Research Report (Anno)

- **Dynamic growth and strong cash generation in FY2019**
- **Positive impact of COVID-19 on Video Games Sales**
- **Management successful in Optimizing the Value Chain of Games and Digital Media**

Target Price: €2.85

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 18

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 "I. Research under MiFID II"

Date (time) of completion: 22.07.2020 (11:20 am)
Date (time) of first distribution: 23.07.2020 (12:00 am)
Target price valid until: max. 31.12.2021

GBC AG Investment Research

Media and Games Invest plc*5a;11

Rating: BUY
Target price: €2.85

Current price: 1.39
22.07.20 / XETRA / 11:10 am
Currency: €

Base data:

ISIN: MT0000580101
WKN: A1JGT0
Ticker symbol: M8G
Number of shares ³: 70.02
Market cap ³: 96.98
EnterpriseValue³: 136.71
³ in Mio. / in Mio. €
Freefloat: 50.6%

Transparency level:
Entry Standard

Market segment:
Scale

Accounting:
IFRS

Financial year: 31.12

Designated Sponsor:
Hauck & Aufhäuser Privatbankiers AG

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* List of possible conflicts of interest on page 19

Company Profile

Industry: entertainment, media

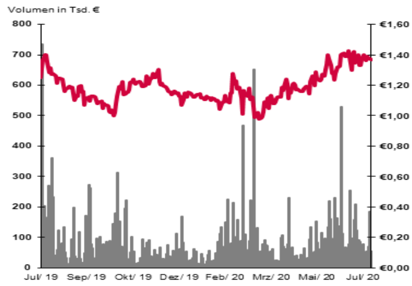
Focus: gaming and media group

Employees: 538 Stand (2019)

Founded: (2000 gamigo)

Headquarters: Malta

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



Media and Games Invest plc (formerly Blockescene plc) holds a profitable and growing portfolio of gaming and digital media companies. The group primarily aims to grow via acquisitions of companies in distressed situations or in financial difficulties, restructuring and integrating them within a large platform. Up to now, this strategy has generated various synergies such as cost reductions, leverage and scale advantages. According to the management this strategy is pursued by a few competitors, especially in the gaming sector, leaving room for making acquisitions at a favourable price. In 2020, the following has already been accomplished: 1) the acquisition of the North American mobile data platform Verve Group, 2) an increase in gamigo AG equity share from 53% to 98%, 3) the purchase of the programmatic advertising company Platform 161, and 4) a minority interest acquisition in ReachHero. In the current COVID-19 pandemic, video games have proved once again to be crisis-proof and non-cyclical. As consumers have had more leisure time, the demand for entertainment and thus for video games has sharply increased. As reported, new players for gamigo´s massively popular multiplayer online games increased to 35% in March 2020 compared to January/February. In July 2020, MGI shares have moved into the scale segment (previously on the Basic Board) of the German Stock Exchange.

P&L in €m, financial year-end	31.12.2019	31.12.2020e	31.12.2021e	31.12.2022e
Revenue	83.89	110.23	132.28	152.12
EBITDA	15.54	21.26	25.87	30.69
EBIT	5.00	8.40	12.77	17.49
Net income (loss) before minorities	1.90	1.76	4.34	7.17
Net income (loss) after minorities	-0.32	1.26	4.04	6.87

Key figures in €				
Earnings per share	0.00	0.01*	0.04*	0.07*
Dividend per share	0,00	0.00	0.00	0.00
*based on 92.12m shares				
Key figures				
EV/Revenues	1.63	1.24	1.03	0.90
EV/EBITDA	8.80	6.43	5.28	4.45
EV/EBIT	27.34	16.28	10.71	7.82
P/E before minorites	51.04	55.10	22.35	13.53
P/E after minorities	-303.06	76.97	24.00	14.12
P/B	0.58			

Financial calendar
02.10.2020: German Fall Conference

** Last research by GBC :
Date: publication / target price / rating
07.05.2020: RC / 2.10€ / BUY
09.03.2020: RC / 2.10 € / BUY
20.02.2020: RC / 2.10 € / BUY
12.02.20: RC / 1.90 € / BUY
11.11.2019: IC / 1.90€ / BUY
** the research reports can be found on our website www.gbc-ag.de or can be requested at GBC AG, Halderstr. 27, D-86150 Augsburg

EXECUTIVE SUMMARY

- Media and Games Invest plc (formerly Blockescence plc) completed a very successful financial year in FY 2019 and got off to an excellent start in Q1/2020. Net sales rose by 157.2% to 83.89m in FY2019 while EBITDA increased by 79.8% to 15.54m in FY2019. Although acquisition costs were incurred in the media segment, the successful integration of Trion Worlds and WildTangent led to a substantial EBITDA-increase compared to FY 2018.

- The management has implemented a very successful corporate strategy over the last years. Since the acquisition of adspree through gamigo AG in 2016, Mr Westermann (CEO) and Mr. Echt (CFO) have pursued a successful buy and integrating strategy, optimizing the value chain between the two segments. Key improvements are expected in user acquisition and advertising income. This is in contrast to the higher risk development of new games which, however, MGI continues to partly pursue. According to the management statement, as not many competitors are pursuing this strategy, particularly in the gaming sector, MGI may strike lucrative deals. Furthermore, new technologies were implemented in 2019 (i.e. cloud database) with remarkable cost-savings.

- Since March 2020, the COVID-19 pandemic has impacted MGI activities. Although on the media side a balance has been visible between customers pausing their budgets and others increasing their spending, the effect for video games was a very positive one. As the population of many parts of Europe and North America had to stay at home, gamigo experienced a strong increase both in new registrations and in player activities. In March 2020 alone, monthly active users increased by 20% compared to January and February 2020. Net sales in Q1/2020, therefore, doubled to € 26.55m (PY: € 13.33m) while EBITDA grew by 40.3% to € 5.31m (PY: € 3.79m).

