

Media and Games Invest SE*5a;7;11

Rating: Buy

Target price: € 9.20
(previously: € 8.50)

Current price: 3.10
08/03/22 / Xetra /
(17:29 pm)
Currency: EUR

Master data:

ISIN: MT0000580101
WKN: A1JGTO
Ticker symbol: M8G
Number of shares³: 149.68
Marketcap³: 464.01
Enterprise Value³: 667.02
³ in m / in m EUR

Free float: 57.7%

Transparency level:
Nasdaq First North Premier

Market segment:
Freiverkehr
(Open Market)

Accounting:
IFRS

Financial year: 31/12/

Designated Sponsors:
Hauck & Aufhäuser
Privatbankiers AG
Pareto Securities AB

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* Catalogue of possible conflicts of interest on page 9

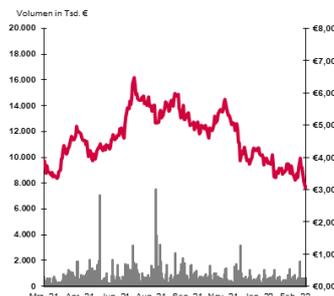
Date (time) of completion:
08/03/2022 (18:43 pm)

Date (time) of distribution:
09/03/2022 (10:30 am)

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

Company profile

Industry: Games, (digital) media
Focus: Ad-Tech and Mobile-/Online-Games
Employees: >800
Foundation: 2011 (gamigo in 2000)
Headquarters: Malta (expected from 2023 Sweden)
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. During the past 2021 financial year, the following were 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. 3) Acquisition of media companies Match2One and Smaato (additional reach: 1.30 billion users) In the current COVID-19 pandemic, which is still ongoing, video games have once again proven to be crisis-proof and non-cyclical. Since July 2020, MGI shares have been listed in the Scale segment (previously: Basic Board) of the Deutsche Börse and have had a dual listing on the Nasdaq First North Premier since 6 October 2020.

P&L in m EUR \ FY-end	31/12/2021*	31/12/2022e	31/12/2023e	31/12/2024e
Revenues	252.20	302.22	364.76	455.08
Adj. EBITDA	71.10	88.72	112.23	139.73
EBITDA	65.00	84.52	108.03	134.43
EBIT	36.80	52.49	74.23	95.13
Net result (after minorities)	16.10	25.13	41.98	55.61

*according to preliminary figures

Key figures in EUR				
Earnings per share	0.11	0.17	0.28	0.37
Dividend per share	0,00	0.00	0.00	0,00

Key figures				
EV/Revenues	2.64	2.21	1.83	1.47
EV/ Adj. EBITDA	9.38	7.52	5.94	4.77
EV/EBITDA	10.26	7.89	6.17	4.96
EV/EBIT	18.13	12.71	8.99	7.01
P/E ratio (after minorities)	28.82	18.46	11.05	8.34
P/B ratio	1.51			

Financial calendar	
29/04/2022:	Annual report 2021
31/05/2022:	Quarterly report Q1 2022
29/07/2022:	Annual General Meeting 2022
31/08/2022:	Half-year Report FY 2022
30/11/2022:	Quarterly report Q3 2022

**Last research from GBC:	
Date:	Publication / Target price in EUR / Rating
31/08/2021:	RS / 8.50 / BUY
07/07/2021:	RS / 8.00 / BUY
15/06/2021:	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.

