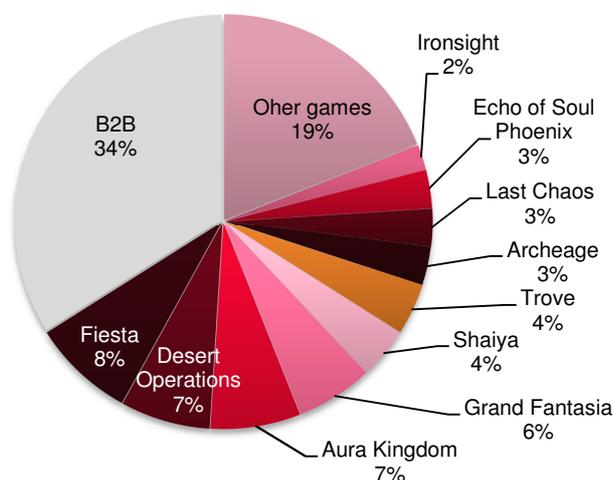
History of the gamigo Group

2000-2007	Foundation as online gaming magazine Thereafter focus on publishing online role-playing games
2008-2011	Alex Springer AG acquires 100% of shares Initiation of game development
2012	Samarion acquires 100% of shares
2013	Refocus: ending of game development and opening M&A strategy
2014	Acquisition of INTENIUM GmbH, publisher of casual games for multiplayer, online and PC areas in Europe
2015	Start acquiring game IP's & further in-house development of old IP's
2016	Acquisitions of Aeria games and adspree media GmbH
2017	Acquisitions of Mediakraft
2018	Assets of TRION have been acquired
2019	Assets of WildTangen have been acquired

Sources: Media and Games Invest plc, GBC AG

The range of games offered is well differentiated, with various genres such as role-play games, fantasy or first-person shooters or building-strategy games. The revenue mix shows a good distribution of risk, around 1/3 B2B and 2/3 in B2C, while no game has a revenue share over 10%. Some title examples are Fiesta (8% sales), Desert Operations (7%) or Aura Kingdom Role (7%). Role-playing games account for around 50% of the total. The following pie graph describes the sales contributions of the main titles.

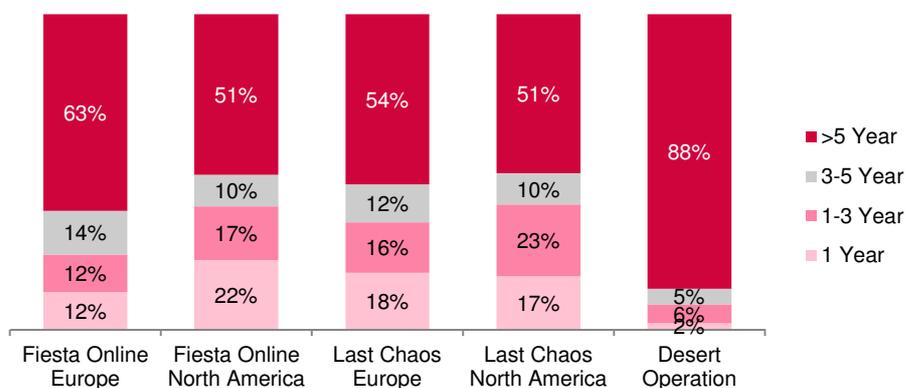
gamigo games revenues distribution in 2018



Sources: Media and Games Invest plc, GBC AG

The company realised that over 50% of revenues in the core games have been generated from customers registered for more than five years. This means that loyalty and lifetime on MMOG are quite high. Daily active users account for 600k while monthly active users are around 5m. Below is shown a representation of user lifetimes for some games.

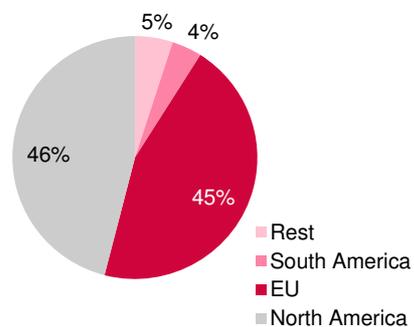
User lifetimes in gamigo main games



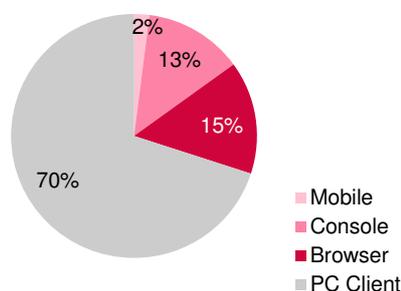
Sources: Media and Games Invest plc, GBC AG

In Q2/19, PC client games accounted for 70% of total revenues, while geographically speaking the revenues are well-balanced between North America and Europe.

Revenue Q2/19, Split by device (excl. Mobile)



B2C games revenue Q2/19 by region



Sources: Media and Games Invest plc, GBC AG

Besides the B2C business, gamigo offers solutions for advertising and social media marketing. Most of business in this field is under the two brands Adspree Media and Mediakraft Network, which offer a comprehensive consulting service in digital campaign management (i.e. video, social, influencer and performance marketing) including business intelligence as advertising effectiveness, performance tracking and analyses.

gamigo-Bond

In order to finance the growth, gamigo issued a bond of EUR 15m (coupon of 8.5%) in 2013. Taking advantage of the low interest rate on financial markets and from better profitability in gamigo results, the company redeemed the bond issue in 2017. The bond was refinanced by UniCredit at a price of 101.5% in 2017. Later, in 2018, a further bond issue of EUR 32m was placed to fund organic and M&A growth. A tap issue of EUR 18m was successful placed in June 2019. The issue has the form of senior secured floating rate callable bonds and should be used to finance the organic and M&A growth. The security is listed on the NASDAQ Stockholm and Open Market of the Frankfurt Stock Exchange.

gamigo AG bond issue details

Volume:	EUR 50 m
Coupon:	7.75% p.a. over the 3-month EURIBOR rate (minimum 0%)
ISIN:	SE0011614445
Issue date:	October 11, 2018
Issue price:	100% of the nominal amount
Tap Issue 1:	EUR 10m issued at 100,5% on April 2019
Tap Issue 2:	EUR 8m issued at 101,0% on June 2019
Redemption:	October 11, 2022

Sources: gamigo AG; GBC AG

Top Ten MMO Games

Trove Mobile



- Acquired: 2018
- Business Model: Free2Play
- IP-ownership: MGI
- Genre: Fantasy
- Distribution: Europe 35%, North America 56%, Asia 4%, RoW 5%

ArcheAge



- Acquired: 2018
- Business Model: Free2Play
- IP-ownership: xl games
- Genre: Fantasy
- Distribution: Europe 46%, North America 49%, Asia 2%, RoW 3%

Desert Operations



- Acquired: 2015
- Business Model: Free2Play
- IP-ownership: MGI
- Genre: Strategy
- Distribution: Europe 75%, North America 4%, Asia 0%, RoW 20%

Fiesta Online



- Acquired: 2008
- Business Model: Free2Play
- IP-ownership: MGI
- Genre: Anime
- Distribution: Europe 66%, North America 29%, Asia 2%, RoW 3%

Rift



- Acquired: 2018
- Business Model: Free2Play
- IP-ownership: MGI
- Genre: Fantasy
- Distribution: Europe 30%, North America 68%, Asia 0%, RoW 1%

Aura Kingdom



- Acquired: 2016
- Business Model: Free2Play
- IP-ownership: xlegends
- Genre: Anime
- Distribution: Europe 58%, North America 25%, Asia 4%, RoW 13%

Grand Fantasia



- Acquired: 2016
- Business Model: Free2Play
- IP-ownership: xlegends
- Genre: Anime
- Distribution: Europe 56%, North America 18%, Asia 2%, RoW 24%