- MGI´s balance sheet has the typical structure of a technology company. Due to completed acquisitions by the end of the FY 2019, intangible assets reached € 233.21m (74.6% of total assets), including € 147.34m in goodwill and € 72.67m in other intangible assets. In order to finance this growth, various bonds were issued both at the MGI and gamigo level. At the end of December 2019 bonds on balance amounted to € 63.99m for the whole group. In 2020, the company completed the acquisitions of two further media companies strengthening its digital marketing offer. We have noted that the interest coverage rate decreased to 3.3 in Q1/20 compared to 4.5 at the end of 2019. However, MGI has a strong cash generation as shown by the operative cash flows in Q1/20 to € 5.87m (€ 2.48m).

- The uncertainty surrounding the COVID 19 pandemic and its impact on the world economy remains difficult to predict. Although we remain prudent, also due to the volatility of the video-game business, based on the positive impact in Q1/20 and expected improvement in earning quality due to synergies and initiated cost-cutting measures, we remain positive as to the development of MGI. Hence, we have estimated a significant revenue growth rate of around 30% which should be followed by an increase in profitability. The acquisitions of Verve Group and Platform 161 in the first half of 2020 have already laid a solid foundation for inorganic growth. We have maintained our BUY rating and accounting 92.12m shares (18.2m more due to gamigo minority acquisition and 3.9m more due to AppLift purchase), we came out with the target price of € 2.85 per share (prior: € 2.10).

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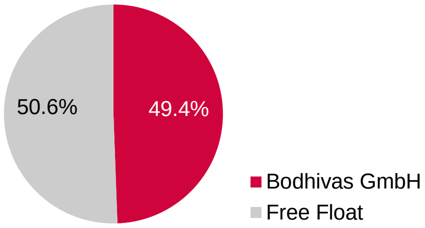
THE COMPANY

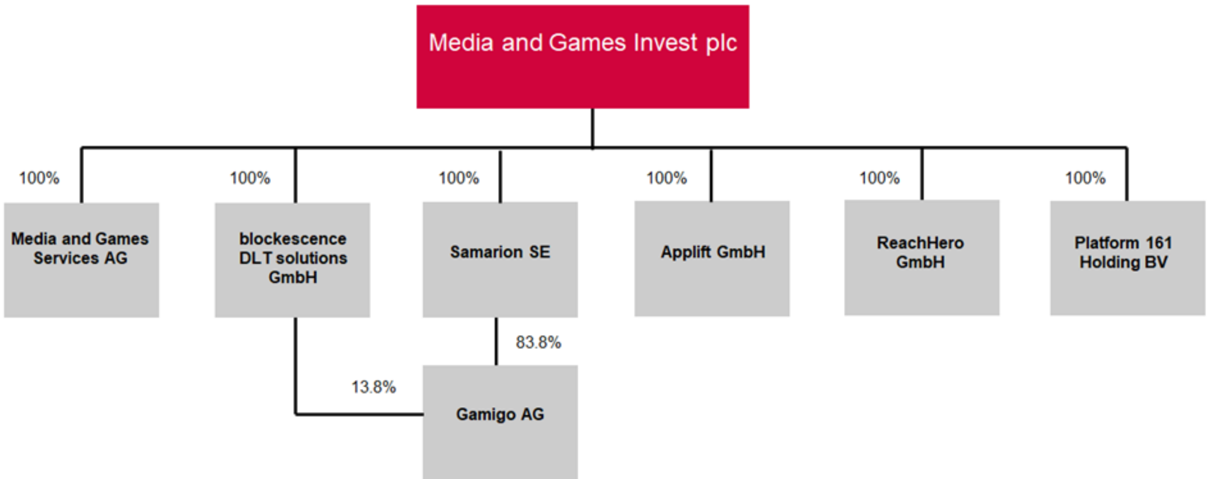
Capital Structure

Shareholders in %	June 30th 2019
Bodhivas GmbH*	49.4%
Free Float	50.6%

*Sources: Media and Games Invest plc, GBC AG (*Bodhivas GmbH holds 57.87% of the voting rights of MGI)*



Company structure 15 July 2020 (short representation)



Sources: Media and Games Invest plc, GBC AG

In 2019, MGI had significantly strengthened its portfolio in the media and game segments. In April 2019, WildTangent Inc., a game publisher based in the USA, was acquired. The media business was first strengthened in May 2019 with the acquisition of the influencer platform ReachHero (around 67.4%) and later, in June 2019, with the purchase of the digital media entity AppLift (including PubNative). On a short-term basis, the management has been able to optimize the value chain of both the media and games business while making significant synergies. Examples are improvements in user acquisitions, performance analyses and in income from the sales of video-game advertising space.

After the end of the financial year 2019, further investments were reported by MGI. In January 2020, the asset acquisition of Verve, a provider of programmatic and open market traffic based in California, USA, has been announced. The purchase price is in the low double-digit million ranges and includes Verve's technology, intellectual property and human resources. Another milestone was reached in February 2020, increasing gamigo's stake from 53% to 99%. The proceeds from these transactions included a payment in cash of € 16.5m (€ 10m from UniCredit loans and MGI free liquidity) as well as up to 18.2m in MGI shares.

In July 2020, the purchase of the programmatic advertising company Platform 161 has been announced. The new subsidiary is a leading demand side platform for programmatic advertising, which automates the purchase of advertising space and advertising inventory. This is currently the fastest growing segment in the digital advertising market. With this acquisition additional sales of at least € 10m and an additional EBITDA of more than € 1m are expected on an annual basis. Together with this acquisition, MGI announced the increase of its stake in ReachHero from 67.4% to 100%.

The management recently has announced a reorganization of the segments under two specific business units. All the games assets will be summarized under gamigo while all the media services will be summarized under the Verve Group. By consolidating Reach-Hero, PubNative, Verve and Platform 161 platforms, teams and technologies, MGI strengthens its mobile marketing offer and creates an exclusive advertising platform. Moreover, the acquisition of Verve improves the B2B segment in the USA, a market with strong synergy potential for MGI and brings expertise to branded campaigns, brand-performance campaigns and performance-first campaigns. A part from working with many smaller entities, Verve also has business relations with various top Fortune 500 global digital brands.

