Media and Games Invest plc

Malta / Entertainment
Xetra
Bloomberg: M8G GR
ISIN: MT0000580101

Initiating coverage

RATING	**BUY**
PRICE TARGET	**€ 2.10**
Return Potential	72.8%
Risk Rating	High

GAME ON!

We start coverage of Media and Games Invest (MGI) with a Buy rating and €2.10 price target. In our view, MGI's growth opportunities are excellent. The company is a market consolidator focused on the large and fragmented video gaming industry and media. MGI pursues a 'buy, integrate, build & improve' strategy applied to the gaming and media spaces with the Hamburg-based gamigo AG as its flagship subsidiary and operational fulcrum. A $139bn addressable global video gaming market underpins our optimism, and we believe MGI's operational upside is currently underappreciated by the market.

Plenty of reasons to be positive We like MGI for several reasons: (1) its position in the gaming industry; (2) complimentary exposure to media; (3) seasoned management and acquisition teams with a growing M&A track record; (4) access to capital; and (5) profitability upside. MGI and gamigo only joined forces in 2018. We thus believe we are in the early stages of the company leveraging these strengths.

High-growth business model with margin upside Operations are driven by an aggressive external growth strategy. Management want to roll up the highly fragmented gaming market that offers a large number of suitable takeover candidates. MGI has a standardised M&A platform that promotes rapid post-merger integration (PMI). This not only generates external growth but also spurs organic upside via corralled synergies within the conglomerate. The company complements gaming with media as a lever to accelerate growth in the former. The approach also allows for good margin expansion as acquisitions are bolted onto the MGI platform and streamlined.

Video-gaming is big business Video games now rival the film industry in terms of clout. According to market watchers, the global video-gaming industry topped $139bn last year having grown at a 13% annual clip (+$16bn). The spending power of millennials underpins future growth. Their wallet is thought to have a lifetime value north of $10 trillion. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2017	2018	2019E	2020E	2021E	2022E
Revenue (€m)	n.a.	32.62	71.77	100.47	135.64	176.33
Y-o-y growth	n.a.	n.a.	120.0%	40.0%	35.0%	30.0%
EBITDA (€m)	n.a.	8.65	11.36	17.54	23.37	34.81
EBITDA margin	n.a.	26.5%	15.8%	17.5%	17.2%	19.7%
Net income (€m)	n.a.	5.26	-1.10	2.57	4.64	10.86
EPS (diluted) (€)	n.a.	0.09	-0.01	0.02	0.05	0.14
DPS (€)	n.a.	0.00	0.00	0.00	0.00	0.00
FCF (€m)	n.a.	-7.17	-19.43	3.98	5.22	8.16
Net gearing	n.a.	24.0%	29.3%	29.3%	28.2%	24.0%
Liquid assets (€m)	n.a.	4.45	21.75	21.03	21.56	3.46

** 2017 reporting reflects discontinued operations*

RISKS

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

COMPANY PROFILE

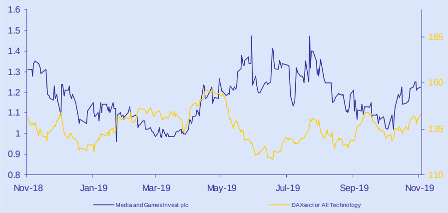
MGI is a strategic investment holding company that pursues a 'buy-integrate-build-and-improve' strategy to foster fast-growing companies within the media and games segments through acquisitions and growth in operations. Gamigo is the flagship holding within the group.

MARKET DATA

As of 11/6/2019	
Closing Price	€ 1.22
Shares outstanding	70.02m
Market Capitalisation	€ 85.07m
52-week Range	€ 0.96 / 1.47
Avg. Volume (12 Months)	63,302

Multiples	2018	2019E	2020E
P/E	13.7	n.a.	51.0
EV/Sales	7.1	3.2	2.3
EV/EBITDA	26.6	20.3	13.1
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2019	
Liquid Assets	€ 26.25m
Current Assets	€ 49.76m
Intangible Assets	€ 226.70m
Total Assets	€ 245.48m
Current Liabilities	€ 56.42m
Shareholders' Equity	€ 123.73m

SHAREHOLDERS

Bodhivas GmbH	61.7%
Free Float	38.3%

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INVESTMENT CASE

Gaming market consolidator with strategic twist

Although the basic M&A business concept may be old hat, we think MGI's 'buy-integrate-build-improve' version offers unique mechanisms that distinguish the company from the investment holding pack. MGI wants to use corporate activity as a lever to drive organic growth rather than sell off acquired and revitalised assets to generate ROI. This approach is applied chiefly to the gaming and media industries to drive in-house B2C operations and open opportunities to service third party clients (B2B).

Video-gaming is big business and evolving

The gaming industry is enormous (2018: $139bn). Spurred by a gaming community that tops 2.3bn worldwide, the industry continues to rack up sales at a low double digit growth rate making it one of the world's largest entertainment industries. Underlying trends are also supportive with the impact of new technologies. For instance, cloud gaming now wants to do for video gaming what companies like Spotify and Netflix have done for music and film. Market researcher NewZoo reckons the global video-gaming market will top $196bn in 2022 underpinned by a 9% CAGR (2019 - 2022). With the industry currently in a state of flux, due to the adoption of innovative technologies, we see ample opportunity for MGI—particularly in the mobile gaming market where the company is noticeably underexposed.

Growing M&A resume

M&A is the lever that drives the business. The company has made a number of strategic acquistions this year including a 67% stake in ReachHero, a 100% share of Berlin-based AppLift and the Seattle, USA-based WildTangent. gamigo counts over 20 successful deals on its M&A resume. After previously selling off restructured assets to lock in gains, management now want to capture embedded growth and broaden the corporate structure to promote even greater efficiency gains across the subsidiaries.

Past performance hints at high growth potential

The past twelve months have been shaped by MGI's pivot into gaming and media after divesting its real estate operations. This has resulted in some €52m in consolidated revenues and €14m in EBITDA since the start of June 2018. gamigo is the MGI workhorse not only strategically but also financially. Performance is showcased by revenue and EBITDA CAGRs of 32% and 64% respectively for 2014 to 2018. This trajectory gives us a high degree of confidence in our forecasts. We model a three year sales CAGR of 61% for the period 2019 - 2021, driven mainly by revenue streams from the gaming portfolio. We expect revenues to reach €72m in 2019 and breach the €100m threshold for the first time in 2020. We judge the latter indication as conservative, if corporate activity overshoots.

Share is attractively valued

We use a discounted cash flow method to value MGI and start coverage with a Buy rating and €2.10 price target. We like the company for its overall business approach and clever positioning in the gaming and media industries. The company now owns 53% of gamigo AG and plans to raise this to ~75% in the near term. In our view, gamigo provides a good case study of the overall strategy that combines corporate activity with a business structure designed to promote organic growth. MGI shares have drifted lower the past months. We attribute this mainly to poor capital market exposure and believe the current valuation understates MGI's potential.

SWOT ANALYSIS

STRENGTHS

- **Seasoned management** Although the current iteration of MGI is new, the company counts several M&A and gaming veterans on its management team. CEO Remco Westermann has 25+ years of finance and entrepreneurial experience having also specialised in mobile and online entertainment.
- **Access to capital** MGI has demonstrated good access to capital evidenced by this summer's equity issuances and corporate bond tap-ups. Access to capital keeps the war chest full (H1/19: >€26m cash and liquid assets) for corporate activity and often gives the company a first mover advantage.
- **Diverse game portfolio** gamigo boasts a broad portfolio of 30+ MMOs (multi-player online games) and over 5k casual games. MAU (monthly average users) tops 5m, while *Trove* is the largest revenue driver at 15% of group total.
- **Standardised frameworks** The 'buy-integrate-build-improve' strategy is anchored by standardised M&A and PMI processes. The tested platforms have facilitated 20+ successful transactions over the last five years and continue to gain in efficiency.

WEAKNESSES

- **Low capital market clout** MGI is a stock market newcomer that will require time to establish its capital market presence. This could hamper share price performance even while operations deliver good results. And the company does not have a dividend plan to reward investors in the interim.
- **Revenue cluster** A sizable portion of gamigo's revenue hinges upon the ongoing success of a relatively small cluster of games. *Fiesta*, *Aura Kingdom*, *Desert Operations*, and *Grand Fantasia* accounted for some 28% of the company's 2018 revenues.
- **Poor mobile presence** As of H1/19 some 83% of revenues owed to browser or PC-client (requiring downloaded software) solutions with a mere 1% to mobile. Given soaring mobile gaming trends (51% of global video gaming sales), this needs to improve.
- **Capital intensive business model** The M&A strategy is capital intensive, which can gate external growth opportunities if the market tightens. The company has demonstrated good access to the capital markets thus far, but higher financing costs or dilutive effects could eat away the bottom line performance.