Defiance



- Acquired: 2018
- Business Model: Free2Play
- IP-ownership: MGI
- Genre: Sci-Fi
- Distribution: Europe 16%, North America 81%, Asia 0%, RoW 3%

Shaiya



- Acquired: 2016
- Business Model: Free2Play
- IP-ownership: MGI
- Genre: Anime
- Distribution: Europe 48%, North America 22%, Asia 1%, RoW 20%

Last Chaos



- Acquired: 2015
- Business Model: Free2Play
- IP-ownership: MGI
- Genre: Fantasy
- Distribution: Europe 81%, North America 16%, Asia 1%, RoW 2%

Sources: Media and Games Invest plc, GBC AG

MARKET AND MARKET ENVIRONMENT

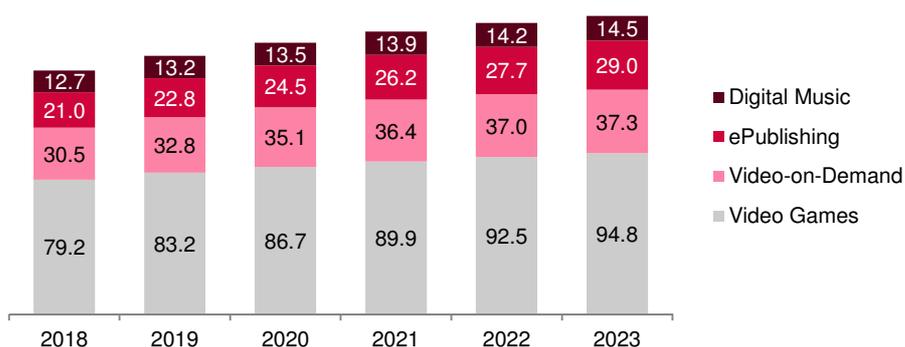
The global games market has performed very well in recent years. According to Newzoo's Global Games Market Report 2019, the market volume should reach over USD 152bn in 2019 (+9.6% on the previous year). As with the increase in smartphones and tablets, this growth is driven by mobile games. The latter is a highly competitive segment with higher marketing cost for developers than traditional channels such as PC games. gamigo's free-to-play Massively Multiplayer Online Games, however, represent a highly profitable segment as shown by long user lifetime (i.e. over five years for Fiesta or Desert Operations) and high customer retentions (i.e. between 7%-10%). Generally, games with an established reputation can be on the top list for more than 10 years.

The U.S. will be the largest gaming market with a value of 36.9bn in 2019. With the recently acquired US companies Trion and WildTangent, gamigo AG will participate in the high market potential in the US. As with the media business involved in MGI, we present below: i) an overview of the digital media market, ii) the global video games market, iii) the German market and iv) some clues for the digital advertising market.

The Global Digital Media Market

Expansion in mobile internet access and better connection speeds rates as well as a great spread of mobile and streaming devices, have generally driven the growth in the digital media market. As reported by the Digital Market Outlook 2019 of statista video games account for almost 55.2% in 2018 of the total market value followed by video-on-demand (21.3%), ePublishing (14,6%) and digital music segment (8.9%). Following the aforementioned study of statista, the U.S. is geographically the biggest market worldwide, with around USD 44.3bn revenues in 2018, which is followed by the European market with around USD 27bn. Europe is expected to show the highest growth rate among the main markets (US, China and the Rest of the world).

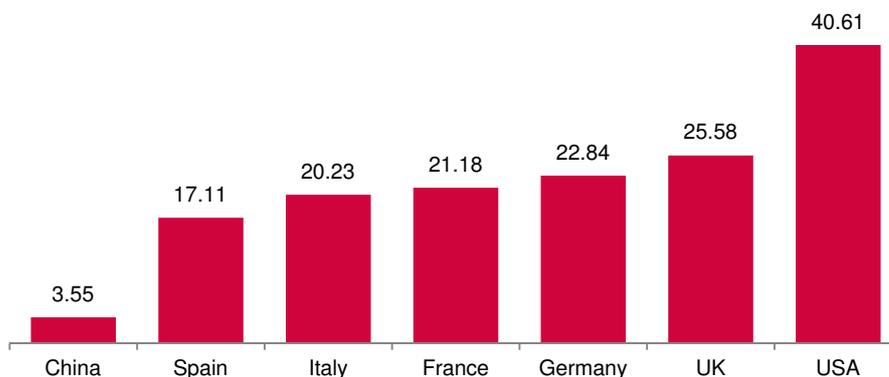
Global revenue forecast digital media market (in USD billion)



Source: Statista; GBC AG

In terms of spending per capita the US market values are around USD 40.5k. The UK and Germany follow with respectively USD 25.5k and USD 22.8k per-head consumption expenditure while the Chinese market is far from the major western economies with USD 3.5k per capita. Moreover, the internet penetration is higher than 70% in the some major European countries (Great Britain, Spain, and Germany) followed by the U.S., whereas China recorded 53.9%.

Digital media market consumer spending per capita in 2018 (in USD Tsd)



Sources: Statista; GBC AG

The video game segment

Significant changes have reshaped the game industry since the emergence of video games in the 1970s. According to Newzoo (Global Market Report 2018), the structural development prior to 2005 was quite limited. Market value reached the figure of around USD 35.0bn in a timeframe of round 35 years. Then the value jumped to USD 137.9bn from 2005 to 2018. Reasons for this were essentially the introduction of innovative devices (i.e. smartphones or tables) and new business models (i.e. alternative distribution channels or franchises) which reshaped the market. This maximized consumer engagement, a key ingredient for free-to-play games profitability. The table below shows a summary of milestones and accelerators.

Gaming Industry Milestones from 2005 to 2025

Until 2005 the market value was less than USD 35bn

1. Games as intellectual properties - increasing brand awareness
2. Mobile gaming boom
3. Games as a service (GaaS): contents or access on a continuous revenues model
4. Empowering entertainment: focus on communities
5. Streaming and Esports: redefines rules of engagement
6. Instant gaming: changing the rules of distribution
7. Immersion and competition: bringing the core gaming experience to mobile
8. Gaming leads disruption
9. Cloud gaming
10. The next big things – how games will bring balance to the world

2022 more than USD 200bn in value

Sources: Global Games Market Report 2018, newzoo

As part of the industry change, payment models have been renewed too. Besides subscription-based games, they can be directly sold (downloaded and installed) or even played for a small fee or free of charge. Nevertheless, the bulk of revenues revolve around the sales of virtual items (in-game monetization) to add more contents or functionalities, also known as free-to-play. The latter have been boosted by improvements in graphics and physics quality of console and mobile devices. Below you can find a table that explains the previous revenue models.

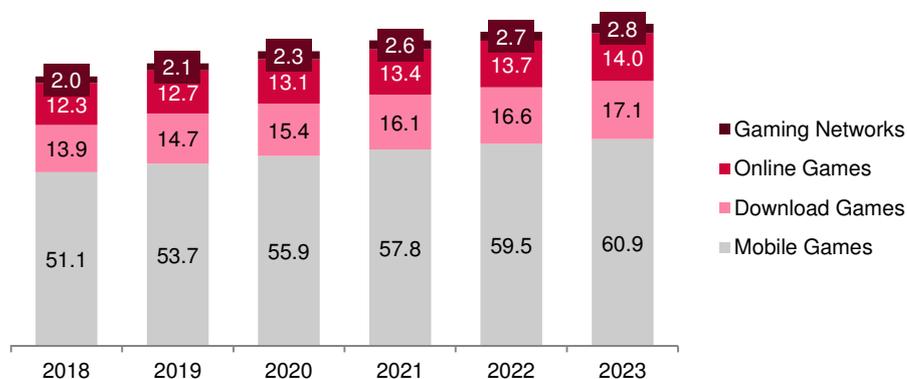
Video Games Segments: Revenues Stream

Mobile Games	Downloads games	Online Games	Gaming Networks
Gaming for smartphones and tablets	Games for console or PCs available with online sales	Free games with in-game purchases of additional contents or functionalities	Subscription-based access to online premium services
Paid app-downloads (single purchases)		Subscription-based games	Game passes
Free to download for in-app purchases			

Source: Statista

As mobile devices reached high penetration and efficiency, mobile games became the favourite way to play. Modern smart phones or tablets use better graphic processor units (GPU) similar to stationary computers or consoles. This has favoured games that are played by many users. An example is the ESport online game, where users can play in communities and win high prize money. However, the mobile games have shown structural challenges. Game developers must face high distribution fees (up to 30% in Apple's and Google's app stores), extreme competition and consequently high user-acquisition expenses. Moreover, publishing figures are not encouraging. On iOS (Apple), only 21k mobile games (previous year 42k) were published in 2018. It seems that customers shift towards quality over quantity. Hence, traditional segments such as PC or browser games remain the most profitable market slice, in which it is easier to manage the customer's life-time, loyalty and consumption. gamigo's PC games are well positioned among small game providers and have also a lifetime well over ten years, due to strategical content updates and active analysis (tracking players satisfaction).