Gaming Unit	Media Unit

Sources: Media and Games Invest plc, GBC AG

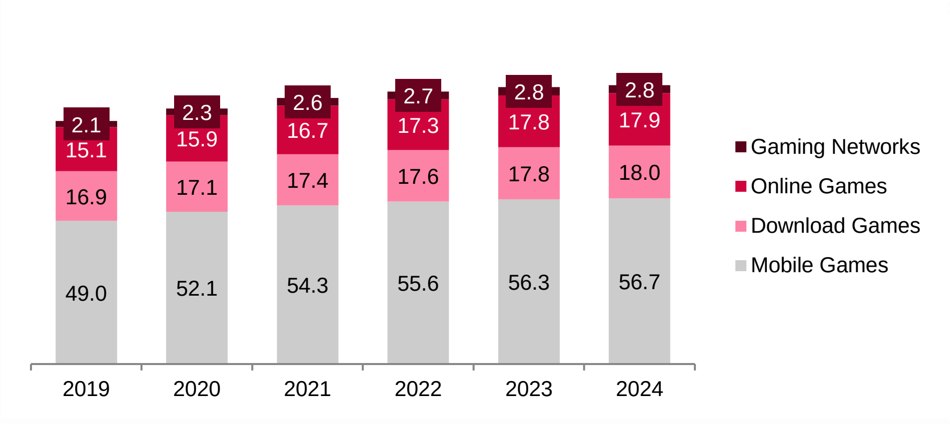
Market and Market Environment

Games Market

The global market for games significantly accelerated its growth at the beginning of 2020. According to Statista Digital Marketing Outlook, the global revenues for video games are forecasted to reach USD 83.1m in 2019 and to show a growth rate (CAGR) of 2.8% in the period 2019-2023. The lion's share is provided by mobile games (59.0% of the total), followed by downloaded games (USD 16.9m) and online games (USD 15.1m). Ever higher performance of smartphones and tablets allows for more advanced applications due to special graphic processor units.

COVID-19 should be a significant market driver for the current year. The pandemic has left more than a third of the world's population under containment measures (a period of isolation and closure) increasing leisure time and thus the demand for entertainment such as games. According to the Facteus Insight Report on Consumer Spending and Transactions (a weekly report on the impact of COVID-19 on the U.S. economy), total video game spending rose strongly starting from the week of March 9th, 2020. In the week of March 25th, 2020 alone, the figure was up more than 50% from last year. Therefore, a prolonged lockdown may benefit the gaming industry in the short term as consumers seek engaging content and virtual interaction. gamigo's role-playing and strategy games may have a strong boost in this context.

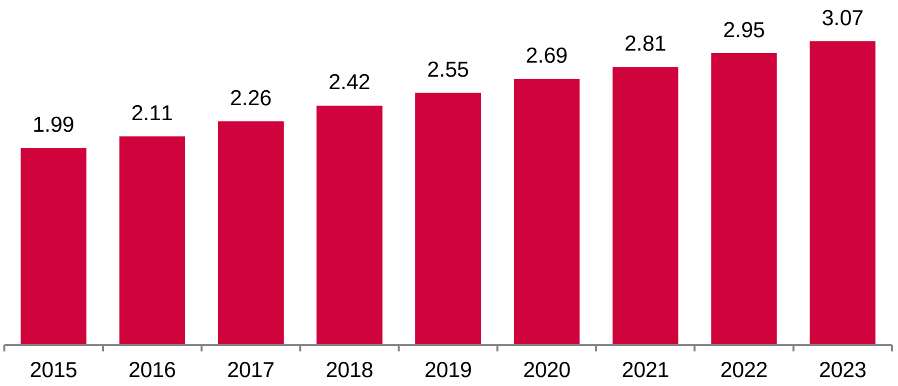
Video Games Global Revenue Forecast in billion USD



Sources: Statista; GBC AG

According to Newzoo the top 50 public game companies raised their revenues by 5.3% to USD 124.5 billion in 2019. This picture shows that alone these 50 companies accounted for 85% of the whole global games market. The top ten companies are Tencent (CN), Sony (JP), Apple (US), Microsoft (US), Google (US), NetEase (CN), Activision Blizzard (US), EA (US), Nintendo (JP) and Bandai Namco Entertainmen (JP). Apart from these huge companies, the market is also characterized by smaller online game publishers where branding and active user engagements play a key role. gamigo's games are well-positioned in this market niche where the lifetime of a game is estimated to be around 10 years. The Newzoo global market report also highlights that by 2023 the number of players will surpass the three-billion mark, a CAGR of +5.6%. Mobile games should drive this growth, which however show a higher risk with limited marketing opportunities (i.e. Apple and Google - the main platforms). For these reasons, gamigo AG has only a few games in this segment and maintains its activities in the profitable niche of PC clients, browser and console games.

Global Player Forecast for Video Games (USD Billion)



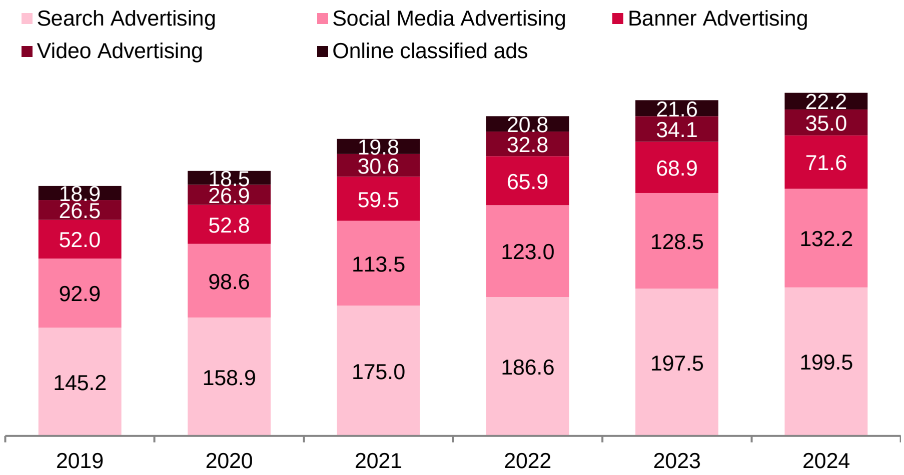
Sources: Newzoo; GBC AG

The largest market for gaming remains the USA with a value of USD 36.9bn in 2019. Thus, with the recent acquired US companies Trion and WildTangent, gamigo AG has the opportunity to increase its presence in this high-value market.