OPPORTUNITIES

- **Expanding tech frontiers** The way we play video games is evolving and will look radically different in ten years, thanks in large part to innovative technologies. We believe there will be plenty of new frontiers for MGI to settle in this technology land grab.
- **Further market consolidation** Both core industries are highly fragmented and quickly evolving with the launch of new devices, technologies, and channels every year. We think these are fertile grounds that beckon further consolidation by the MGI platform.
- **Freemium model for games** The majority of gamigo's portfolio is based on the "freemium" model. This promotes fast market penetration and sets up good monetisation opportunities for in-game advertising or the purchase of virtual goods that enhance the player experience.
- **More mobile solutions** MGI's aforementioned weakness in mobile gaming also represents an excellent opportunity. We expect this to be a focus of M&A going forward.
- **Gaming is largely crisis proof** Video gaming rights are an alternative asset class with little correlation to economic activity. We play games when we are feeling rich or poor. Their low price is often a bargain when considering the pleasure and utility they deliver.

THREATS

- **Limited wallets of users** The MGI group has to compete not only against other online and mobile providers in the gaming arena for users' entertainment dollars but also against other entertainment forms such as online streaming services such as Netflix and Spotify.
- **Regulatory crackdown** Grumpy reactionaries like to villainise video gaming, fretting that it makes players lazy and listless, or else unpredictable and violent. China's lawmakers temporarily froze new gaming approvals a year ago on concerns of addiction among kids. Whether or not these concerns are misplaced, the industry is under the regulator's loop.
- **Portfolio risks** ~58% of group sales stem from games owned by gamigo (owned IP). The rest comes from games licensed from third party developers. Operations thus depend on a pipeline of good economically viable licenses to spur growth in a fast changing market.
- **Currency exposure** MGI operates in multiple foreign markets with some 50% of revenues coming from the US, while the cost base and its bond are EUR denominated. The company relies on a natural hedging strategy to mitigate risks in the event of adverse Fx developments.

VALUATION

We use a DCF model to value Media and Games Invest. In our view, this approach is best suited to the company's business model and income streams. We expect the company to continue its current growth trajectory in H2/19 and forecast a three-year revenue CAGR of 55% for 2019 - 2021. MGI features good operating cash flow generation thanks to high operational scalability. This helps finance the external growth strategy. We believe the EBITDA margin should top 20% over the mid term, as acquired assets are bolted onto the platform and optimised. The net margin should also widen as the business matures and organic performance takes hold of the growth reins.

We assign a WACC of 9.3% based on our multifactor risk model which takes into account company specific risks such as (1) strength of management; (2) earnings quality; (3) transparency; (4) financial risk; (5) competitive position; (6) as well as company size and free float. These factors result in an 11% COE. The primary risk in our view is M&A execution, which requires intense integration of acquired assets to capture embedded upside.

Our model discounts cash flows from 2030 for a total enterprise value of €348m, of which 30% stems from the explicit period. We adjust for non-controlling interests of €165m and net debt of €38m, which reflects the recent cap hike and debt issuances. Earlier this year, MGI completed two capital raises issuing 8m new shares for gross proceeds of €9.2m to finance corporate activity. The company also issued 2.2m shares in conjunction with the ReachHero acquisition. Based on fully diluted shares outstanding of 70.02m, our fair value estimate corresponds to €2.10 / share.

DCF MODEL

All figures in EUR '000	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Revenue	**71,766**	**100,473**	**135,638**	**176,330**	**220,412**	**264,494**	**290,944**	**305,491**
NOPLAT	**1,274**	**5,736**	**7,810**	**13,142**	**17,917**	**22,998**	**26,774**	**31,079**
(+) depreciation & amortisation	9,473	9,043	11,801	15,341	19,176	23,011	22,403	23,523
Net operating cash flow	**10,747**	**14,778**	**19,611**	**28,483**	**37,093**	**46,009**	**49,176**	**54,602**
(-) Investments	-28,864	-9,264	-12,506	-16,258	-20,322	-24,386	-23,916	-25,111
(-) Working capital	-2,805	-3,417	-3,771	-5,530	-5,628	-5,737	-2,953	-2,754
Free cash flows (FCF)	**-20,922**	**2,097**	**3,334**	**6,696**	**11,143**	**15,886**	**22,308**	**26,736**
PV of FCF's	-20,645	1,894	2,755	5,065	7,715	10,066	12,937	14,191

All figures in thousands	
PV of FCFs in explicit period	103,826
PV of FCFs in terminal period	244,082
Enterprise value (EV)	347,908
(+) Net cash / - net debt	-38,125
(-) Non-controlling interests	-164,908
Shareholder value	144,875
Fair value per share (€)	2.10

WACC \ Terminal EBIT margin	17.0%	19.0%	21.0%	23.0%	25.0%	27.0%	29.0%
6.3%	1.44	2.47	3.51	4.54	5.57	6.61	7.64
7.3%	1.11	1.88	2.65	3.42	4.18	4.95	5.72
8.3%	0.86	1.46	**2.05**	**2.64**	**3.23**	3.82	4.41
9.3%	0.68	1.14	**1.60**	**2.07**	**2.53**	3.00	3.46
10.3%	0.52	0.90	**1.27**	**1.64**	**2.01**	2.38	2.75
11.3%	0.40	0.70	1.00	1.30	1.61	1.91	2.21
12.3%	0.30	0.54	0.79	1.04	1.29	1.53	1.78

Cost of equity	11.0%
Pre-tax cost of debt	6.0%
Tax rate	32.5%
After-tax cost of debt	4.1%
Share of equity capital	75.0%
Share of debt capital	25.0%
WACC	9.3%

WACC \ Terminal growth rate	0.0%	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%
6.3%	3.52	3.80	4.13	4.54	5.04	5.67	6.50
7.3%	2.75	2.94	3.16	3.42	3.72	4.09	4.54
8.3%	2.18	2.32	**2.47**	**2.64**	**2.83**	3.07	3.35
9.3%	1.75	1.84	**1.95**	**2.07**	**2.20**	2.36	2.54
10.3%	1.41	1.48	**1.55**	**1.64**	**1.74**	1.84	1.97
11.3%	1.13	1.18	1.24	1.30	1.38	1.45	1.54
12.3%	0.91	0.95	0.99	1.04	1.09	1.15	1.21

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

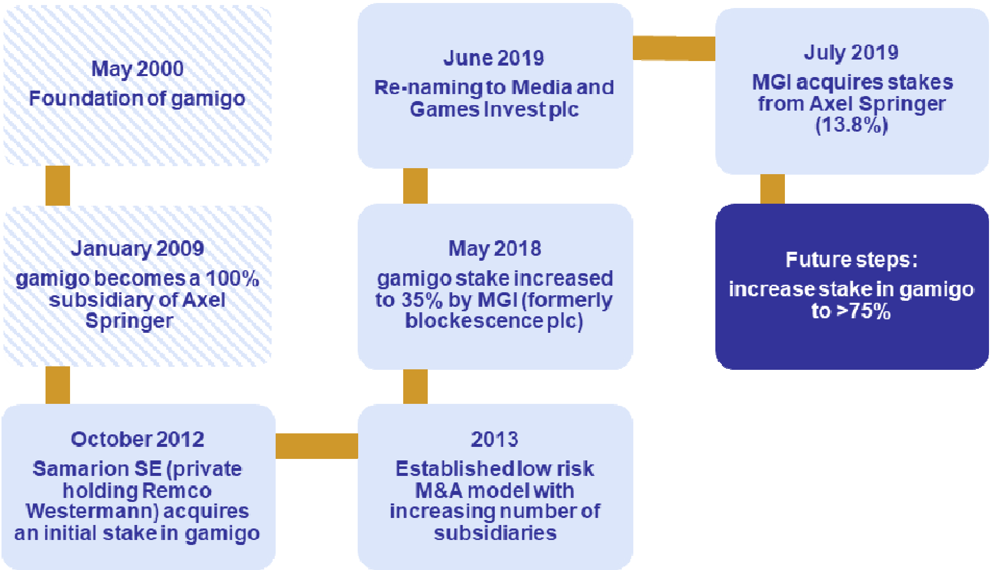
COMPANY PROFILE & HISTORY

MEDIA AND GAMES INVEST

Media and Games Invest plc (MGI) is a listed strategic investment holding specialised in the online gaming sector and in components of new media such as advertorials, social, online, performance, mobile and programmatic advertising, as well as influencer marketing. MGI looks to acquire distressed but promising companies to integrate them into the group and corral inherent synergies.

The company's market consolidation strategy expressly combs its core markets for distressed assets—in some case stable but underperforming businesses—that allow management to leverage its deep M&A experience to harness upside. Management contend that their PMI strategy can generate ROI within 24 months.