Video Games Global Revenue Forecasts (in billion US\$)



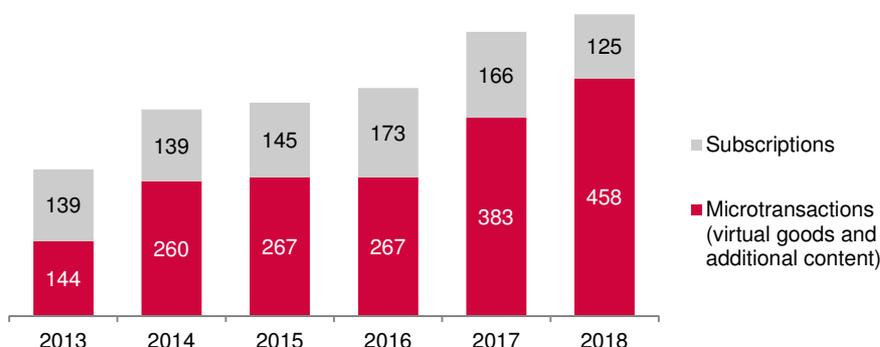
Sources: Statista; GBC AG

In term of annual compound growth rate, Europe shows the biggest ratio (CAGR of 4.6%, 2018-2023) in video games, followed by China and the US (respectively a CAGR of 3.6% and 1.7%, 2018-2023).

The German Market

As the German market is still a principal revenue source for the free-to-play PC games of the MGI group, we analysed through the study of Statista (Gaming in Deutschland) the market relevance for virtual goods and additional contents in Germany. The value shows a clear growth in value from EUR 144.0m in 2013 to EUR 458.0m in 2018.

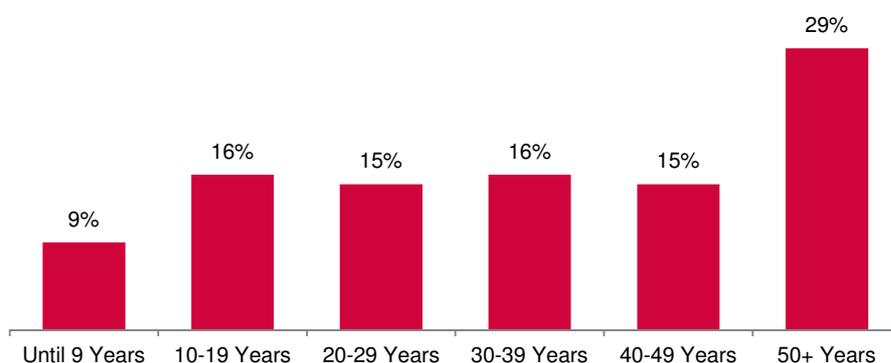
Turnover of virtual goods / add-on content and subscriptions in online and browser games in Germany from 2013 to 2018 (in millions of euros)



Sources: game; GfK; GBC AG

According to “game” and GfK, in Germany videogames are generally popular and played across all age groups in a uniform distribution. Due to the demographic situation in the country however, a percentage of players in the older age groups prevail. It highlights the importance of loyalty and life times for game sales. In total, high-income groups have a share of 44% in the statistic (40 to over 50 years old).

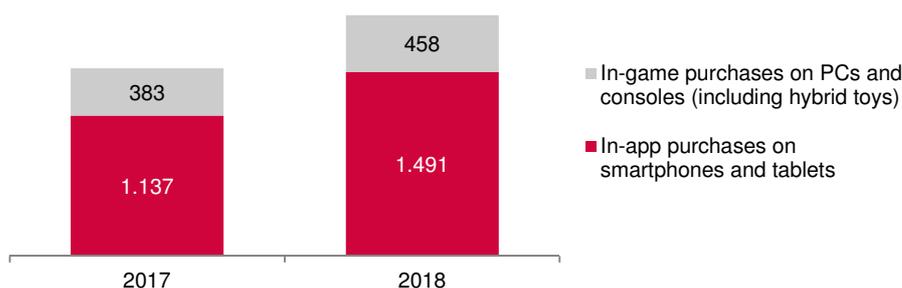
Distribution of video gamers in Germany by age in 2019



Sources: game; GfK;

According to game (Annual Report of the German Games Industry 2019), in-game purchase revenues grew by 28% between 2017 and 2018. In-Game items are offered both in free-to-play and full-price titles.

Sales of in-game purchases grew strongly in 2018, EUR million



Sources: game; GfK;

The key element for the profitability of a game company is to turn users into paying customers. Generally, just a few players make in-game purchases, a slim pool of users. The free-to-play market is highly competitive and therefore customer acquisition costs are quite high. However, free-to-play games no longer indicate a low level of quality. In-game purchases have developed from an additional business model to a very lucrative segment within just a few years.

What drives user spending and thus game monetization is their behaviour in the game. The desire to increase the fun they experience, to use exclusive items and have a fast victory in competitive games, drives up both the conversion rate and the average paying per user rate. Once players make their first consumption, it is easier to add more purchases. Furthermore, secure and value-oriented transactions reduce players fear in the acquisition process.

According to the study of deltaDNA, F2P PC games monetization grew substantially between 2017 and 2018. Particularly the average revenue per daily active user (ARPPU) grew by 206% to USD 0.18 in the USA and by 175% to USD 0.44 in Europe. The higher number of spenders in casual games is increasing users' monetization. While historically only a small number of players were responsible for the total returns (so-called whales), nowadays, a significantly larger number of players are spending-ready.

Competition in online and mobile games

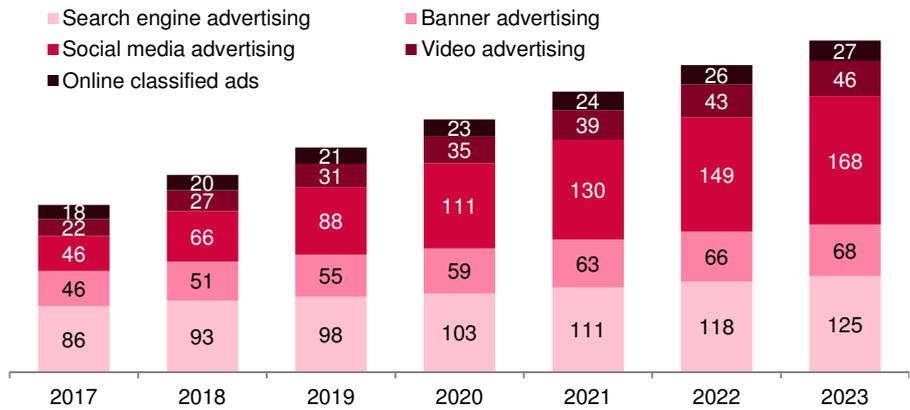
For our analysis, we divided the competitive field into online and mobile games following gamigo's market report. (1) The online games sector is made up of several international companies mostly with a focus on casual games (i.e. simple rules games). A few examples of providers in Europe and the US are: Electronic Arts, TakeTwo, Ubisoft or Activision Blizzard. Apart from large companies, the market is characterized by smaller online game publishers, among which, with its broad game portfolio and marketing base, gamigo ranks as a well-known name. (2) The mobile sector has a different structure with a small number of companies eating the huge part of the cake. Some of them are Supercell, Elex, King, Niantic, Machine Zone, Playrix and Com2us. Launching new mobile games is expensive and risky with limited marketing opportunities (i.e. Apple and Google - the main platforms). On this basis, gamigo has only a few games in this segment and it is very conservative in the launching of new games.