Digital Advertising Market

The digital media market is crucial for video games. The acquisition of new users and the analysis of their performance are mostly conducted via digital advertising. Tools such as influencer marketing (i.e. product description published by experts), banner advertising, video advertising or product placement in games have become very effective channels. According to Statista, the digital advertising market reached USD 335.5 billion in 2019 and is projected to grow by a CAGR of 6.5% (2019-2024). The bulk of the sales is represented by search advertising (43.3% of total value) which are advertisements located on search engine pages. A large slice is also taken by social media advertising and banners. The biggest market in 2019 was the USA achieving USD 129.9bn, which means more than one third of the world's digital advertising spending.

Global revenue forecast in billion US



Sources: Statista Digital Market Outlook 2020; 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 2019	FY 2020e	FY 2021e	FY 2022e
Revenue	32.62	83.89	110.23	132.28	152.12
Own work capitalized	2.79	10.19	9.22	8.15	8.8
Other operating income	6.51	4.64	3.27	1.88	2.30
Services purchased	-12.70	-45.80	-61.56	-74.16	-86.55
Gross profit	**29.22**	**52.91**	**61.15**	**68.15**	**76.67**
Employee expenses	-10.44	-27.36	-28.49	-29.15	-30.46
Other operating expenses	-10.14	-10.01	-11.40	-13.12	-15.52
EBITDA	**8.65**	**15.54**	**21.26**	**25.87**	**30.69**
Depreciation and amortisation	-6.32	-10.54	-12.86	-13.10	-13.20
EBIT	**2.33**	**5.00**	**8.40**	**12.77**	**17.49**
Financial expense	-1.73	-5.84	-6.30	-7.29	-8.40
Financial income	0.08	0.08	0.10	0.08	0.10
EBT	**0.69**	**-0.76**	**2.20**	**5.56**	**9.19**
Taxes	0.90	2.01	-0.44	-1.22	-2.02
Result from discontinued operations	3.67	0.00	0.00	0.00	0.00
Non-controlling interests	-0.93	-1.58	-0.50	-0.30	-0.30
Net profit	**4.32**	**-0.32**	**1.26**	**4.04**	**6.87**
EBITDA	8.65	15.54	21.26	25.87	30.6894
in % of revenue	26.5%	18.5%	19.3%	19.6%	20.2%
EBIT	2.33	5.00	8.40	12.77	17.49
in % of revenue	7.1%	6.0%	7.6%	9.7%	11.5%
Earnings per share in €	0.06	0.00	0.01	0.04	0.07
Dividend per share in €	0.00	0.00	0.00	0.00	0.00
Number of shares	67.02	70.02	92.12	92.12	92.12

Sources: Media and Games Invest plc; GBC AG

Company performance of Media and Games Invest plc

in € millions	FY 2017	FY 2018	FY 2019
Revenue	0.00	32.62	83.89
EBITDA	-0.64	8.65	15.54
EBIT	-0.67	2.33	5.00
EAT before minorities	6.20	5.26	1.90
EAT after minorities	-5.74	4.32	-0.32

Sources: Media and Games Invest plc; GBC AG

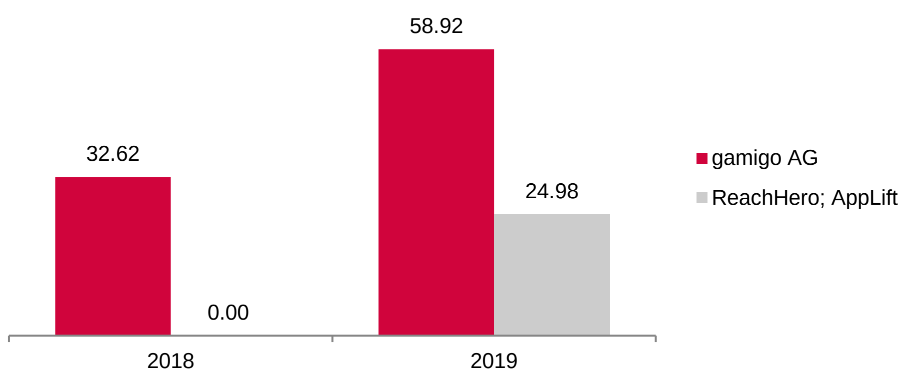
Revenue development FY 2019

MGI plc (previously blockescence plc) is a consolidated investment group active in the synergic gaming and media segments. After the acquisition of Samarion SE (largest shareholder of gamigo) in May 2018, the group changed its corporate focus from the real estate business to the gaming sector. All previous real estate businesses, which had been under the subsidiary solidare real estate holding GmbH, were sold and deconsolidated. The corporate strategy has been redefined in acquiring well-established companies (i.e. distressed or underperforming) in the above sectors. After the purchase, the entities are generally restructured and integrated thus optimizing the value chain. This strategy has a relatively lower risk compared with the launch of new games, which may encounter difficulties in market adoption and development.

In the past fiscal year 2019, sales revenues of MGI plc climbed significantly by 157.2% to € 83.89 million (previous year: € 32.62 million). This strong growth is primarily due to inorganic effects. On the one hand, MGI plc's most important investment, gamigo AG, was fully consolidated for the first full year in 2019, whereas in the same period of the previous year it was only consolidated for a period of eight months. Parallel to gamigo AG, MGI plc also significantly expanded its media business in 2019 with the acquisition of ReachHero (May 2019) and AppLift (June 2019). In 2019, the two companies had contributed sales revenues of € 24.98 million to consolidated sales for the first time.

The most important MGI investment gamigo AG achieved a sales growth of about 30.0 % to € 58.92 million in 2019 (previous year: € 45.29 million), thus continuing the impressive growth course of the past fiscal years. This development is also based on a combination of inorganic and organic growth. In addition to the release of new titles such as ArcheAge Unchained or a major update on the game Desert Operations, many other titles were updated, new versions were released or new releases were made. In parallel, gamigo AG acquired the US gaming platform WildTangent in the second quarter of 2019.