Figure 1: Company history timeline



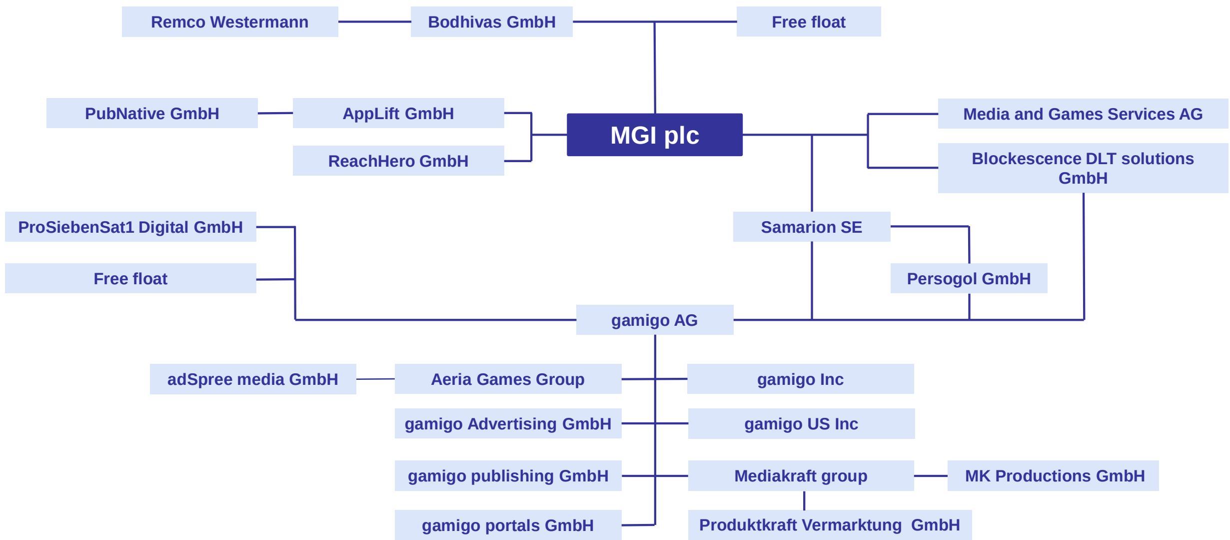
Source: First Berlin Equity Research; MGI

MGI's roots date back to 2011 under the Xanthus brand. The early history centred on a foray into the thriving German commercial real estate (CRE) market with the acquisition of a portfolio in Berlin and Düsseldorf. The company was rebranded as Solidare Real Estate Holding GmbH, but the new landlord business never gained the envisioned traction and the properties were disposed of in early 2018. The recycled cash was then invested into the current company iteration and realigned corporate mission.

The operational reboot was kicked off with an initial investment in the Hamburg-based gamigo AG in 2012. The gaming specialist ranks among the leading publishers of massively multiplayer online games (MMOGs). After disposing of its remaining real estate assets in 2018, MGI fully pivoted operations by boosting its gamigo stake to 35%. Over the summer, MGI raised its share to 53% (67% of the voting rights), and management want to increase this to 75% over the near term.

The realignment of the company has been driven chiefly by increases in the gamigo participation. Management have complemented these with focused acquisitions in the media sector. We gather the subsidiaries connected to native advertisement will boost MGI's performance in the coming years and help promote the visibility of the gamigo publications.

Figure 2: MGI company structure



Source: First Berlin Equity Research; MGI

Not just a classic buy and hold approach MGI pursues a "buy-integrate-build & improve" approach. This differs from most holding companies that look to acquire distressed assets to restructure and subsequently sell holdings to generate IRR. The MGI approach allows management to leverage its restructuring know-how to purchase distressed assets and corral embedded upside over the long term to spur organic growth, while creating synergies across participations.

MGI's subsidiary synergy effects MGI is structured into several subsidiaries which can be classified into the two clusters: gaming and media. Technology remains at the strategic forefront and previously included a blockchain emphasis, but the digital ledger component has been mothballed by MGI for now to focus resources on the ample opportunities in its gaming and media operations. The single clusters are not mutually exclusive. Rather they constitute the distinct fields in which the group is active, and there are overlaps as shown below.

Figure 3: Overview of the cluster structure

Source: First Berlin Equity Research; MGI

gamigo is the flagship holding The gamigo group is the biggest MGI enterprise and houses various companies merged within the last decade. Single entities support one another to create efficiency gains. With every new acquisition, MGI is looking for internal synergies, while making sure new acquisitions complement the existing portfolio and promote growth within the whole group. We present gamigo in depth overleaf.

In-house advertisement The media cluster offers a wide range of advertising, marketing, and production channels. The latest additions to MGI group (ReachHero GmbH, PubNative GmbH, and AppLift GmbH) were acquired in the current year and will help MGI raise group visibility with their online marketing platforms aimed at young people.

These companies also bolster the incumbent media subsidiaries of gamigo: adSpree media (boost the number of gamers) and Mediakraft (online videos, influencer, and brand storytelling). The two media specialists enable more efficient and cost-effective marketing and lead generation with combined business intelligence and new marketing tools. They also provide B2B media and advertising services to third parties and the group's gaming companies.

AppLift is a Berlin-based agency founded in 2012 specialised in programmatic and mobile advertising. The company is especially interesting for the gamigo group due to its “mobile first-technology.” We view this as an important step. Supercharged by the proliferation of smartphones, mobile gaming is growing rapidly worldwide. But thus far, MGI is underexposed in its business model with < 2% of revenues.

PubNative is a mobile monetization advertising platform, which helps publishers boost revenues via flexible in-app ads. With its native-first approach, proprietary cross-format optimization technology, and mobile header bidding solution, the company also helps mobile publishers maximize their programmatic advertising revenue.

ReachHero is an influencer and social media specialist with over 70,000 registered influencers and > 5,000 realised content and influencer campaigns. The focus is on the platform through which companies can find influencers for their campaigns. ReachHero also provides talent management and agency services, which include lead generation for the agency business and access to niche influencers.

New brand for media cluster MGI also founded the brand, Media Elements Group, which houses Mediakraft Networks, ReachHero and adSpree media. The trio cooperates as a B2B marketing accelerator. The brand offers a wide range of online and offline marketing campaigns, while the synergies spawned by their combined expertise open new markets. Plus, global online advertisement is an expanding market with a projected 13% CAGR for 2019 – 2022.

THE GAMIGO GROUP

gamigo accounted for > 95% of 2018 group revenues and is the central hub of the group’s gaming cluster. After acquiring the associated regional and global gaming licenses from developers for specified time frames, the company publishes online and mobile games mainly in the European and North American markets,

Most of gamigo’s games are free-to-play (F2P) MMOGs. These are the primary revenue engine compared to a lower number of casual games, which are mostly subscription based and pay-to-play (P2P) games.

Building a gaming powerhouse gamigo was founded in 2000 in Germany and started licensing single games. Axel Springer AG bought the company in 2009 but sold it to a strategic investor, Samarion S.E., in 2012. A year later, gamigo shifted its strategic focus from in-house and commissioned development to game publishing and introduced a platform strategy to support the pivot and mitigate development risks.

gamigo AG functions as a holding and is charged with the central management and control functions for its constituents, while also providing its own services. The group employs a staff of >250 in Germany alone (+370 globally) with offices in Hamburg (HQ) and Berlin plus Münster, Cologne and Darmstadt. Group activities are segmented into ‘Game Publishing’ (B2C) and ‘Platform Services’ (B2B).

Game Publishing The B2C segment supports, operates and develops online and mobile games for end customers. The portfolio includes over 30 MMOs and >5k casual, role-play, and strategic games. If properly supported, an MMO can enjoy a lifetime of ~10 years. Currently >50% of sales are made by players with 5+ year lifetimes. Products and services have global scope but a strong focus on the EU and North America.

Platform Services The B2B segment concentrates on advertising and media services, with a strong focus on influencer-, social-, brand-, and performance marketing. gamigo began a larger rollout of platform services to corporates in 2016 offering game developers and publishers a range of services from payment processing and customer relationship management to lead generation and marketing tools.

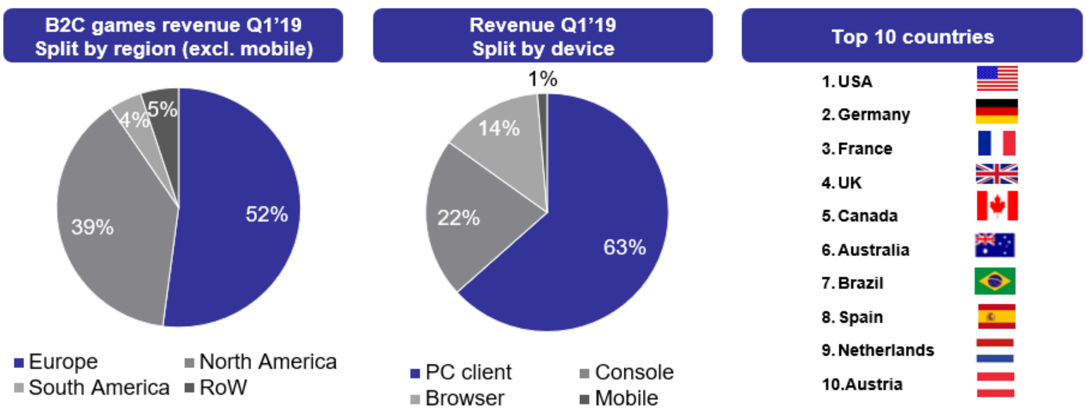
Monetisation of free to play games gamigo controls a portfolio of owned, licensed, and third-party games including 30 MMOs and over 5k casual games. The roster of MMOs published by gamigo is largely of the free-to-play (F2P) variety.

The trend in video-gaming is to give the games away cheaply, or free, and then entice players to spend money on in-game items. These can be upgrades, costumes or better weaponry for their in-game characters and are designed to help propel players to higher levels or enhance the overall experience. Such goods are purchased via in-game stores with virtual currencies. We note that the vast majority of economically successful mobile games are F2P models. The popular *Clash of Clans* game is an interesting case study that reportedly generates some $60m in monthly turnover from players purchasing the game's in-house currency.