Digital Media

The digital media market is crucial in the video game market. The acquisition of new users and the analysis of their performance are mostly conducted via digital advertising. According to the JOM agency group, an increase is forecasted in net advertising market to EUR 24 bn in 2019. Tools such as influencer marketing (i.e. product description published by experts), banner, video advertising or product placement in games have become very effective channels.

In the table below is shown the online advertising market (Digital Market Outlook/worldwide market for online advertising: statista, April 2019). By 2023 is forecasted as principal segments the social media advertising with a value of € 167.9m followed by the search engine advertising.

Online advertising: A substantial growth market



Sources: statista, April 2019; Digital Market Outlook/worldwide market for online advertising; MGI plc; GBC AG

The diversity of channels (i.e. banners or video social ads) and the greater significance of social and influencer media will be some of digital media’s growth drivers. This is in contrast with classic advertising formats (i.e. TV ads or newspapers) in which it is reasonable to expect a reduction in their efficiency.

HISTORIC COMPANY DEVELOPMENT

Key Figures

P&L (in €m)	FY 2018	FY 2019e	FY 2020e	Fy 2021e
Revenue	32.62	74.46	90.96	105.89
Own work capitalized	2.79	5.65	7.63	8.40
Other operating income	6.51	3.27	1.27	1.33
Services purchased	-12.70	-26.78	-34.66	-40.24
Gross profit	29.22	54.99	65.20	75.38
Employee expenses	-10.44	-27.70	-28.53	-31.09
Depreciation and amortisation	-6.32	-13.00	-14.50	-14.50
Other operating expenses	-10.14	-13.10	-16.20	-21.35
EBIT	2.33	1.19	5.98	8.44
Financial expense	0.08	-3.04	-4.36	-4.73
Financial income	-1.73	0.10	0.40	0.60
EBT	0.69	1.75	2.02	4.31
Taxes	0.90	-0.35	-0.40	-0.86
Result from discontinued operations	3.67	0.00	0.00	0.00
Non-controlling interests	-0.93	-0.50	-0.60	-1.35
Net profit	4.32	-1.90	1.02	2.10
EBITDA	8.65	14.19	20.48	22.94
in % of revenue	24.4%	19.06%	22.51%	21.66%
EBIT	2.33	1.19	5.98	8.44
in % of revenue	6.6%	1.60%	6.57%	7.97%
Earnings per share in €	0.06	-0.03	0.02	0.03

Source: Media and Games Invest plc; GBC AG

Company performance of Media and Games plc

in € millions	FY 2017	GJ 2018	1.HJ 2019
Revenue	0.00	32.62	28.58
EBITDA	-0.64	8.65	7.54
EBIT	-0.67	2.33	3.27
EAT	-5.74	4.32	0.35

Sources: Media and Games Invest plc; GBC AG

MGI significantly altered its corporate strategy with the acquisition of 100% of the shares in Samarion SE on 9 May 2018. Prior to this date, the company's business activities had been focused on the real estate sector. However, its entry into the media and online games sector has resulted in a significant shift in the company's key figures, which means a historical comparison of Media and Games would be meaningless. The acquisition of Samarion SE also resulted indirectly in the takeover of gamigo AG – with a 38.7% stake in gamigo, which was Samarion SE's largest shareholding. However, as the number of voting rights exceeds the threshold of 50%, gamigo AG was fully consolidated in the Media and Games Group's financial statements from the date of acquisition.

As a result, the revenue reported by MGI of €32.62 million for 2018 and €28.58 million for the first half of 2019 are solely attributable to gamigo AG, having been consolidated on a pro rata basis since 9 May 2018. A detailed overview of the historical performance of gamigo AG is therefore provided below. Media and Games' earnings are comparable to those of gamigo AG, at least in terms of EBITDA and EBIT. However, post-tax earnings for the company in 2018 show a positive one-off effect of €3.67 million from the sale of subsidiaries previously active in the real estate sector. This relates to the sale of the 100% stake in solidare real estate holding GmbH (including subsidiaries), for which a capital gain was realised.

in € million	31/12/2018	30/06/2019
Equity	158.54	160.73
of which minority interests	91.32	91.37
Intangible assets	204.14	226.70
of which goodwill	133.76	143.47
Cash and cash equivalents	4.45	26.25
Financial liabilities	41.54	76.00
of which corporate bonds	24.88	48.54

Source: Media and Games Invest plc; GBC AG

As in the income statement, the key balance sheet figures changed significantly following the acquisition of Samarion. In terms of assets, Media and Games now holds intangible assets amounting to €226.70 million, of which €83.24 million is attributable largely to acquired intangible assets, as well as €143.47 million due to goodwill, also from the Samarion acquisition. The comparatively high goodwill is due to the fair value of the non-controlling interests (61.3%) in gamigo AG, which is fully consolidated due to its existing voting rights majority. On the liabilities side, minority interests in gamigo AG amounting to €91.37 million are included under equity, which totals €160.73 million. In addition, the balance sheet items of gamigo AG were included as part of the Media and Games balance sheet for the first time.

Company performance of gamigo AG

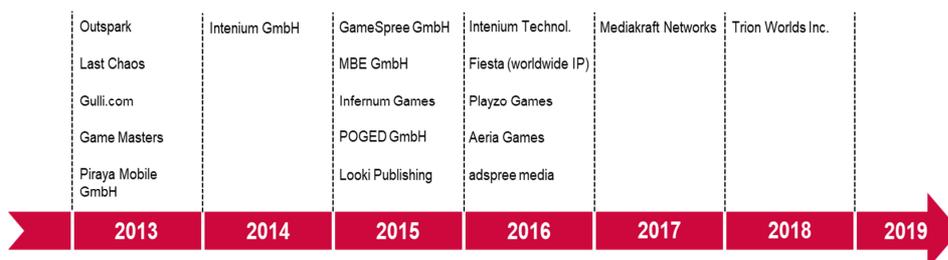
in € million	FY 2015	FY 2016	FY 2017	FY 2018	H1 2018	H1 2019
Revenue	21.65	38.98	42.08	45.29	21.54	28.42
EBITDA	4.28	2.64	7.03	11.05	5.25	8.32
EBITDA margin	19.8%	6.8%	16.7%	24.4%	24.4%	29.3%
EBIT	-0.40	-10.10	-3.36	2.59	1.30	3.25
EBIT margin	-1.9%	-25.9%	-8.0%	5.7%	6.1%	11.4%
EAT	0.97	-9.12	-4.98	1.55	0.81	0.82

Source: gamigo AG; GBC AG

Revenue performance of gamigo AG

gamigo AG has achieved a continuous increase in its sustainable revenue base in recent financial years. The basis for this growth lies in the company's high level of M&A activity, including more than 20 acquisitions since 2013 of games, media and technology companies and individual game assets:

Acquisition history of gamigo AG since 2013*



Sources: gamigo AG; GBC AG; *Company name at the time of acquisition, as changes in name and mergers have taken place in the interim