Development of sales revenues of MGI plc (in million €)



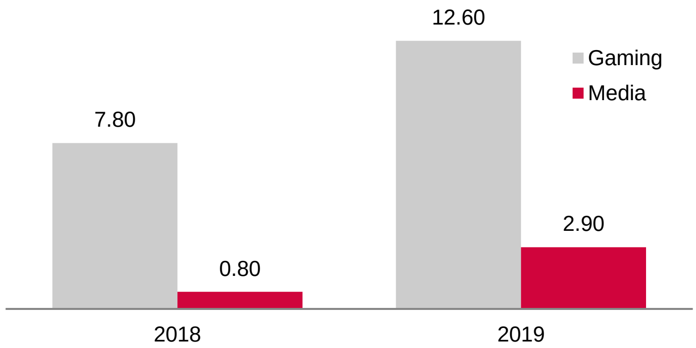
Sources: Media and Games Invest plc AG; GBC AG

Earnings development FY 2019

For an analysis of the earning development we choose as a significant key performance indicator the EBITDA. As the company pursues M&A growth, on the P&L, high PPA depreciation can be seen, which we anticipate in the same range for the next three years. Without including these costs we can attain a better understanding of the core business performance.

Based on the very dynamic revenue development, EBITDA also climbed significantly to € 15.54 million (previous year: € 8.65 million). The corresponding EBITDA margin of 18.5 % (previous year: 26.5 %) has indeed declined compared to the previous year, this is primarily due to the integration expenses of the newly acquired Media companies. This is particularly evident when looking at EBITDA at the level of gamigo AG. The gaming and media subsidiary achieved an EBITDA of € 16.33 million in 2019 (previous year: € 11.05 million), which corresponds to a comparatively high EBITDA margin of 27.7 %. The media businesses acquired in 2019, namely ReachHero and AppLift, contributed for EUR 1.4m in total EBITDA. The comparatively high level of profitability of gamigo AG is due to economies of scale in connection with the increase in revenues. The company also benefited from efficiency improvements, particularly in connection with the companies acquired in previous financial years.

EBITDA contribution (in € million) broken down by segments



Source: Media and Games Invest plc AG; GBC AG

The high level of M&A activity is usually accompanied by a high need for write-downs (PPA write-offs). In this context, MGI plc reports an increase in depreciation and amortization to € 10.54 million (previous year: € 6.32 million). Based on the resulting EBIT of € 5.00 million (previous year: € 2.33 million), the significant increase in financial expenses to € 5.84 million (previous year: € 1.73 million) must be taken into account. These are related to the significant increase in bond liabilities as an important financing component for the high level of M&A activity. As of the balance sheet date, MGI plc had bond liabilities of € 63.99 million (previous year: € 24.88 million). At gamigo AG level, the outstanding bond volume of the €50.0 million bond amounted to €48.67 million. MGI plc had also issued a €25.0 million bond in 2019, which had an outstanding volume of around €15.3 million on the balance sheet date.

As of the balance sheet date, MGI plc held a total of 53% of the gamigo shares, which is naturally associated with high minority interests. Despite a reported tax income, the minority interests of € 1.58 million (previous year: € 0.93 million) had significantly reduced the result attributable to MGI shareholders to € -0.32 million (previous year: € 4.32 million). The previous year's figure was positively influenced by extraordinary income from discontinued operations amounting to € 3.67 million. Due to the increase in the gamigo shareholding to 99%, minority interests will only play a minor role in future.

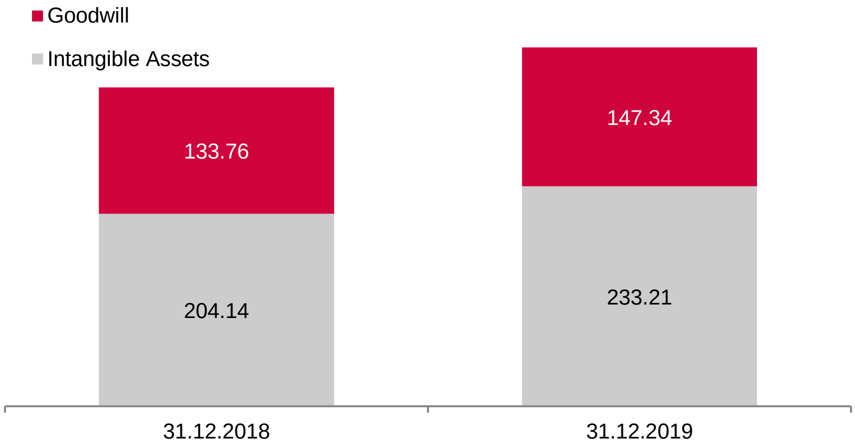
Asset and cash flow situation at MGI plc

in € million	31/12/2018	31/12/2019
Equity	158.54	168.56
of which minority interests	91.32	70.49
Intangible assets	204.14	233.20
of which goodwill	133.76	147.34
Cash and cash equivalents	4.45	32.98
Non-current liabilities	53.40	89.35
of which corporate bonds	24.88	63.99

Source: Media and Games Investplc; GBC AG

The picture of MGI's balance sheet shows both its inorganic growth and its focus on technology. On the asset side, intangible assets hold the lion's share accounting to € 233.20m, of which € 147.34m is connected to goodwill (57.4% of total assets) and € 72.67m to other intangible assets in 2019. As an effect of the business combination, goodwill was allocated for € 100.32m on the gaming side (primarily related to gamigo AG) and for € 47.02m with respect to the media segment. These are mainly acquired assets including gaming IP's, Customer Relationships and SaaS Platforms. Some examples are online platform development, content updates in game titles or assets incorporated from M&A deals. On the liabilities side, key items were minority interests for € 70.49m (primarily for the stake in gamigo), bonds for € 63.99m (the total framework amount to € 50.00m for gamigo AG and to € 25.00m for MGI and was partly placed at the end of 2019). In February 2020, MGI increased the stake in gamigo AG from 53% to 98% and thus the minority effect on the balance will disappear.