The second revenue vertical is a subscription model that gives players access to a number of games per month. Subscription fees currently account for less than 10% of overall revenues but are likely to increase in importance as gamigo continues to build its mobile and cloud strategies (see Gaming Market section). Players can access and play the games over desktop browsers or mobile devices without the need to download and install specific software. MMOs are the preferred offering given their stickiness and long-life game cycles. Casual games are played for much shorter periods.

With currently over 600k daily users and around 5m monthly active users, the company's revenues are mostly generated on PCs (82%), and consoles (17%) and only ~1% on mobile devices. We expect the latter to significantly increase to align with worldwide trends and new generation marketing.

Figure 4: gamigo revenue breakdown



Source: First Berlin Equity Research; MGI

Some 58% of revenues stem from games developed and owned by gamigo, while licensed games account for the balance. The relatively high switching costs, such as customer acquisition costs and historical player data, that a third party would incur for an existing game promote high licence renewal rates, given that a new publisher would need to attract new players.

Popular games portfolio gamigo's portfolio of well established games includes durable titles such as *ArcheAge, Trove, Ironsight, Aura Kingdom, Rift, Desert Operations, Fiesta Online, Echo of Soul-Phoenix, Last Chaos, Die Ratten, Dragon's Prophet, Goal One, Grand Fantasia, Shaiya* and *Twin*. Many of the MMO games boast life spans north of five years, thanks to good strategic marketing and timely upgrades.

Looking for more organic growth gamigo has made over 20 acquisitions in the gaming, and media segments since 2013 and has indicated a pipeline of ~20 future targets. The aggressive M&A strategy helped spur a 32% topline CAGR for the period 2015 to 2018.

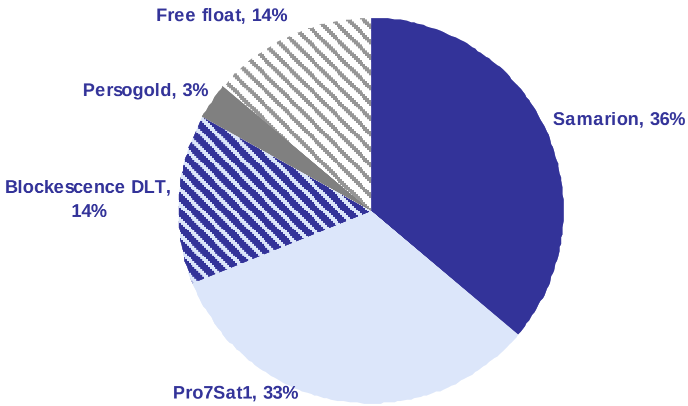
We also think aggressive corporate activity will have a positive side effect on organic growth going forward as unrealised synergies are unlocked. Management have communicated a 10% p.a. target for further corporate activity in the coming years with the aim of opening new markets, increasing internationalisation, and winning new customers through intensified digital marketing and the launch of new licensed games.

MGI focuses on online games, which is well populated with potential M&A targets at good pricing. The online segment also features less competition than mobile gaming. Plus, direct distribution is more cost efficient as opposed to relying on Apple or Google, who take a 30% cut of revenues as a fee.

That said, the evolving mobile market is aligning with MGI's acquisition strategy. Multiples are becoming more sensible and there are a growing number of targets. We thus expect MGI to increase corporate activity in the mobile segment going forward to compliment its online gaming pipeline

MGI holds the majority of gamigo shares Media and Games Invest owns 52.6% of gamigo AG following the latest deal in July 2019. This participation is mainly held via the investment company Samarion (36%). A further 13.8% and 2.5% are controlled by Blockescence DLT and Persogold. The second major stakeholder is ProSiebenSat1 Digital with 33%, while the free float totals 14.4%

Figure 5: gamigo shareholder structure



Source: First Berlin Equity Research; MGI

COMBINED STRENGTHS OF MGI AND GAMIGO

Media and Games Invest and gamigo have forged a stout capital structure to drive expansions into the gaming, and media segments. We regard access to capital as a key differentiator relative to rivals. The financial backbone has helped propel a 64% EBITDA CAGR over the last four years.

Benefits through experience In our view, the sheer number of assets bought and successfully integrated demonstrates the M&A know-how and the experience of the united companies. We believe this owes to a now standardised process that enables and simplifies the adoption of new enterprises into the portfolio.

Existing customer base as origin of success One of the key success factors in the gaming segment is the existing customer base of the group (5m MAU) that offers good geographic diversification to go along with the company's established social media channels. On the media side, the group strives to keep pace with new technologies, media channels and portals. With its proven M&A platform backed by good access to capital, MGI prefers to acquire rather than build in-house.

Successful M&A strategy MGI's success is built upon restructuring small to medium size distressed assets and their swift integration onto its platform. Measures include consolidation of data-centres to reduce costs, reshuffling personnel, and cloud integration. The group looks to cluster companies and pair the gaming industry with digital media. And there is mounting evidence that this produces good synergy effects.

Media is a central element The media component helps anchor the group strategy and will play a key role in future success. The video gaming industry depends on attracting youth and specifically millennials. Digital natives have a vastly different relationship to media than those who grew up in the pre-internet age. This makes influencers and platforms such as YouTube indispensible.

By pooling part of the media subsidiaries in the newly founded brand Media Elements Group, MGI has a strong competitive advantage over rivals, since their influencers have a direct link to their customers. Mediakraft alone manages roughly 350 YouTube partner channels in its CMS (content management system). This allows MGI to either extend game life cycles or boost new launches out of the gate.

In-game advertisement as a revenue vehicle Advertising provides another revenue stream and is particularly prevalent in casual games where a lower ratio of paying customers is found. Ads can be placed directly in games or avoided by players via a payment model. MGI also owns ad inventory and can use its in-house agency to set up campaigns for B2B clients.

BUSINESS MODEL DRIVERS

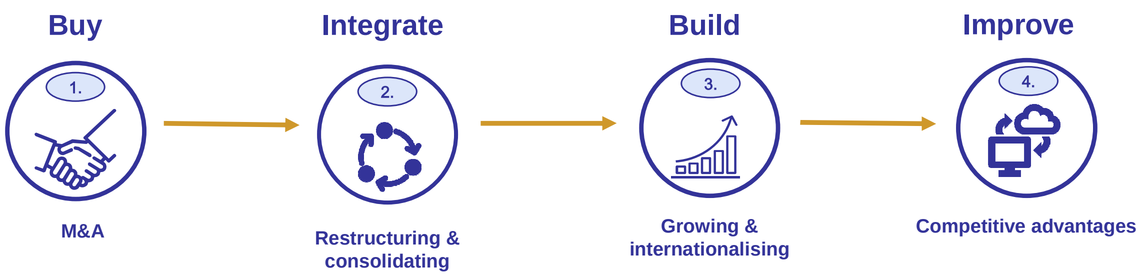
The MGI conglomerate Media and Games Invest has nearly 30 subsidiaries under its roof. gamigo is the fulcrum of this reciprocal and harmonised structure, while M&A is the lever pulled by management to drive operations. Acquistions are designed to complement platform functions, expand international borders, and grow user numbers. Integration means optimisation of incoming organisations and technologies, and the legal are combined as long as any relevant tax loss carry forwards are not compromised.

Enhanced company strategy MGI's strategy now follows a "buy-integrate-build-improve" strategy for its portfolio. This deviates from the previous "buy-improve-sell" concept. The recalibration owes to a shift in the general strategy that now wants to hone in on organic growth opportunities.

And the model of restructuring and integrating the single subsidiaries becomes more efficient the larger it gets, thanks to a team that is now seasoned at incorporating underperforming operations as well as optimising staffing and IT.

BUY - INTEGRATE - BUILD - IMPROVE

Figure 6: Cornerstones of the enhanced strategy



Source: First Berlin Equity Research; MGI

"Buy" MGI focuses on distressed assets that are geographically or technologically attractive, or feature a good customer base, which could complement the current portfolio. The acquisition team targets smaller companies (€5m - €10m revenues p.a.) that could benefit from technological optimisation. The standardised and tested M&A and PMI frameworks promote swift corralling of envisioned synergies.

"Integrate" Acquired companies are always fully integrated (vs stand alone model) into the existing group structure. The premise is that more volume equals more efficiency. The proprietary platform is the key to cost compression often leading to reduction of staffing and data centre costs of around 50% and 65% respectively. This is done by teams tailored for the mandated tasks that are crafted from the group's talent pool.

"Build" This is the organic growth pillar that leverages group strengths such as the customer base, know-how, international footprint, social media, and access to capital. New companies are segmented into 'Game Publishing' (B2C) or 'Digital Media Online Platform Services' (B2B). The B2C segment focuses on customer acquisition (new licences, internationalisation, online marketing) and churn-reduction (customer support, business intelligence). B2B concentrates on online marketing, user growth media know-how, and technology.