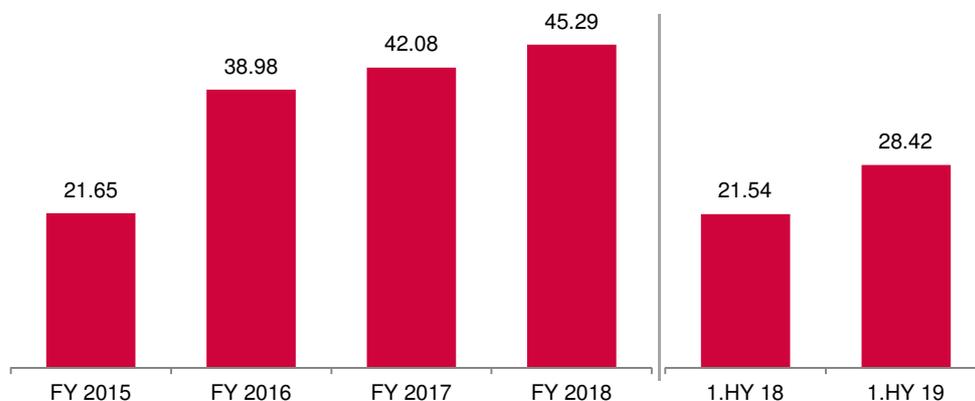
As a result of the acquisitions described above, both the product range and the number of games offered with the associated game accounts were expanded considerably. At the same time, the strategy pursued by gamigo AG is associated with a relatively low risk, as the assets it acquires are generally well-established games with a solid customer and revenue base. This contrasts with the much higher risk associated with the launch of new games.

A good example of the company's acquisition strategy is its purchase in 2018 of the business operations of Trion Worlds Inc., a leading US gaming company, publisher and developer of online and console MMO games. As part of this transaction, the company only acquired the four games, contracts and employees it wished to retain within the gamigo Group upon acquisition. As a result, Trion Worlds Inc. made a positive contribution to earnings as early as 2018, as there were low corresponding restructuring expenses incurred in the course of the contractually agreed 'cherry picking'. Since its acquisition on 22 October 2018, the new US subsidiary has contributed a total of €3.47 million to Group sales while another technology company called MBE GmbH with approx. EUR 3.3 million revenues were sold in Q1 2018 due to the fact that gamigo acquired its technology stack together with the Aeria Acquisition and decided to sell MBE back to the management. The balanced M&A revenue contribution in 2018 resulted in organic growth being primarily responsible for the Group-wide increase in revenue, which rose by 7.6% to €45.29 million in 2018 (previous year: €42.08 million).

The tangible increase in the revenue base continued in the first six months of 2019. gamigo AG benefited from the first-time inclusion of Trion revenues, as well as from the

further acquisition in April 2019 of WildTangent Inc., which is another US company that publishes casual games.

Revenue (in € million)



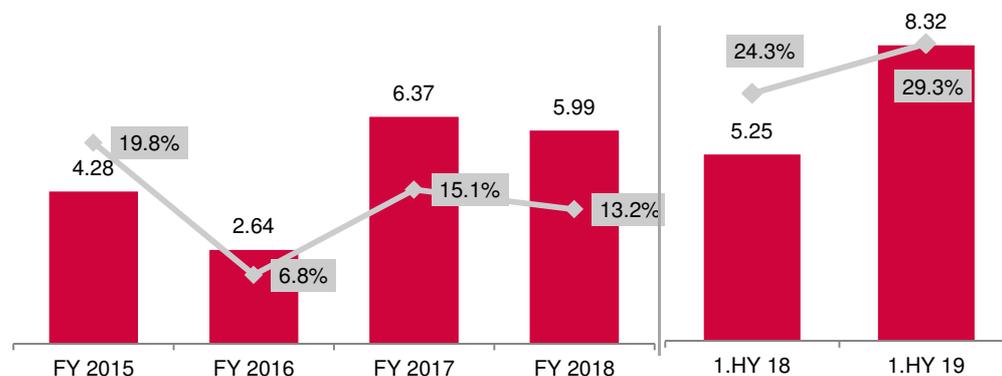
Source: gamigo AG; GBC AG

Earnings performance of gamigo AG

We believe that the key performance indicator most relevant to gamigo AG is EBITDA. PPA depreciation is not included at this earnings level, as this mainly relates to the high level of activity associated with M&A. EBITDA therefore gives a more accurate indication of operating cash flow than EBIT would.

The long-term EBITDA performance shows a clear upward trend. Owing to the sustained expansion of the revenue base, EBITDA rose to €11.05 million, well above the level of previous years. It is, however, worth noting that the “bargain purchase” income of €5.07 million achieved in 2018 (previous year: €0.66 million) must be factored in here. At the time of the acquisition of Trion Worlds Inc., the value of the acquired assets exceeded the purchase price by €5.07 million, and this was reflected in the income statement. While adjusted EBITDA of €5.99 million (previous year: €6.37 million) was slightly below the previous year’s figure, gamigo AG’s overall earnings were strong. An even stronger EBITDA performance was offset by the acquisition costs for the Trion acquisition, which were incurred in full in 2018, but have only been included in the Group’s accounts for just over two months:

Adjusted* EBITDA (in € millions) and EBITDA margin (in %)

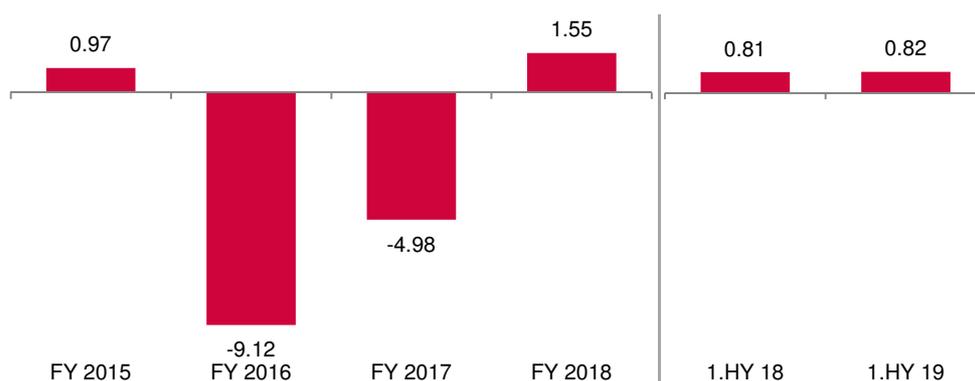


Sources: gamigo AG; GBC AG; *adjusted for income from bargain purchase

A significantly higher level of profitability was achieved in the first six months of the current financial year 2019. According to company data, the disproportionately high increase in EBITDA and therefore the improvement in the EBITDA margin to 29.3% (H1 2018: 24.3%) is mainly attributable to the synergy effects realised in the context of the recently acquired companies. In addition, further efficiency gains were achieved (e.g. consolidation of data centres, etc.).

The depreciation and amortisation expenses on the identified fixed assets (PPA depreciation) resulting from company acquisitions are mainly responsible for the overall high level of depreciation and amortisation at gamigo AG. In previous financial years, this resulted in negative EBIT, with EBIT exceeding the break-even threshold for the first time in the 2018 financial year. Although the acquisition of Trion Worlds Inc. resulted in a significant increase in intangible assets, this did not take place until October 2018 and therefore only had a proportional effect. For the current financial year 2019, we anticipate a disproportionate increase in depreciation and amortisation, and this is already clearly evident in the half-year figures for 2019. However, since, as outlined above, an overall increase in profitability was achieved, gamigo AG generated positive EBIT in the first six months of 2019.