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FY 2021 closed with jump in revenues and earnings; Strong dovetailing of media and games business ensure high growth rate; Due to transformation into a fully integrated ad tech company with own gaming activities, we expect dynamic growth; Forecasts and price target raised; Buy rating

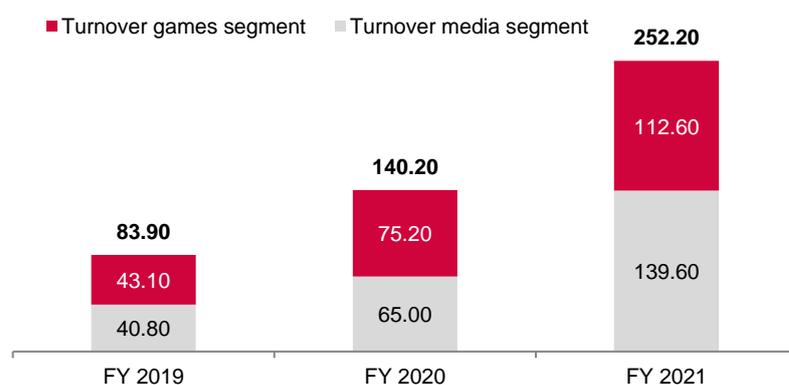
Group key figures (in € million)	FY 2019	FY 2020	FY 2021*
Revenues	83.89	140.20	252.20
Adj. EBITDA	18.10	29.10	71.10
EBITDA	15.54	26.50	65.00
Adj. EBIT	10.50	17.50	54.80
EBIT	5.00	11.00	36.80
Net result	1.25	2.70	16.10

Source: Media and Games Invest SE *according to preliminary figures

Turnover and earnings development 2021

On 28 February 2022, Media and Games Invest SE (MGI) announced its preliminary business figures for the past financial year 2021. According to these figures, the MGI Group was able to continue its dynamic growth course in the past financial period with a jump in turnover of 80.0% to € 252.20 million (previous year: € 140.20 million). The high growth rate was particularly due to the strong fourth quarter (revenue Q4 2021: € 80.2 million vs. revenue Q4 2020: € 48.70 million), which was also the quarter with the highest revenue and earnings in the company's history to date. The rapid increase in revenue was based on both organic and inorganic revenue effects (38.0% organic growth and 42.0% inorganic growth).

Development of Group and segment turnover (in € million)



Sources: Media and Games Invest SE; GBC AG

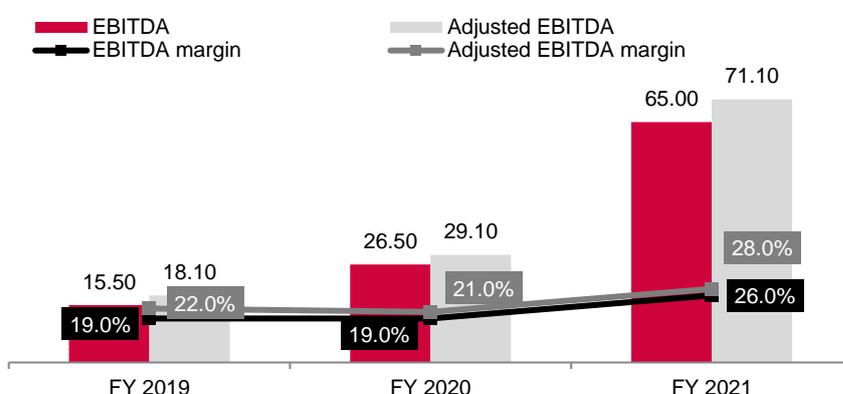
The significant increase in Group turnover was mainly driven by the Media segment. In this business segment, the company achieved a jump in turnover by 147.7% to € 139.60 million (previous year: € 65.0 million). In addition to significant revenue growth from organic growth factors, such as expanded advertising partnerships, this business unit also benefited from significant positive effects from completed M&A measures (e.g. Smaato takeover).

In addition, the gaming segment also made a significant contribution to the increase in group revenues with a significant increase in revenues of 49.7% to € 112.60 million (previous year: € 75.20 million). This dynamic increase in revenue resulted primarily from several content updates, game launches and the KingsIsle acquisition.