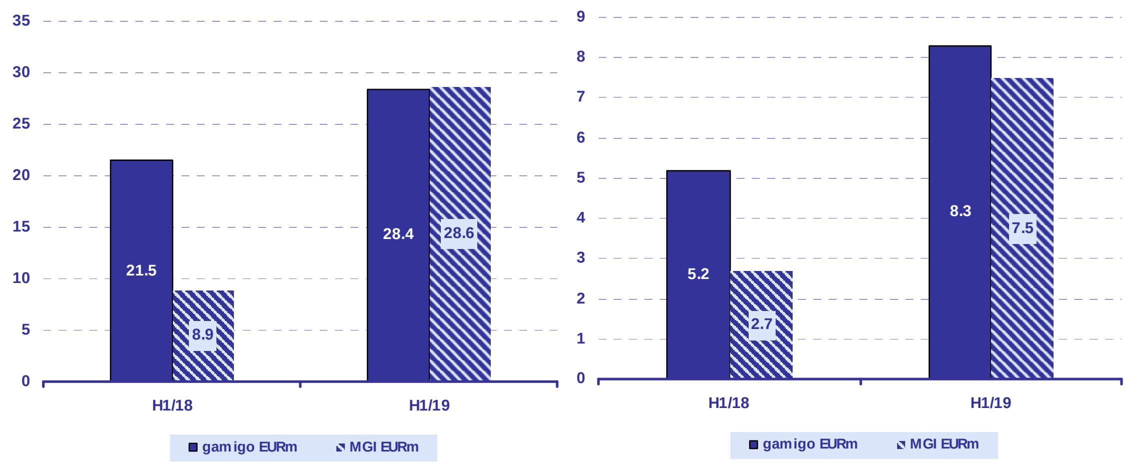
"Improve" Here MGI actively invests in top class and trend setting technologies to yield competitive advantages for its portfolio companies. The group is transitioning away from costly data-centres to scalable and lower cost cloud-based solutions. This promotes greater availability of games to players over multiple devices, reduces streaming latency, and guards against fraud.

SIX MONTH RESULTS SHOWCASE STRATEGY

The past twelve months have been shaped by MGI's pivot into gaming and media after disposing of its real estate assets. This has resulted in some €52m in consolidated revenues and €14m in EBITDA since the start of June 2018.

High topline growth. . . Six month reporting provided further evidence that the new business model of combining M&A with a high organic growth platform is working. Revenue grew strongly on an annualised basis, thanks chiefly to the gamigo performance, which featured a 32% rise in its top line. MGI reported sales of €28.6m in the six month period equal to a 20% improvement.

Figure 7: Six month revenue and EBITDA results for gamigo and MGI



Source: First Berlin Equity Research, MGI, gamigo

. . . translates into good earnings performance We regard EBITDA as the key operating indicator for MGI, due to the high PPA (purchase price allocation) depreciation and amortisation that impacts operating income (EBIT). EBITDA climbed 28% on an annualised basis to €8.3m at the gamigo level—including some €0.8m in one-off acquisition costs, while MGI reported EBITDA of €7.5m for the six month period equal to a 177% increase.

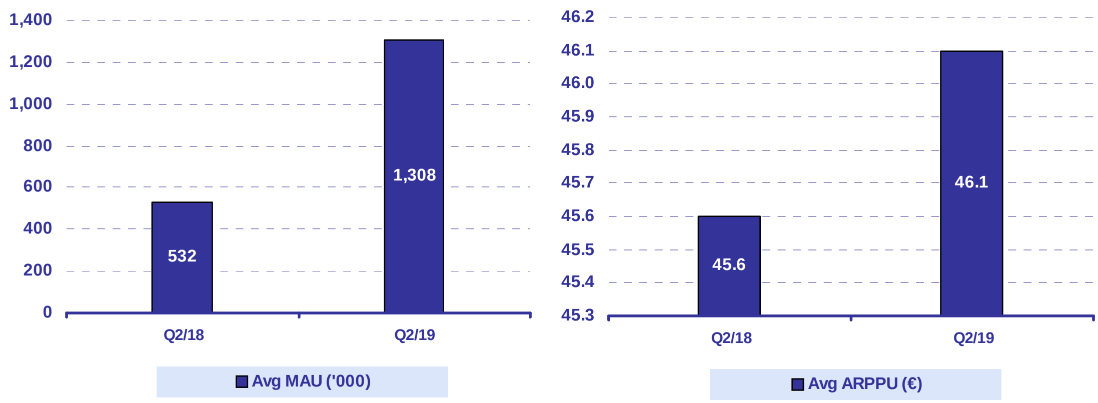
Table 1: Six month results by segment

in € '000	B2C	B2B	Consolidated
Revenue	22,758	5,817	28,575
EBITDA	**7,787**	**529**	**8,316**
Depreciation & amortisation	-4,055	-221	-4,276
Segment EBIT	**3,732**	**308**	**4,040**
Corporate costs			-775
Financial result			-1,874
EBT			**1,391**
Tax result			-511
NI			**880**

Source: First Berlin Equity Research, MGI, gamigo

gamigo is the group workhorse gamigo's performance owes to both good organic and external growth led by recent acquisitions. *Trion Worlds* is already showing solid revenue growth, while its cost structure is optimised, whereas WildTangent also contributed to the improved margin. The EBITDA margin was up 500bps Y/Y, thanks to efficiency gains in daily operations and WildTangent effects. gamigo reported no large updates or launches in H1. However, the MMO portfolio showed a good performance evidenced by a 146% MAU spike to 1.3m for gamigo's Top 10 MMOs.

Figure 8: KPI developments for Top 10 gamigo games



Source: First Berlin Equity Research, MGI, gamigo

H1 ACQUISITION ACTIVITY

MGI bought a 67% stake in ReachHero in May 2019 for €2.9m through the issuance of 2.17m shares. The company is a leading platform solution for influencers and advertisers in Germany and will soon roll out service across Europe. The ReachHero founders hold the remaining shares and will remain on board to manage operations.

In June 2019, MGI fully acquired the Berlin-based AppLift GmbH for €6.0m. The consideration was paid for by a combination of cash and promissory notes. Applift is a leading international mobile performance agency focused on app branding for publishers as well as customer acquisition for their apps. The company's majority stakes in PubNative GmbH and seven additional subsidiaries were also part of the deal. PubNative runs a supply side platform that supports app publishers in selling their advertising at optimised pricing via bidding mechanisms.

Q2 also saw the acquisition of the Seattle, USA-based WildTangent at the gamigo level. WildTangent runs a platform offering casual games from external developers. Revenues stem primarily from a subscription based model with long lifetimes and in-game advertising streams.

BALANCE SHEET AND CASH FLOW

Total assets rose to €295m (YE18: €236m), stemming mainly from the increase in shares in affiliated companies associated with the aforementioned acquisitions. MGI ran at a WC / sales ratio of 5% in the six month time frame—slightly lower than last year.

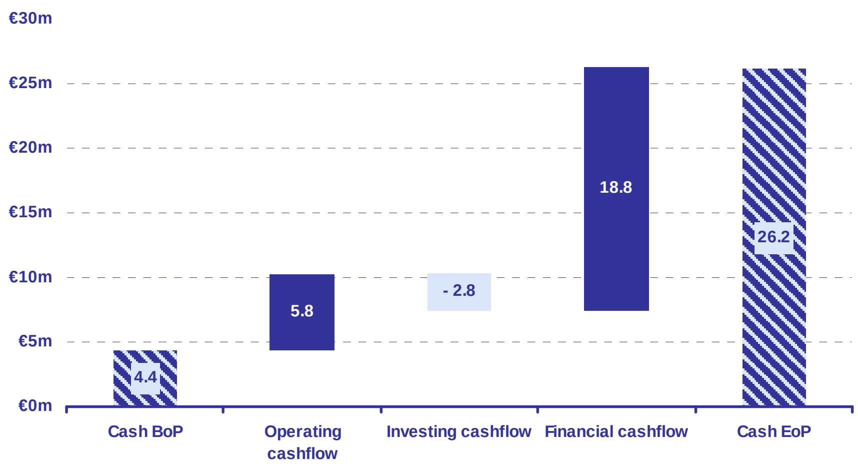
Table 2: H1 balance sheet developments

in € '000	H1/19	2018	*variance*
Cash and liquid assets	26,245	4,447	*490%*
Shares in affiliates	226,704	210,495	
Total assets	295,232	236,293	*25%*
Total debt	79,480	42,572	*87%*
Net debt	53,235	38,125	*40%*
Shareholders' equity	160,731	158,540	*1%*
Equity ratio	54.4%	67.1%	-

Source: First Berlin Equity Research, MGI

Two tap issues to the gamigo bond for an aggregate €18m cash injection to fund expected acquistions ratcheted up the debt load to €79m at the six month mark. Net debt climbed to €53m (YE18: €38m) and the company exited H1 with €26m in cash and cash equivalents. Shareholders' equity remained stable, but the equity ratio dropped to 54% on the 25% rise in assets and the bond issuances. The interest coverage ratio (ICR) retreated to 3.8x vs 5.0x at YE18 owing to the rise in debt.

Figure 9: MGI six month cash flow movements



Source: First Berlin Equity Research, MGI

Bottom line and bond issuances boost net cash flows Net operating cash flow totalled €5.8m for the six month period compared to €-2.3m in the prior year period. The H1/18 result included €-10.2m from discontinued operations, whereas the Y/Y increase also benefited from higher consolidated EBITDA. Cash flow from investing totalled €-2.8m in H1/19 traced to the investments reported for the period.

Cash flow from financing amounted to €18.8m owing mainly to two tap ups of the corporate notes. The change in cash for the period equalled €21.8m leaving MGI with some €26.2m in cash and equivalents on the balance sheet (2018: €4.4m). We thus see the company as adequately financed for the next operational milestones.