Post-tax earnings (in € million)



Source: gamigo AG; GBC AG

The same also applies to post-tax earnings, which returned to positive territory for the first time in 2018, with this picture continuing in the first six months of 2019. Expansion of the business model in conjunction with high M&A activity has mainly been covered by liabilities to banks in recent years. In the 2017 financial year, the company redeemed an 8.5% corporate bond issued in 2013 early by means of a bank loan, thereby achieving considerable interest savings. In 2018, gamigo AG issued its second corporate bond as a major financing component for its continued M&A strategy. Following the capital increase in June 2019, this bond currently has an outstanding volume of around €50 million. The bond has a variable interest rate of 7.75% (above the three-month EURIBOR, minimum 0.00%) and a term running to 11 October 2022. The bond issue and the associated increase in net debt are expected to result in a substantial increase in interest expenses. For the first six months of 2019, this figure was €-2.05 million, already almost at the level for 2018 as a whole.

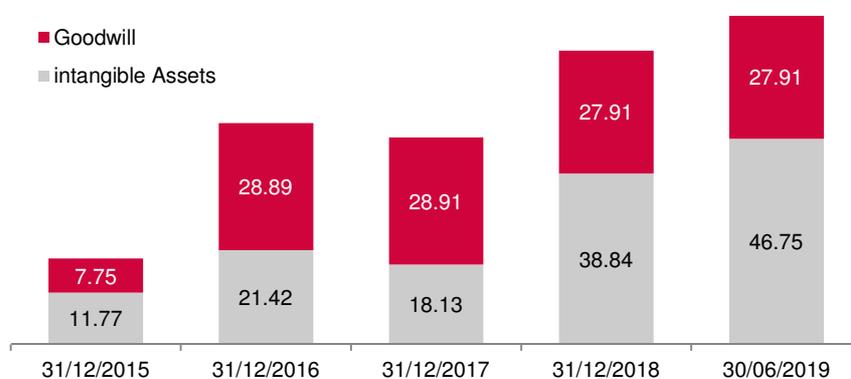
Asset and cash flow situation at gamigo AG

in € million	31.12.2016	31.12.2017	31.12.2018	30.06.2019
Equity	31.89	26.73	28.53	29.14
Equity ratio	43.8%	40.0%	30.4%	23.6%
Loan liabilities	9.64	0.00	24.88	48.54
Liabilities	27.13	27.11	27.31	45.89
Cash and cash equivalents	2.78	1.02	4.16	22.12
Fixed assets	24.55	20.24	43.86	50.24
Goodwill	28.89	28.91	27.91	27.91
Cash flow – operating	4.40	3.80	10.48	6.54
Cash flow – investment	-1.65	-8.73	-6.35	-5.45
Cash flow – financing	-1.25	-0.86	3.78	16.87

Source: gamigo AG; GBC AG

gamigo AG is structured like any other typical technology company and represents a similar picture to any company that is very active in the M&A sector. This means that fixed assets are primarily comprised of intangible assets (developed within the company itself or acquired), which have risen sharply as a result of the high level of acquisition activity in recent financial years. In the last financial year 2018 alone, the acquisition of Trion led to a sharp increase in intangible assets to €38.84 million (31 December 2017: €18.13 million). Due to what is known as the “lucky buy”, no goodwill was carried forward for the Trion acquisition. Overall, however, most of the gamigo Group’s goodwill resulted from the acquisition of ElbSpree Media Holding GmbH in 2016.

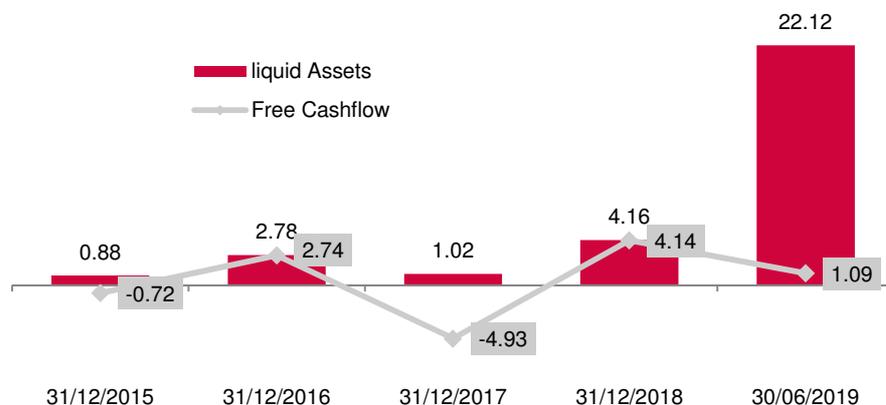
Intangible assets and goodwill (in € millions)



Source: gamigo AG; GBC AG

The acquisition of technology companies and game licences has so far been financed by a mix of their own funds and debt. In particular, the fact that gamigo AG has been able to generate consistently positive operating cash flows in recent financial years is a testament to the company’s impressive internal financing capability. This was particularly evident in the past financial year 2018, which saw a significant increase in cash flow from operating activities to €10.48 million, which was higher than the capital expenditure cash flow from the acquisition of Trion and other investments relating to intangible assets. The same picture emerges in the first six months of 2019, in which the cash and cash equivalents generated from operations were sufficient to cover the acquisition of WildTangent.

Free cash flow and cash and cash equivalents (in € million)

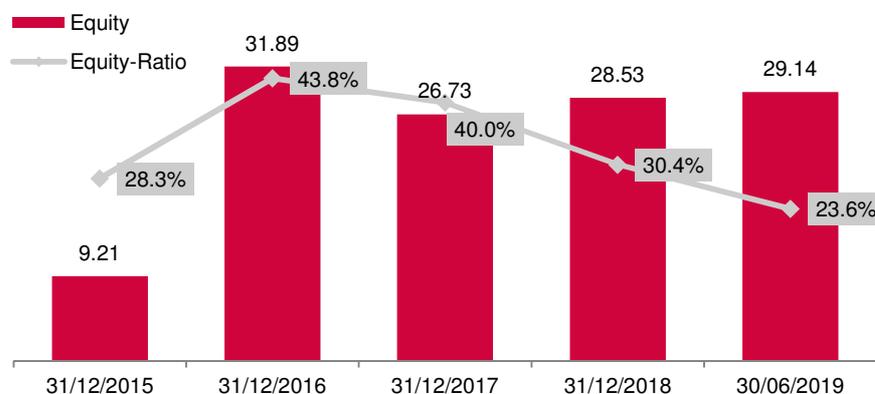


Sources: gamigo AG; GBC AG

The visible leap in cash and cash equivalents as at 30 June 2019 is attributable to the €18 million increase in the corporate bond issued in the first half of 2018. Following the increase, this 7.75% interest-bearing bond now accounts for a total volume of €50 million.

Although equity increased slightly as a result of the positive post-tax earnings in previous reporting periods, gamigo AG's equity rating did fall due to the bond issue of October 2018:

Equity (in €m) and Equity-Ratio (in %)



Source: gamigo AG; GBC AG

FORECASTS AND VALUATION

P&L (in €m)	FY 2018	FY 2019e	FY 2020e	FY 2021e
Revenue	32.62	74.46	90.96	105.89
EBITDA	8.65	14.19	20.48	22.94
EBITDA-margin	26.50%	19.06%	22.51%	21.66%
Net Profit	4.32	-1.90	1.02	2.10
EPS in €	0.01	-0.03	0.02	0.03

Source: GBC AG

Forecast principles

MGI plc is a growing group with predictable operating cash flows based on its **customer lifetime value** (monetary value of customer relationships). The most important assets of the group are the national and international game licenses (i.e. MMOG-titles) that are also granted to third parties in regions not actively covered. The corporate strategy revolves around inorganic and organic growth which can be summarized in three drivers: **acquisitions of entities and assets, new game-launches and game updates.**

On the on hand **inorganic growth** should continue through the acquisitions of game and digital media companies, especially in countries where MGI has a strong presence (North America and Europe). With around 20 acquisitions in the last six years, the group has clearly chosen to overweight M&A growth to reduce risks related to the rejection of new games. Taking over established entities or assets (i.e. with consolidated customers and sales), it diminishes the turndown risk and allows to benefits from operative and financial synergies. Since M&A transactions are difficult to foresee we have not included the non-organic development in our assumptions. Nevertheless, we took into account the acquisitions of the two US entities: Trion World, which has been consolidated since 22.10.2018 and Wild Tangents, included since April 2019. With the integration of the new US game-titles in gamigo platforms, it is reasonable to expect an increase in user-base, monetarization and awareness in gamigo European users of the US titles.