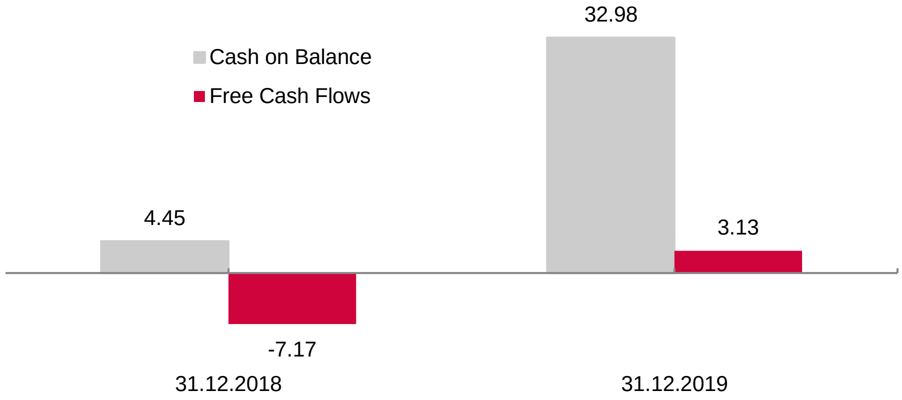
Intangible assets and goodwill (in € millions)



Sources: MGI plc; GBC AG

A part from external financing, MGI has also used internally-generated cash to partially cover its investments. At the end of December 2019, MGI's operating cash flows amounted to € 16.20m (31 December 2018: € 6.94m). This internal cash generation alone was able to cover the payments for investments in intangible assets and acquisition of business units in 2019. The corresponding figure in operating cash flow in Q1/2020 was € 5.87m (Q1/2019: 2.48), and partly covered the financing of the assets of the Verve Group in January 2020.

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

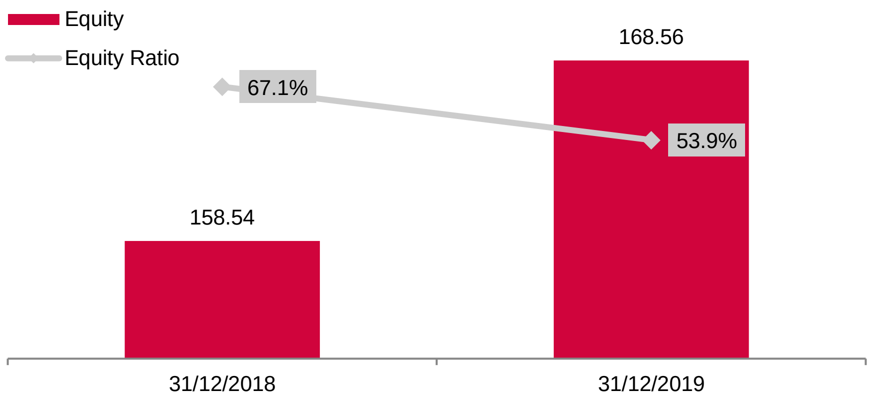


Sources: MGI plc; GBC AG

The various bond tranches, which partly refinanced a UniCredit Term Loan issued in 2017, reduced their dependence on the banking system and provided more liquidity for further M&A growth. The amount issued was approximately € 18m in 2019 which led to the total cash in account amounting to 32.98m at the end of December 2019.

Improvements in after-tax earnings generated a positive change in shareholder equity, which improved to € 160.56m in 2019 (€ 158.54m in 2018). Due to higher financial liabilities, the equity ratio went down to 53.9% (prior year: 67.1%).

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



Sources: MGI plc; GBC AG

FORECASTS AND VALUATION

P&L (in €m)	FY 2019	FY 2020e	FY 2021e	FY 2022e
Revenue	83.89	110.23	132.28	152.12
EBITDA	15.54	21.26	25.87	30.69
EBIT	5.00	8.40	12.77	17.49
EAT before minorities	1.90	1.76	4.34	7.17
EAT after minorities	-0.32	1.26	4.04	6.87

Sources: GBC AG

The corporate strategy of MGI pursues both M&A and organic growth in the synergic media and gaming segments. Usually, the development and launch of new games is more risky compared to acquiring and integrating consolidated game titles (i.e. with consolidated customers and sales). According to MGI's management, the strategy to acquire companies in distressed or financial difficulties is pursued only by a few competitors, making less competition when it comes to negotiating the purchase price. This leaves room for completing acquisitions of assets or entire companies at a reasonable price. In both segments, the company already has a strong M&A track-record.

Inorganic growth is also pursued in the media segment due to similarities with the game market. Digital media is technology-driven and has a competitive structure based on a few large players and many smaller companies. Smaller companies typically have a high cost structure, small size limits and difficulties in data-quality management. Transparency is also a leading issue due to fraud in digital advertisements and the need for more campaign control and measurement. In this context, MGI has invested highly in the transparency of its solutions as, for example, with its own IAB-approved CMP (consent management product).

A key earning driver over the next few years may also be synergies from the media and games segments due to the optimization of the value chain. Briefly, a great advantage will be afforded through data analysis, optimized targeting and more advertising spaces for game marketing which may improve user acquisition and video games monetization. On the one hand, a cheaper user acquisition may be possible due to the scale advantage with advertising purchase, better data analysis and by reduced team involved. On the other hand, a direct relationship with advertisers may increase price and margin per advertising as well as a better fill-rate and thus more advertising income.