Even more significant increases were achieved at the earnings level. Compared to the previous year, EBITDA increased highly dynamically by 131.0% to € 65.00 million (previous year: € 26.50 million). EBITDA, adjusted for one-off effects (e.g. special and restructuring costs from M&A transactions), increased by 144.3% to € 71.10 million (previous year: € 29.10 million). The adjusted EBITDA margin also increased significantly to 28.0% (previous year: 21.0%). In our opinion, the very good company performance is primarily the result of the economies of scale and synergy effects achieved within the "strongly interlinked" business fields of media and games.

The corporate guidance issued by MGI management was thus exceeded. Our revenue estimate (revenue: € 234.15 million) and earnings forecasts (EBITDA: € 61.21 million, adjusted EBITDA: € 65.71 million) were also exceeded, and our net forecast (net result: € 16.93 million) was almost achieved.

Development of EBITDA and adjusted EBITDA (in € million)



Sources: Media and Games Invest SE; GBC AG

Forecasts and evaluation

P&L in € million\ FY-end	FY 2022e (new)	FY 2022e (old)	FY 2023e (new)	FY 2023e (old)	FY 2024 (new)
Revenues	302.22	289.88	364.76	362.41	455.08
Adj. EBITDA	88.72	86.53	112.23	111.83	139.73
EBITDA	84.52	82.33	108.03	107.63	134.43
EBIT	52.49	47.30	74.23	72.43	95.13
Net result (after minorities)	25.13	24.29	41.98	44.22	55.61

Source: Estimates GBC AG

With the publication of the preliminary figures, MGI has announced its corporate guidance for the current business year. According to this guidance, the company expects revenues in a range of € 290.0 million to € 310.0 million and adjusted EBITDA in a range of € 80.0 million to € 90.0 million.

Based on this positive outlook and the currently highly convincing company performance, we are significantly raising our previous revenue and earnings forecasts for the financial years 2022 and 2023. For the current financial year, we now expect revenues of € 302.22 million (previously: € 289.88 million) and an adjusted EBITDA of € 88.72 million (previously: € 86.53 million). For the following financial year 2023, we expect revenues of € 382.16 million (previously: € 362.41 million) and an adjusted EBITDA of € 116.04 million (previously: € 111.83 million). In the following financial year 2024, revenue and ad-

justed EBITDA should increase further to € 478.26 million and € 145.78 million respectively. Against the background that we expect higher interest expenses in the future than was previously the case, we have only slightly increased our previous net forecast for the financial year 2022 and slightly lowered our net forecast for the financial year 2023.

In the past few years, the MGI Group has built up to a good starting point to continue to grow very dynamically and highly profitably as an ad tech company with its own gaming activities (access to "first party data" and advertising space of gaming assets). The combination of the synergetic media and games business activities should continue to significantly boost the profitable growth to date. In addition, the high level of cash on hand (cash and cash equivalents at the end of 2021: approx. € 180.0 million) offers the company the opportunity to further strengthen the group through planned M&A transactions and thus to further increase the earning power and the pace of growth.

Within the framework of our DCF valuation model, we have raised our previous price target to € 9.20 (previously: € 8.50 per share) due to our increased estimates for the financial years 2022 and 2023. In view of the current share price level, we thus continue to assign a BUY rating and see significant share price potential. The valuation results of our peer group analysis (see below) also support our assessment of the attractiveness and price potential of the MGI share.

Evaluation

Model assumptions

We have valued Media and Games Invest SE using a three-stage DCF model. Starting with the concrete estimates for the years 2022 to 2024 in phase 1, the forecast is made from 2025 to 2029 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 29.4% (previously: 29.7%). We have included the tax rate at 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. The basis for this is the zero bond interest rates published by the Deutsche Bundesbank according to 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 currently used value 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). Since 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 the 2022 financial year corresponds to a target price of € 9.20 per share (previously: € 8.50 per share). Our significant price target increase results from our raised estimates for the financial years 2022 and 2023 and the first-time inclusion of the financial year 2024 in the concrete estimation period. This provides a higher starting level for the consistency phase of the valuation model.