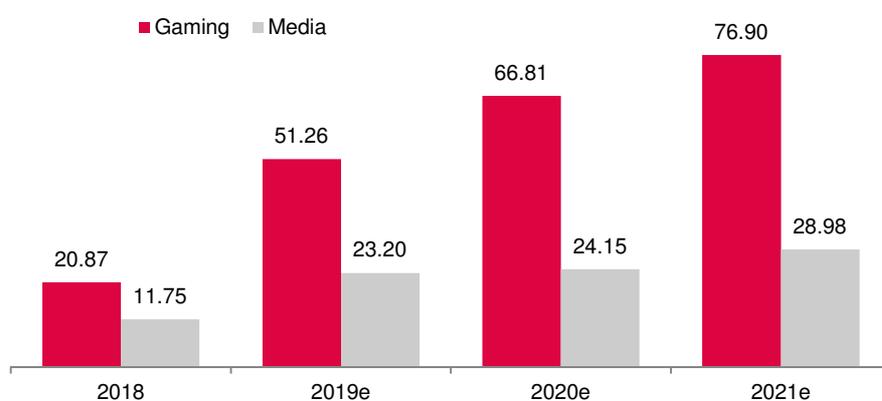
On the other hand, **organic growth** is expected by the updating of gamigo games and the launch of new games. Trends recorded in users' growth and spending per customer of the top 10 games in gamigo portfolio have been the basis for our assumptions. The number of users reached the average of 1.3m in Q2/2019 (+149% in monthly active users) while monthly spending per customer reached EUR 46.1 (+1.1% in Q2/2019). On these premise, we have assumed a steady growth in users for the end of the financial years 2019 and 2020. The conversion rate, which lies in a good rank (7%-10% range after 30 days) is assumed constant.

Revenue forecasts 2019 – 2021

Based on the monetization of gamigo portfolio and on the digital media development we have forecasted € 74.5m total sales in the financial year 2019 for the MGI group. The technology integrated and internally developed from gamigo is a strong edge to become a market consolidator in PC MMOG-titles in Europe and North America. We expect that the business in games will continues to be profitable, creating internal financial resources able to cover the cost base and make investments to enhance the portfolio. The market expectations for virtual-items and micro-transactions are also positive and include an unchanged competitive situation.

Starting from 2019, we have consolidated the companies Applift (offices in Tokyo, Shanghai, San Francisco and Sao Paulo) and ReachHero, which has strengthened its international sales team. For the whole media segment we have forecasted a CAGR 2019-2021 of 12% as their digital media advertising services (i.e. YouTube or Twitch) have become more popular and effective. Accordingly, the MGI Management Board forecasts annual sales in excess of € 20 million for the new acquired media companies in the next years while the existing media companies adspree and Mediakraft will contribute with 10-15 million to the overall performance. Unique selling points (USPs) in B2B are the advertising space on gamigo games, expertise on user acquisitions and scale advantage. The cross-selling of digital advertising solutions will be reinforced with a wider package.

Revenue forecasts 2019 – 2021 (in €m)

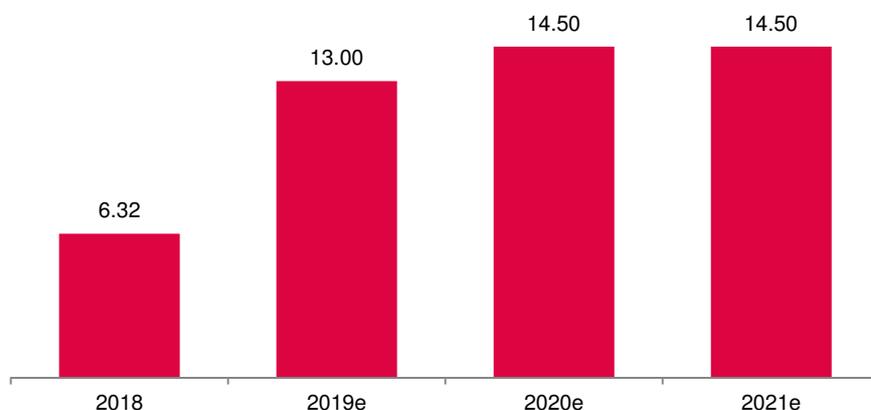


Source: GBC AG

Development of the operating result in 2019 – 2021

Despite the deconsolidation and change in business focus in the financial year 2018, for the first half of 2018 the operating result achieved was € 3.27m (previous year € 0.29m). The acquisitions of Trion World Inc. assets, Wild Tangents Inc. along with ReachHearo GmbH and Applift GmbH 2019 increased intangible assets and fixed assets amortization. In H1/2019 alone, amortization and depreciation accounted for € 4.28m (€ 2.18m in H1/2018), a figure that we expect to be higher for the years 2019 and 2020 to then become flat in 2021.

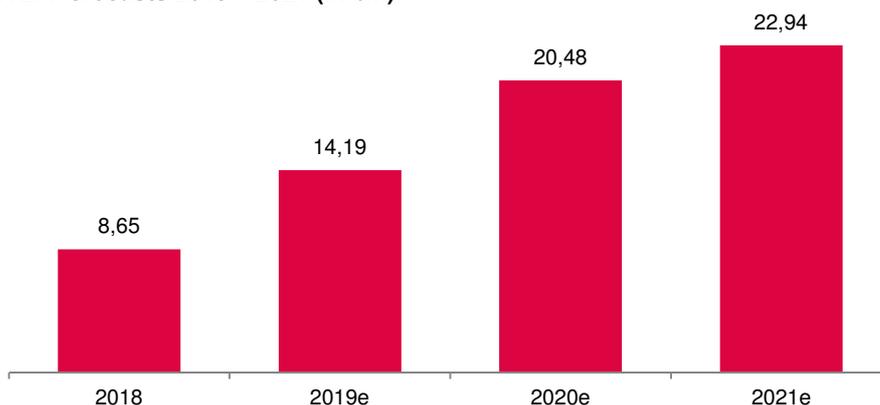
Amortization 2018 – 2021e



Source: GBC AG

Along with the business expansion, the need for new employees becomes higher. Accordingly, we assumed high personal costs for the years 2019 and 2020 that, however, in our view, should reduce its proportion on revenues to around 29% in 2021. Moreover, the plan to expand user base also involves investments in marketing for the next two years. In total, we have calculated € 14.19m total EBITDA in 2019 and € 20.48m in 2020. Concrete cost saving from group synergies and efficiency are considered for the long term.

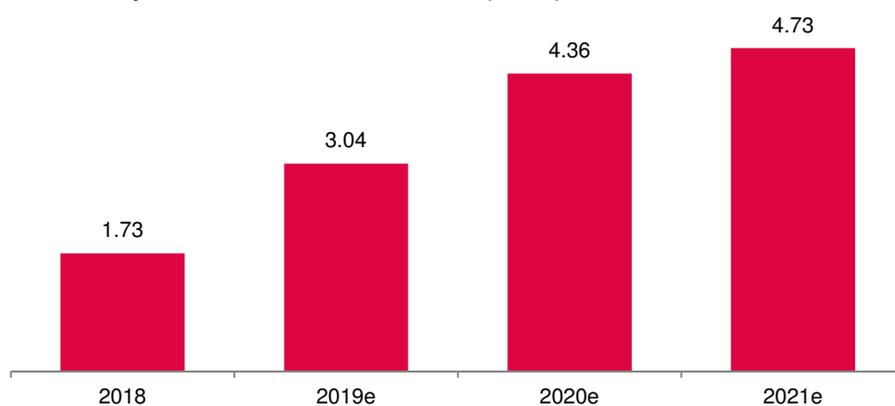
EBITDA forecasts 2019 – 2021 (in €m)



Source: GBC AG

As a result of the bonds issues (more than € 55m in total value), financial expenses rose to € 1.96m in H1/2019. Including both bond interest outflows and financial costs related to other liabilities, we have forecasted a steady increase in financial expenses for the next two years. For the bottom line, the deconsolidation of the shareholding in solidare real estate holding GmbH brought € 3.67m more in 2018. Without including further one-off effects, we calculated an after-tax net profit of € -1.90m in 2019 and € 1.02m in 2020.