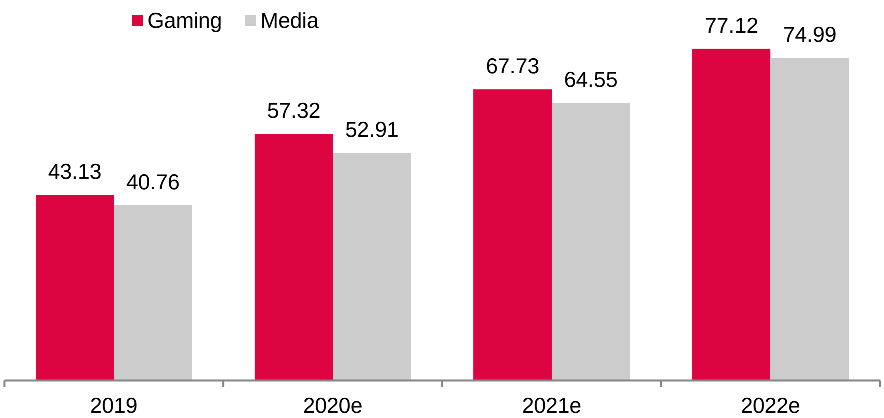
In addition, MGI pursues organic growth by launching new games and updating the titles with innovative content and improvements. The management assumes that gamigo games, under strategic marketing (i.e. content updates and game launches), may stay on the top list for more than ten years.

The COVID-19 pandemic, which since March 2020 has affected the worldwide economy, poses risks in a general economic sense as well as in term of income expectations. However, consumption has been supported by an expansive monetary policy which should also influence financial-market performance. At the present, it is not clear what the effect of the COVID-19 is and estimates are difficult to make. However, briefly, the pandemic crisis had positive effects on the gaming-business in March 2020, leading to a higher number of new registrations and player activity. According to the management report, new users increased by 20% compared to January and February 2020 and this trend continued in April as well. This result highlights how gaming is a crisis-proof business. The market expectations for virtual items and micro-transactions are also positive and include an unchanged competitive situation.

Based on the above assumptions, along with the performance achieved in the first quarter of 2020 (growth rates of 99.1% and 40.2% in sales and EBITDA, respectively), we expect a significant increase in MGI figures for 2020. For the gaming segment we have assumed organic growth driven by gamigo top-ten MMOG-titles in Europe and North America as well as the full year impact of WildTangent. For the digital media segment, besides the acquisition carried out in FY2019 - ReachHero (May 2019) and AppLift (June 2019) - we have calculated for 2020 an inorganic contribution of around € 5.00m from the newly acquired Platform 161. From January to July 2020, MGI has acquired Verve, and Platform 161 as well as the remaining part in gamigo AG and ReachHero. Verve technologies and services have strengthened MGI's offer in North America and have improved the value chain optimization of both MGI segments. All the media activities are branded under Verve Group which is reflected in MGI's segment reporting for media. All gaming activities are branded under gamigo Group and be reflected in the segment reporting "gaming". Thus, from a financial point of view, the comparison with gamigo AG as a stand-alone is no longer possible and we move so segment reporting.

Following the revenue structure between media and games recorded in Q1/2020, we have assumed a balanced contribution between the two segments. We have calculated € 54.60m (52% of total) for gaming (under the key metrics: retention rates, lifetime value, and average revenue per user) and € 50.40m (48%) for digital media in 2020. It results in total expected revenues of € 110.23m and a global growth rate of 31.4% in 2020 for the whole group.

Revenue forecasts 2019 – 2022e (in €m)



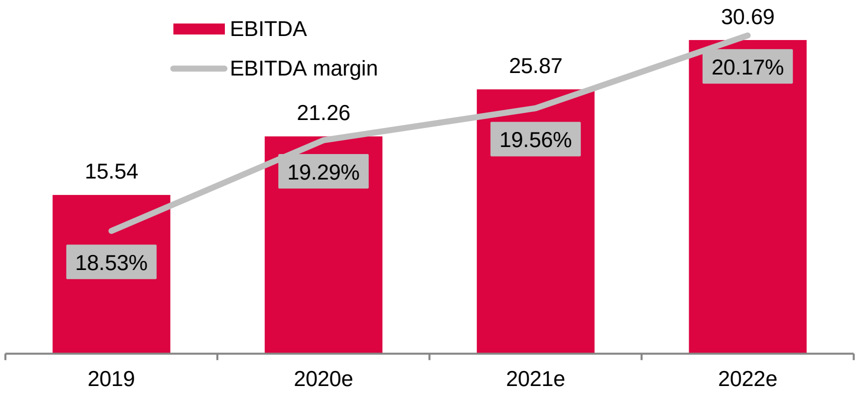
Source: GBC AG

Development of the operating result

Based on historical earning growth and on Q1/20 numbers, we expect a continued path in profitability. Due to the acquisitions of ReachHero, AppLift, PubNative performed in 2019 and the recent purchase of Verve and Platform 161, we have forecasted an EBITDA margin at a lower level for the media business. After full integration, margins in media are projected higher due to synergies (i.e. more efficient customer acquisition for games and scale advantage) and cross-selling of digital advertising solutions. Improvements on the cost bases are expected from new technology development (cloud servers) as well as from the market consolidation of gamigo titles.

Due to their M&A activities, we have also assumed higher wage and salary expenses for the next years in the amount of around € 28.49m and € 29.15m. In our projections, this should reduce their proportion of revenues from 25.8% in 2020 to 22.0% in 2021. As gaming requires continual investment in marketing, we have considered on average the rate of general costs to sales rate at around 10% for the next two years. Rolling down, we have calculated € 21.26m in total EBITDA for 2020 (19.3% margin) and € 25.87m in 2021 (margin 19.6%). Further improvements in EBITDA margin due to management skills in restructuring, integrating and making synergies are very probable for the long term.

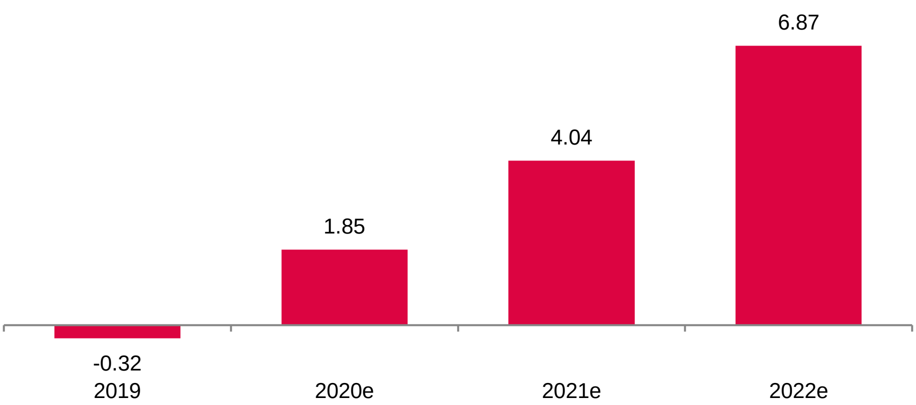
EBITDA forecasts 2019 – 2022e (in €m)