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	29.5%	Perpetual EBITA margin	24.6%
Depreciation on fixed assets	29.3%	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 22e	FY 23e	FY 24e	FY 25e	FY 26e	FY 27e	FY 28e	FY 29e	
Revenue (RE)	302.22	364.76	455.08	477.83	501.73	526.81	553.15	580.81	
Revenue change	19.8%	20.7%	24.8%	5.0%	5.0%	5.0%	5.0%	5.0%	2.0%
Revenue to fixed assets	1.64	2.14	2.95	3.61	4.31	5.01	5.70	6.36	
EBITDA	84.52	108.03	134.43	141.15	148.21	155.62	163.40	171.57	
EBITDA margin	28.0%	29.6%	29.5%	29.5%	29.5%	29.5%	29.5%	29.5%	
EBITA	52.49	74.23	95.13	95.94	109.48	121.53	132.59	143.13	
EBITA margin	17.4%	20.3%	20.9%	20.1%	21.8%	23.1%	24.0%	24.6%	24.6%
Taxes on EBITA	-12.07	-17.07	-23.78	-28.78	-32.84	-36.46	-39.78	-42.94	
Tax rate	23.0%	23.0%	25.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
EBI (NOPLAT)	40.42	57.16	71.35	67.16	76.63	85.07	92.81	100.19	
Return on capital	13.4%	29.0%	38.3%	34.8%	42.6%	51.1%	58.8%	65.8%	68.4%
Working Capital (WC)	12.15	15.99	38.68	47.78	50.17	52.68	55.32	58.08	
WC to sales	4.0%	4.4%	8.5%	10.0%	10.0%	10.0%	10.0%	10.0%	
Investment in WC	91.29	-3.84	-22.69	-9.10	-2.39	-2.51	-2.63	-2.77	
Operating fixed assets (OFA)	184.71	170.11	154.31	132.19	116.36	105.17	97.05	91.32	
Depreciation on OFA	-32.03	-33.80	-39.30	-45.21	-38.73	-34.09	-30.81	-28.44	
Depreciation to OFA	17.3%	19.9%	25.5%	29.3%	29.3%	29.3%	29.3%	29.3%	
CAPEX	-18.30	-19.20	-23.50	-23.10	-22.90	-22.90	-22.70	-22.70	
Capital employed	196.86	186.10	192.99	179.98	166.53	157.85	152.37	149.40	
EBITDA	84.52	108.03	134.43	141.15	148.21	155.62	163.40	171.57	
Taxes on EBITA	-12.07	-17.07	-23.78	-28.78	-32.84	-36.46	-39.78	-42.94	
Total Investment	72.99	-23.04	-46.19	-32.20	-25.29	-25.41	-25.33	-25.47	
Investment in OFA	-18.30	-19.20	-23.50	-23.10	-22.90	-22.90	-22.70	-22.70	
Investment in WC	91.29	-3.84	-22.69	-9.10	-2.39	-2.51	-2.63	-2.77	
Investment in Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Free Cashflows	145.44	67.92	64.46	80.17	90.08	93.75	98.29	103.17	1955.88

Value operating business (due date)	1661.64	1711.22
Net present value explicit free Cashflows	449.30	413.16
Net present value of terminal value	1212.33	1298.06
Net debt	280.66	232.32
Value of equity	1380.98	1478.90
Minority interests	-3.50	-3.75
Value of share capital	1377.48	1475.16
Outstanding shares in m	149.68	149.68
Fair value per share in €	9.20	9.86

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%
67.9%	10.59	9.82	9.14	8.55	8.02
68.1%	10.62	9.85	9.17	8.57	8.04
68.4%	10.66	9.88	9.20	8.60	8.07
68.6%	10.69	9.92	9.23	8.63	8.09
68.9%	10.73	9.95	9.26	8.66	8.12