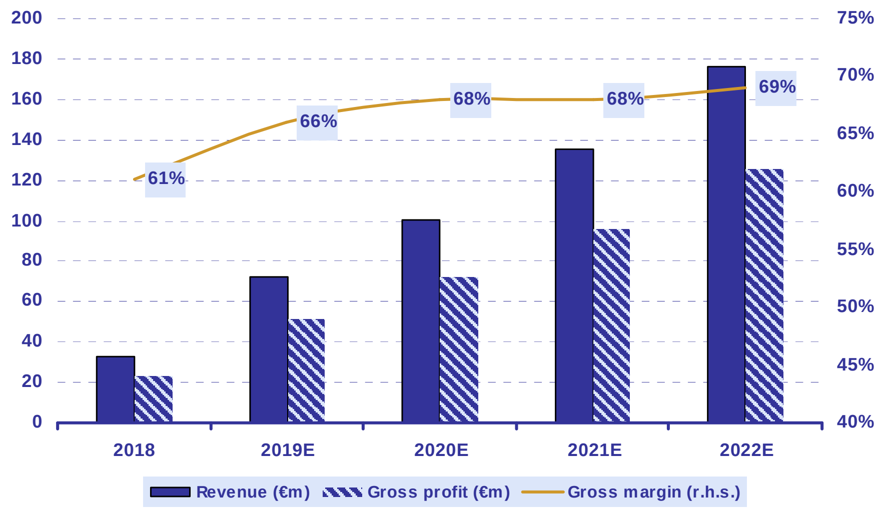
FORECASTING ASSUMPTIONS

HIGH GROWTH BUSINESS MODEL

MGI pursues a dual growth strategy anchored by organic growth and strategic corporate activity. Revenues are generated by sales of online, console and mobile games (casual games, role play games and strategy games) as well as B2B services (platform and digital advertising services).

The company made several key investments in H1 including (1) ReachHero, an influencer SaaS (service as a software) platform; (2) the mobile performance agency, Applift; and (3) the end of June acquisition of PubNative, a mobile supply side platform. Management mentioned an annual revenue run rate of around €20m for the new companies.

Figure 10: Revenue and gross profit forecasts



Source: First Berlin Equity Research, MGI

We expect another surge in top line growth in H2 occasioned by the acquistions concluded in H1 that had only marginal impact due to late signings. Our 2019 revenue target assumes MGI will realise some €10m in sales from the aforementioned companies and that gamigo continues the momentum witnessed in H1/19. We thus target a €72m topline for 2019 and €43m for H2.

Acquisition pipeline is still full Management have hinted at a full acquisition pipeline—distressed and non-distressed assets—to drive further M&A activities, while the gaming market trends look supportive. These factors should allow MGI to continue its current growth trajectory over the near term, but we have only made conservative investment assumptions for external growth.

Upcoming H2 launch highlights gamigo also confirmed a full roster of updates, sequels, and game launches slated for H2/19. This includes the commercial launch of *ArcheAge Unchained*—a sequel of *ArcheAge* launched as pay-to-play version. The company also plans a new version of Desert Operations, which has been a sales-workhorse for 10+ years and boasts a long-term and loyal player base.

Table 3: Revenue and operating forecasts

in € '000	2019E	2020E	2021E	2022E
Revenue	71,766	100,473	135,638	176,330
(+) Own work capitalised	3,658	3,841	4,033	4,235
(-) Cost of goods	24,401	32,151	43,404	54,662
Gross profit	**51,024**	**72,162**	**96,267**	**125,902**
(-) Personnel expenses	21,530	29,137	37,979	47,609
(-) Other OpEx	23,683	31,147	40,691	49,372
(+) Other operating income	5,550	5,661	5,774	5,890
EBITDA	**11,361**	**17,540**	**23,371**	**34,810**

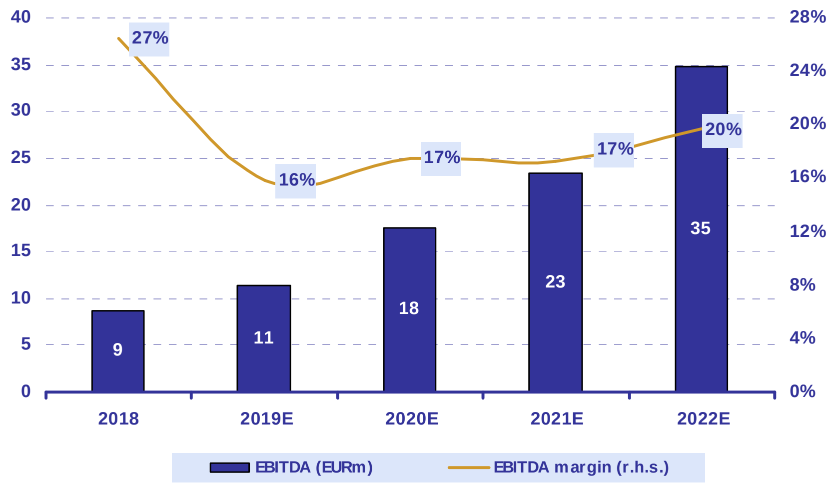
Source: First Berlin Equity Research estimates

Exceptional gross margin (GM) potential Cost of materials or 'services purchased' primarily entail royalties passed onto game publishers, technology costs, and revenue sharing. The gross margin expansion results from several factors inherent in the buy-integrate-build-improve strategy. Specifically, technology costs of the acquired companies can often be optimised by up to 50%, thanks to the scale effect of MGI's growing structure. Plus consolidation of data centres yields GM uplift. And we expect uplift from the freemium portfolio, since the cost of creating virtual items sold in-game is virtually nil making this mechanism highly profitable.

Operating expense considerations The company's 'single platform' model harbours significant efficiency upside and growth potential. But this also requires investment in skilled personnel for IT and Engineering. QA (quality assurance), customer support, and localisation teams will need to be beefed up to handle the expansion. We thus expect overall staffing costs to expand nearly in step with overall growth going forward and calculate personnel expenses at 30% of revenues for 2019 with the ratio compressing to 28% in 2021.

'Other operating expenses' contain the standard administration as well as advertising or 'user acquisition' costs for gaming with the latter accounting for the bulk of the line item. We believe the corporate infrastructure can support substantial growth over the coming years but expect user acquisition costs to offset some the scale effects. We model other operating expenses at 33% of sales this year with the KPI declining to 30% in 2021.

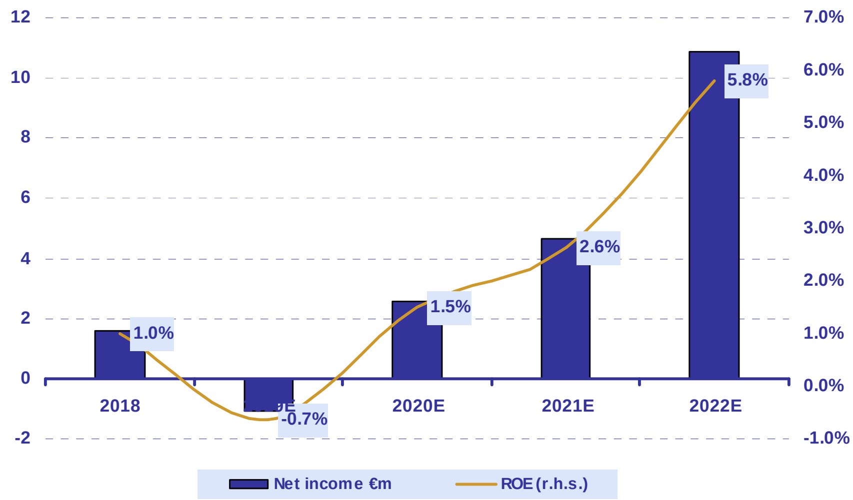
Figure 11: EBITDA developments



Source: First Berlin Equity Research, MGI

We regard EBITDA as the key operating indicator for MGI, due to the high depreciation and amortisation that impacts operating income (EBIT). Our assumptions translate into a three year EBITDA CAGR of 39% for the period 2019–2021. Given this scenario, we look for the EBITDA margin to climb steadily over the near term and reach 17% in 2021. The sharp dip in 2019 owes to the high level of purchase price allocation and balance sheet clean-up traced to the corporate activity that primes the business for future margin expansion.

Figure 12: Return on equity development

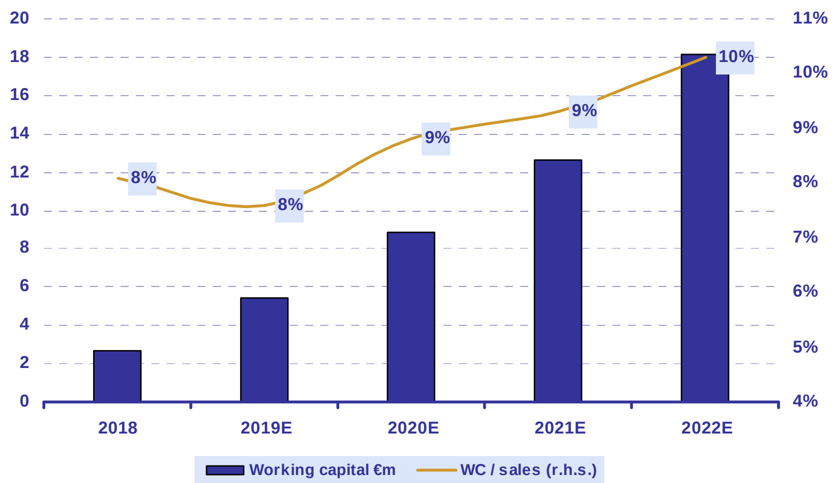


Source: First Berlin Equity Research, MGI

BALANCE SHEET AND CASH FLOW ASSUMPTIONS

Working capital and investment MGI should benefit from low working capital requirements. The company carries no inventory on its balance sheet and the operating cash cycle is around 115 days. We thus expect the company to run at a normalised WC/sales ratio of 10% to 12% throughout our forecast period.