Source: GBC AG

We have also considered interest outflows and financial costs of around 6.0% of sales for the next two years, as MGI total bond framework amounts to around € 75m. Our calculation of financial expenses is primary based on the gamigo bond (total volume of € 50 million, with approx. 7.75% p.a. plus EURIBOR three months - maturity in October 2022), MGI bond (total outstanding volume of € 20.0m at 7% p.a. - maturity in October 2024) as well as on the loan agreement with UniCredit Bank (€ 10.0m at 5.5% p.a. – three-year term loan). For the bottom line, minority interests were significantly lowered due to the progressive acquisition (98 %) of the equity share of gamigo AG. In the future, this will lead to a disproportionately high increase in net income.

Net Income Forecasts 2019 – 2022e (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 2020 to 2022 in phase 1, the outlook for 2023 to 2027 was developed in the second phase using value drivers. We expect increases in revenue of 10.0%. We have set 20.2% 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 %. Regarding risk-free rate we currently use the 1% as a floor.

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 8.49 %.

Valuation result

We have calculated for MGI intrinsic values of EUR 262.13m. The number is then divided by 92.12 million shares, which consider around 18.2 million new share issue connected with the residual purchase of gamigo shares (from 53% to 99%) in March 2020 and 3.9 million shares for the acquisition of AppLift. Based on the strong growth in revenues in Q1/20 and on the acquisitions performed in the financial year 2020, we have revised up the target price from EUR 2.10 to 2.85, confirming the 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	
Revenue growth	10.0%
EBITDA-margin	20.2%
Depreciation on fixed assets	13.6%
Working capital to sales	8.0%

final - Phase	
Perpetual growth rate	2.0%
Perpetual EBITA margin	15.6%
Effective tax rate in terminal value	30.0%

Three-phase DCF - model:

Phase	**estimate**			**consistency**					**final**
in mEUR	FY 20e	FY 21e	FY 22e	FY 23e	FY 24e	FY 25e	FY 26e	FY 27e	**value**
Revenue (RE)	110.23	132.28	152.12	167.33	184.06	202.47	222.72	244.99	
Revenue change	31.4%	20.0%	15.0%	10.0%	10.0%	10.0%	10.0%	10.0%	2.0%
Revenue to fixed assets	1.15	1.35	1.57	1.75	1.94	2.16	2.39	2.65	
EBITDA	21.26	25.87	30.69	33.76	37.13	40.85	44.93	49.43	
EBITDA-margin	19.3%	19.6%	20.2%	20.2%	20.2%	20.2%	20.2%	20.2%	
EBITA	8.40	12.77	17.49	20.56	24.10	27.95	32.16	36.76	
EBITA-margin	7.6%	9.7%	11.5%	12.3%	13.1%	13.8%	14.4%	15.0%	15.6%
Taxes on EBITA	-1.68	-2.81	-3.85	-6.17	-7.23	-8.39	-9.65	-11.03	
Tax rate	20.0%	22.0%	22.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
EBI (NOPLAT)	6.72	9.96	13.64	14.39	16.87	19.57	22.51	25.73	
Return on Capital	7.1%	9.9%	12.7%	13.0%	15.5%	17.9%	20.5%	23.2%	24.3%
Working Capital (WC)	4.41	9.26	13.69	13.39	14.72	16.20	17.82	19.60	
WC to sales	4.0%	7.0%	9.0%	8.0%	8.0%	8.0%	8.0%	8.0%	
Investment in WC	-1.81	-4.85	-4.43	0.30	-1.34	-1.47	-1.62	-1.78	
Operating fixed assets (OFA)	96.27	98.17	96.97	95.77	94.73	93.84	93.06	92.39	
Depreciation on OFA	-12.86	-13.10	-13.20	-13.20	-13.04	-12.90	-12.77	-12.67	
Depreciation to OFA	13.4%	13.3%	13.6%	13.6%	13.6%	13.6%	13.6%	13.6%	
CAPEX	-17.50	-15.00	-12.00	-12.00	-12.00	-12.00	-12.00	-12.00	
Capital Employed	100.68	107.43	110.66	109.16	109.46	110.03	110.88	111.99	
EBITDA	21.26	25.87	30.69	33.76	37.13	40.85	44.93	49.43	
Taxes on EBITA	-1.68	-2.81	-3.85	-6.17	-7.23	-8.39	-9.65	-11.03	
Total Investment	-19.31	-19.85	-16.43	-11.70	-13.34	-13.47	-13.62	-13.78	
Investment in OFA	-17.50	-15.00	-12.00	-12.00	-12.00	-12.00	-12.00	-12.00	
Investment in WC	-1.81	-4.85	-4.43	0.30	-1.34	-1.47	-1.62	-1.78	
Investment in Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Free Cashflows	0.27	3.21	10.41	15.90	16.57	18.99	21.66	24.62	385.27

Value operating business (due date)	293.80	315.54
Net present value explicit free Cashflows	76.04	79.29
Net present value of terminal value	217.76	236.25
Net debt	45.66	49.66
Value of equity	248.13	265.88
Minority interests	-3.50	-3.75
Value of share capital	244.63	262.13
Outstanding shares in m	92.12	92.12
Fair value per share in €	2.66	**2.85**

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	22.0%
WACC	**8.5%**

Return on Capital	**WACC**				
	7.9%	**8.2%**	**8.5%**	**8.8%**	**9.1%**
23.8%	3.14	2.95	2.79	2.64	2.50
24.1%	3.17	2.98	2.82	2.66	2.53
24.3%	3.20	3.01	**2.85**	2.69	2.55
24.6%	3.23	3.05	2.87	2.72	2.58
24.8%	3.27	3.08	2.90	2.75	2.60

ANNEX

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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 >= + 10%.
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