Peer group analysis

Parallel to the DCF valuation of Media and Games Invest SE, we carried out 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 21	EV/Revenue 22e	EV/Revenue 23e	EV/Revenue 24e	EV/EBITDA 20	EV/EBITDA 21	EV/EBITDA 22e	EV/EBITDA 23e	EV/EBITDA 24e
Media (Ad-Tech)											
The Trade Desk Inc.	TTD (NasdaqGM)	37.50	26.20	19.74	15.67	12.84	147.60	143.90	51.68	41.56	34.91
Pubmatic Inc.	PUBM (NasdaqGM)	6.20	4.10	3.25	2.64	2.15	22.20	12.00	8.83	6.96	5.65
Viant Technology Inc.*	DSP (NasdaqGS)	2.43	1.87	1.54	1.32	n.s.	12.63	11.70	10.42	7.45	n.s.
Magnite Inc.	MGNI (NasdaqGS)	6.70	4.40	3.96	3.29	n.s.	67.20	13.40	12.22	9.73	n.s.
AcuityAds Holdings Inc.	AT (TSX)	1.70	0.81	0.68	0.57	n.s.	14.10	4.75	4.57	3.48	n.s.
DoubleVerify Holdings Inc.	DV (NYSE)	15.40	10.34	7.99	6.29	5.00	83.10	31.38	26.16	19.71	16.12
Integral Ad Science Hold. Inc.	IAS NasdaqGS)	11.90	8.90	6.86	5.42	4.34	61.00	122.60	21.89	16.87	13.44
Quotient Technology Inc.	QUOT (NYSE)	1.30	1.10	1.46	1.24	n.s.	81.00	37.00	15.95	7.60	n.s.
LiveRamp Holdings Inc.	RAMP (NYSE)	n.s.	4.70	4.12	3.42	2.83	n.s.	n.s.	46.26	32.55	19.61
Digital Turbine Inc.	APPS (NasdaqCM)	n.s.	11.10	3.01	2.32	1.71	n.s.	53.30	19.15	12.89	8.45
Tremor Int. Ltd	TRMR (AIM)	3.30	2.10	1.88	1.64	n.s.	19.90	6.50	4.27	3.76	4.39
Criteo S.A.	CRTO (NasdaqGS)	0.60	0.60	1.24	1.15	1.07	5.20	4.30	3.92	3.55	3.34
AppLovin Corp.	APP (NasdaqGS)	13.50	7.00	5.24	4.28	3.57	64.40	32.10	18.69	13.60	10.75
IronSource Ltd.	IS (NYSE)	12.70	7.60	5.17	4.07	3.26	44.50	35.00	16.00	12.17	9.34
Azerion Group N.V.	AZRN (ENXTAM)	n.s.	n.s.	3.81	3.16	2.69	n.s.	n.s.	23.50	18.19	14.67
Ø Peer group		9.44	6.49	4.66	3.77	3.95	51.90	39.07	18.90	14.00	12.79
Media and Games	XTRA:M8G	1.80	1.00	0.92	0.79	0.72	12.70	5.00	3.34	2.75	2.49
MGI vs. Ø Peer group		-80.9%	-84.6%	-80.3%	-79.0%	n.s.	-75.5%	-87.2%	-82.3%	-80.4%	n.s.

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

APPENDIX

I.

Research under MiFID II

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

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The respective recommendations/ classifications/ ratings are associated with the following expectations:

BUY	The expected return, based on the determined price target, incl. dividend payment within the corresponding time horizon is $\geq + 10\%$.
HOLD	The expected return, based on the determined price target, incl. dividend payment within the corresponding time horizon is $> - 10\%$ and $< + 10\%$.
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GBC AG price targets are determined on the basis of the fair value per share, which is determined on the basis of generally recognised and widely used methods of fundamental analysis, such as the DCF method, the peer group comparison and/or the sum-of-the-parts method. This is done by taking into account fundamental factors such as share splits, capital reductions, capital increases, M&A activities, share repurchases, etc.

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