Figure 13: Working capital development

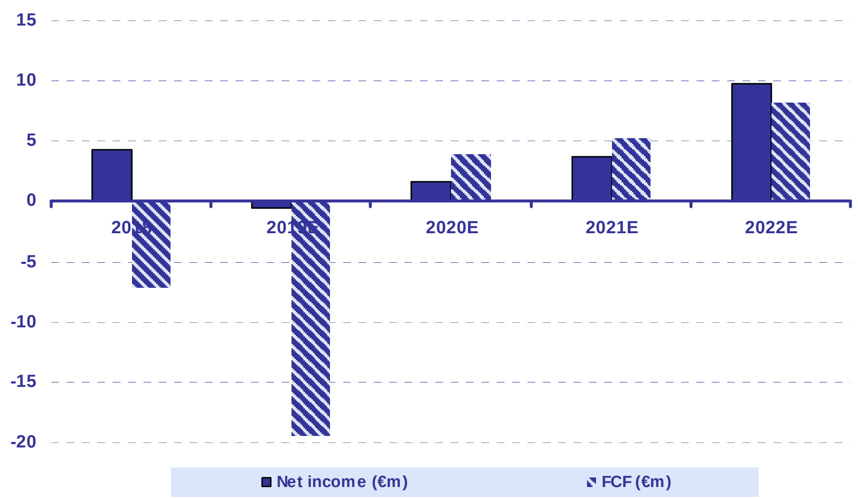


Source: First Berlin Equity Research, MGI

Holdings largest balance sheet item CapEx intensity is likewise low and mostly limited to the infrastructure requirements to support the operational staff. Otherwise, we do not foresee any major investments on the horizon.

We account for the acquistions under 'shares in affiliated companies,' which also includes absorbed goodwill. The line item accounted for 77% of total assets in H1. We expect corporate activity to result in investments north of €28m this year but have dialled this aggressive number back to ~€10 p.a. going forward to be conservative.

Figure 14: Cash flow conversion



Source: First Berlin Equity Research, MGI

MGI should realise good cash flow conversion going forward, due to the expected good operating results from recent acquistions that will not be fully realised in 2019. The higher rate of FCF to NI owes to the high amortisation that sifts down to the bottom line the bottom line.

Capital structure includes balanced debt and equity mix MGI exited H1 with €53m in net debt and €79m in total debt. The debt load includes a €13m shareholder loan and a €4m promissory note that will be swapped into equity. The equity ratio was around 54%. In our model, we assume the outstanding bonds will be repaid upon their October 2022 expiry and that management take on less expensive bank debt to finance further growth not covered by operating cash flow. We note that corporate activity could outperform our assumptions requiring a higher debt load than currently calculated. We have not factored new equity into our numbers, but the equity ratio remains comfortably north of 60% going forward.

In October, MGI placed €5m in corporate bonds with a 7% coupon that mature in October 2024. Proceeds will facilitate operations and management have the option to tap up the bonds to €25m.

GAMING MARKET STATISTICS & TRENDS

"We do not stop playing because we grow old. We grow old because we stop playing" – Benjamin Franklin

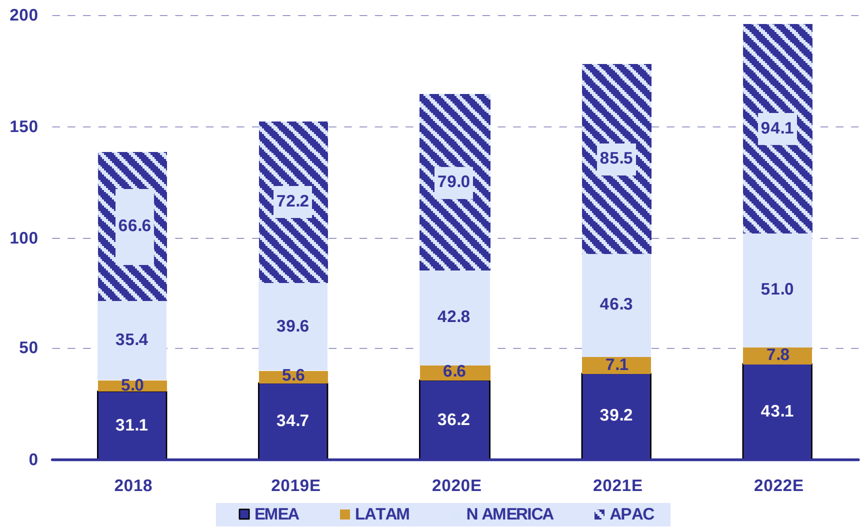
The global video-gaming market is thought to boast > 2bn players. Domestically, some 42% of Germans are video gamers of which 41% of female. Surprisingly, about 28% of Germany's gamers are over 50 years old.

VIDEO-GAMING IS BIG BUSINESS

Overall numbers promising. . . Market researcher NewZoo reckons the global video gaming market will top $196bn in 2022 on the basis of a 9% CAGR for 2018 to 2022. Current growth is fuelled by "increasing per capita income, high adoption, growing interest, technology developments and a rising number of dual-income streams."

Geographically, the US is expected to overtake the China in terms of growth for the first time since 2015 with estimated revenues of $37bn in 2019 and help North America spearhead annualised growth at an 11.7% rate. China has been burdened by regulatory issues discussed below, and the growth of the US market has benefited from strong growth in console spending of late.

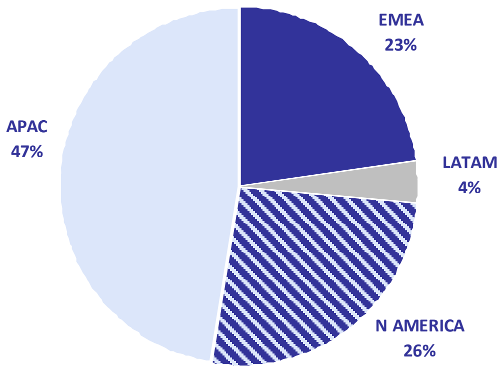
Figure 15: Regional split of global gaming market in USD billion



Source: NewZoo analytics

APAC accounts for roughly half of global video-gaming sales and is expected grow at a 7.6% clip this year, while the EMEA region is projected to expand by 11.5% Y/Y and constitute 23% of the global revenues. Meanwhile, NewZoo analysts expect LATAM to grow by 11.1% in 2019, but this region remains small in terms of size.

Figure 16: Global gaming market share by region in 2019

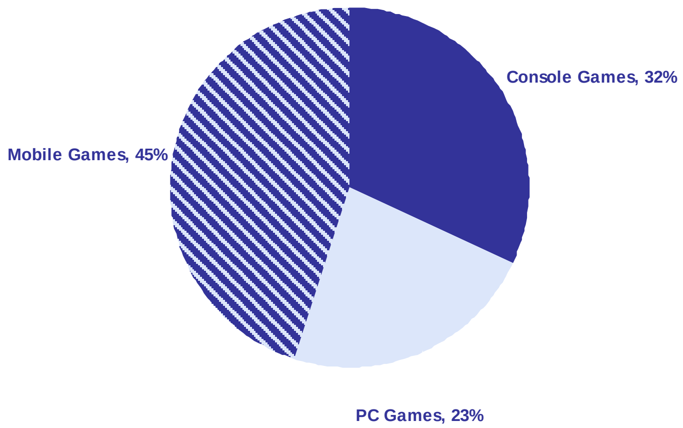


Source: NewZoo analytics

AND MOBILE GAMING IS THE PLACE TO BE

The way consumers engage with games is constantly changing thanks to the proliferation of smartphones which gamers use to access and keep playing—and paying—at all hours of the day. Today's smartphones embed pretty much all of the clunky devices we used in the past. Land lines, CD players, PCs to surf the web, and consoles are largely snubbed by today's growing digital community. Since 2016, gaming market revenues have outpaced those of the film and music industries combined.