Financial Expenses Forecasts 2019 – 2021 (in €m)



Source: GBC AG

Valuation

Model assumptions

We have assessed MGI plc using a three-stage DCF model. Starting with the specific estimates for the years 2019 to 2021 in phase 1, the outlook for 2022 to 2026 was developed in the second phase using value drivers. We expect increases in revenue of 10.0%. We have set 22.5% as the target EBITDA margin. We have included the tax rate of 30.0% in phase 2. Additionally, at the end of the forecast horizon, a residual value is determined in the third phase using the perpetual annuity. As the final value, we assume a growth rate of 2.0%.

Determining the capital costs

The weighted average cost of capital (WACC) of MGI is calculated from the equity cost and the cost of debt. The market premium, the company-specific beta, as well as the risk-free interest rate have to be determined in order to determine the equity cost.

The risk-free interest rate is derived from the current structured interest rate curves for risk-free bonds in accordance with the recommendations from the "Fachausschuss für Unternehmensbewertung und Betriebswirtschaft" (FAUB, Special Committee for Business Valuation and Business Management) of the "Institut der Wirtschaftsprüfer in Deutschland e.V." (Institute of Public Auditors in Germany). This is based on the zero bond interest rate calculated using the Svensson Method published by the German Bundesbank. In order to compensate for short-term market fluctuations, the average returns for the previous three months are used and the result is rounded up to the nearest 0.25 basis points. The value currently used for the risk-free interest rate is 1.00 %.

We set the historical market premium of 5.50 % as a reasonable expectation of the market premium. This is supported by historical analyses of equity market returns. The market premium reflects in a percentage the improved return expected from equity markets relative to low-risk government bonds.

According to GBC estimates, a beta of 1.50 is currently determined. Using the premises provided, the equity cost is calculated at 9.25 % (beta multiplied by risk premium plus risk-free interest rate). As we assume a sustainable weighting of the equity cost of 80%, the result is a weighted average cost of capital (WACC) of 8.45 %.

Valuation result

The resulting fair value per share at the end of the 2019 financial year corresponds to the target price of EUR 1.90 and a BUY rating.

DCF-model

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

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

consistency - Phase		final - Phase	
Revenue growth	11.5%	Perpetual growth rate	2.0%
EBITDA-margin	21.5%	Perpetual EBITA margin	16.2%
Depreciation on fixed assets	21.0%	Effective tax rate in terminal value	30.0%
Working capital to sales	6.1%		

Three-phase DCF - model:

Phase in mEUR	estimate			consistency					final value
	FY 19e	FY 20e	FY 21e	FY 22e	FY 23e	FY 24e	FY 25e	FY 26e	
Revenue (RE)	80.11	98.59	114.28	127.43	142.08	158.42	176.64	196.95	
Revenue change	126.2%	23.1%	15.9%	11.5%	11.5%	11.5%	11.5%	11.5%	2.0%
Revenue to fixed assets	0.91	1.31	1.66	2.04	2.48	2.97	3.52	4.14	
EBITDA	14.19	20.48	22.94	27.40	30.55	34.06	37.98	42.34	
EBITDA-margin	17.7%	20.8%	20.1%	21.5%	21.5%	21.5%	21.5%	21.5%	
EBITA	1.19	5.98	8.44	12.90	17.42	22.01	26.78	31.82	
EBITA-margin	1.5%	6.1%	7.4%	10.1%	12.3%	13.9%	15.2%	16.2%	16.2%
Taxes on EBITA	-0.24	-1.20	-1.69	-3.87	-5.22	-6.60	-8.03	-9.54	
Tax rate	20.0%	20.0%	20.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
EBI (NOPLAT)	0.95	4.78	6.75	9.03	12.19	15.40	18.74	22.27	
Return on Capital	1.5%	5.8%	8.6%	11.9%	17.3%	23.3%	29.7%	36.5%	38.1%
Working Capital (WC)	-5.00	3.00	7.00	7.81	8.70	9.70	10.82	12.06	
WC to sales	-6.2%	3.0%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	
Investment in WC	-3.96	-8.00	-4.00	-0.81	-0.90	-1.00	-1.12	-1.24	
Operating fixed assets (OFA)	88.00	75.50	69.00	62.50	57.37	53.32	50.12	47.59	
Depreciation on OFA	-13.00	-14.50	-14.50	-14.50	-13.13	-12.05	-11.20	-10.53	
Depreciation to OFA	14.8%	19.2%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	
CAPEX	-26.43	-2.00	-8.00	-8.00	-8.00	-8.00	-8.00	-8.00	
Capital Employed	83.00	78.50	76.00	70.31	66.07	63.02	60.93	59.65	
EBITDA	14.19	20.48	22.94	27.40	30.55	34.06	37.98	42.34	
Taxes on EBITA	-0.24	-1.20	-1.69	-3.87	-5.22	-6.60	-8.03	-9.54	
Total Investment	-30.39	-10.00	-12.00	-8.81	-8.90	-9.00	-9.12	-9.24	
Investment in OFA	-26.43	-2.00	-8.00	-8.00	-8.00	-8.00	-8.00	-8.00	
Investment in WC	-3.96	-8.00	-4.00	-0.81	-0.90	-1.00	-1.12	-1.24	
Investment in Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Free Cashflows	-16.43	9.28	9.25	14.72	16.43	18.46	20.83	23.56	333.69

Value operating business (due date)	267,41	280,73
Net present value explicit free Cashflows	78,30	75,63
Net present value of terminal value	189,12	205,10
Net debt	51,11	45,78
Value of equity	216,30	234,94
Minority interests	-98,92	-107,45
Value of share capital	117,38	127,50
Outstanding shares in m	67,02	67,02
Fair value per share in €	1.75	1.90

Cost of Capital:

Risk free rate	1.0%
Market risk premium	5.5%
Beta	1.50
Cost of equity	9.3%
Target weight	80.0%
Cost of debt	7.0%
Target weight	20.0%
Taxshield	25.0%
WACC	8.5%

Return on Capital	WACC				
	7.9%	8.2%	8.5%	8.8%	9.1%
37.6%	2.28	2.06	1.86	1.68	1.51
37.8%	2.31	2.08	1.88	1.70	1.53
38.1%	2.33	2.11	1.90	1.72	1.55
38.3%	2.35	2.13	1.92	1.74	1.57
38.6%	2.38	2.15	1.94	1.76	1.59

ANNEX

I.

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2. The research report is simultaneously made available to all interested investment services companies.

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BUY	The expected return, based on the derived target price, incl. dividend payments within the relevant time horizon is $\geq + 10\%$.
HOLD	The expected return, based on the derived target price, incl. dividend payments within the relevant time horizon is $> - 10\%$ and $< + 10\%$.
SELL	The expected return, based on the calculated target price, incl. dividend payments within the relevant time horizon, is $\leq - 10\%$.

GBC AG's target prices are determined using the fair value per share, derived using generally recognised and widely used methods of fundamental analysis, such as the DCF process, peer-group benchmarking and/or the sum-of-the-parts process. This is done by including fundamental factors such as e.g. share splits, capital reductions, capital increases, M&A activities, share buybacks, etc.

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