Figure 17: Hardware market share 2019

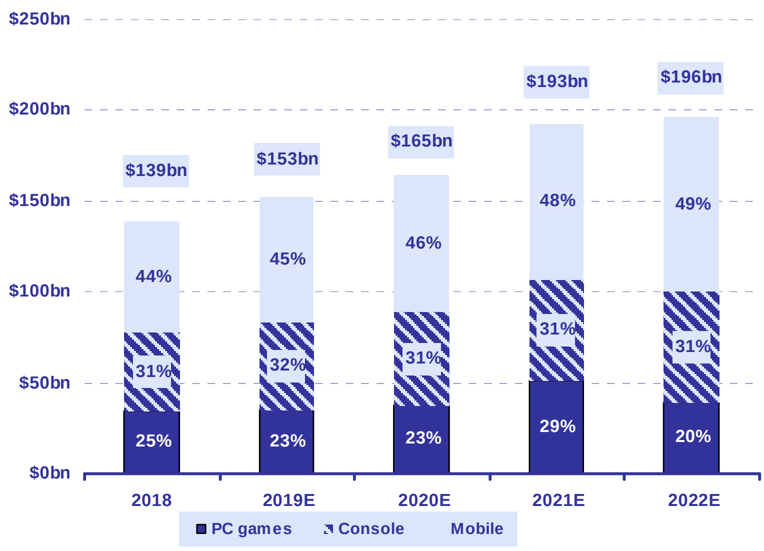


Source: GlobalWebIndex

According to GlobalWebIndex (GWI), mobile gamers spend on average between 44 minutes and 3 hours daily on their smartphones. LATAM leads in terms of screen time with nearly 5 hours per day. Market research also shows that around 86% of digital consumers play online games at least once per month on a mobile device (smartphone or tablet).

By 2022 market watchers think the mobile gaming market alone will approach $100bn. For context, the mobile segment counted sales in millions less than ten years ago. It is already the largest segment by a wide margin with a whopping 45% share of overall gaming revenues.

Figure 18: Gaming market share by hardware



Source: NewZoo analytics

CLOUD-GAMING IS NOW A THING . . .

The ability to stream film and music has turned the entertainment industry on its head. Now big-tech is zooming in on video-games—and tech-titans, Google and Microsoft, are testing cloud-gaming services. Amazon is also thought to be looking at video-gaming, while game publisher Electronic Arts has its own plans for game streaming in the works.

The hope is that cloudified games will be more appealing to consumers who increasingly expect their favourite games to be portable and transferable between devices. Plus, cloud gaming could improve economics for players. Games carry high upfront costs—$40 to $60 for the actual games plus another $250 to $400 for consoles. Sony offers a subscription model at $19.99 per month or $99.99 per year for access to ~700 titles as an alternate example.

While this all sounds promising, change will not happen overnight. There are a number of technological hurdles—computer reaction time over distances, data-flow—to overcome before cloud-gaming becomes the norm. And the cloud-gaming battle could be won by a dark horse.

. . . SO IS GAME AS A SERVICE

Game as a service (GaaS) is among the latest models designed to squeeze more revenues out of video games. Stagnation can be a death sentence for new games. GaaS allows games to constantly evolve and be monetised after their launch by transforming games from a product into services, whereby new content can be delivered. The idea is to craft in-game mechanisms, features, and rewards to keep people playing and paying for as long as possible. The model effectively extends a game's lifespan and lengthens player spending. Popular titles such as *World of Warcraft, Fortnite, Destiny, Overwatch,* and *Madden* follow this approach. GaaS has several models: game subscriptions, gaming on demand, and micro-transactions, i.e. low-cost purchases of additional content in the game such as new maps, characters, items, weapons or rewards.

Publishers are revving up GaaS investments for their games. While the rewards have thus far been attractive, the number of players is finite. So not every publisher will be able to maximise a player's time and recover their investments.

IS MORE REGULATION COMING?

Figure 19: Regulators on the watch

Source: First Berlin Equity Research; Katrin Acklin

Moral panics in the media are nothing new with pop music, film, and even novels having been previously condemned by grumpy reactionaries. Now video games are the popular villain. Concerned parents and citizens claim video games make players lazy and listless, or even violent.

Chinese lawmakers temporarily froze new gaming approvals a year ago on concerns of addiction and dangers posed to the country's youth. Yes, authoritarian states are prone to overreaction, but Japan and South Korea have also passed laws designed to regulate the video-gaming industry. And now lawmakers in Europe and America are increasingly hawkish.

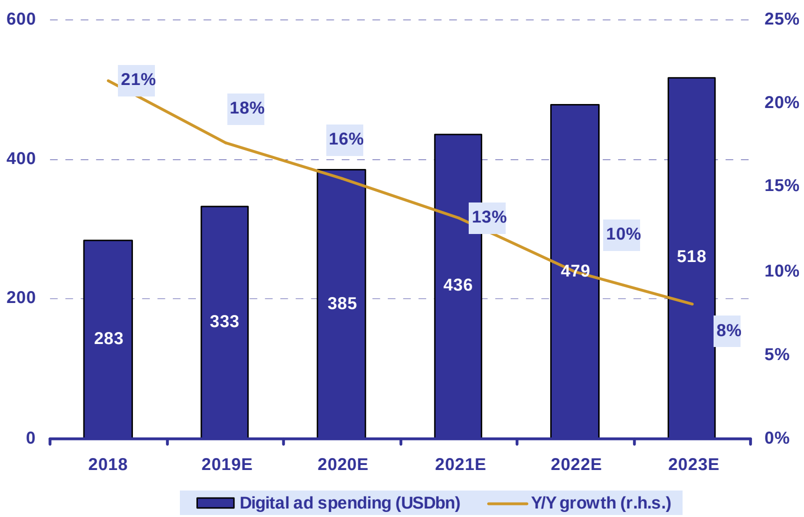
The advent of online gaming means there are troves of behavioural data that allow publishers to monitor how customers play their games and optimise them to enhance their attractiveness, lengthen user life, and boost the economic rewards. We think it is in the industry's best interest to better shield children and addicts from the increasingly refined games that amplify engagement to keep the regulator from weighing in.

DIGITAL MEDIA MARKET

Traditional, offline advertising has been overtaken by its younger digital sibling in terms of market size and is projected to reach 60% of global ad spend by 2023. The rapid expansion of the digital society has shaped the evolution of online advertising spawning new markets, players, and business models.

Online advertising encompasses ads delivered digitally across both desktop and mobile hardware. Ads include banners, videos, social network ads, or search engine campaigns. Market researcher, eMarketer, looks for 2019 digital ad spend to grow 18% on an annualised basis to $333bn. The dip in growth rates owes to budgets being redirected to ad-tech and data analytics.

Figure 20: Global digital marketing expenditures



Source: eMarketer

Impact on Media and Games Invest Advertising is a lucrative revenue stream for publishers in the gaming business. Casual games can offer in-app purchases or online advertising such as banners or videos. For MGI and gamigo, we expect this to remain a secondary income stream. Media is rather a strategic mandate designed to drive gaming operations. The right media strategy also connects with millennials who mistrust the old fashioned, show and tell approach of classical advertisement, e.g. TV spots. They prefer a narrative and emotive approach delivered by high-quality video that hinges on mobile engagement.

EXECUTIVE BOARD

CEO

Remco Westermann was appointed Chief Executive Officer of gamigo AG in November 2012 and named CEO of MGI in May 2018. He brings over 25 years experience, including 15 years in the mobile and online entertainment sector. Previously, Mr Westermann served as CEO of the mobile media company Sonera Zed. He also founded the listed company Bob Mobile AG (later Cliq Digital AG). Mr Westermann has a Master of Science in Business Economics.

CFO

Paul Echt joined the executive board as CFO in July 2018 and helps oversee MGI and gamigo's expansion and financial strategies. Previously, he worked in the corporate development field at Shopgate Inc. in Silicon Valley before returning to Germany in 2015. Mr Echt joined UniCredit in Berlin in 2015 and managed accounts for tech clients. He holds an M.A. in finance and a Bachelor of Laws.

CTO

Gary Coffey joined the gamigo group as CTO in January 2017 and MGI in May 2018. He is charged with infrastructure, development, engineering and business intelligence activities. After his studies in computer applications in Ireland (Dublin), Mr Coffey spent ten years in the tech industry, including areas such as financial technology and engineering. Previous posts included the Bank of Ireland, HP, Norkom Technologies and BAE Systems Applied Intelligence.

COO

Jens Knauber has been responsible for gamigo's operating business since 2012 after previously acting as VP of Publishing. Prior to that, he was the QA Manager at dtp entertainment AG and counts 15+ years gaming industry experience on his credentials. Mr Knauber has also successfully introduced a product in the games market.

CSO

Stefan Rascher has been Chief Sales Officer of the gamigo group since July 2018. He also serves as CEO of gamigo's B2B subsidiaries, adspree and Mediakraft. His 20 plus year career includes stints at market leaders such as Siemens, E-Plus, Quam and Google. Mr Rauscher has lengthy experience in sales, marketing, management, entrepreneurship, and e-commerce to help pilot the gamigo group.

Non-executive director

René Müller has racked up over 25 years of experience in international corporate finance advisory in various fields such as M&A, equity/debt financing and venture capital. This includes a six year stint as CEO of a publicly listed private equity firm.

Non-executive director

Tobias Weitzel has vast experience in the fields of political and economic journalism, public relations, capital markets & crisis communication. He is also the managing director of BSK Becker + Schreiner Kommunikation GmbH and has been a board member of Financial Experts Association e.V. since 2012.

SHAREHOLDERS & STOCK INFORMATION

Stock Information	
ISIN	MT0000580101
WKN	A1JGT0
Bloomberg ticker	M8G GR
No. of issued shares	70,020,000
Transparency Standard	Open Market
Country	Malta
Sector	Entertainment
Subsector	Gaming

Source: Börse Frankfurt, First Berlin Equity Research

Shareholder Structure	
Bodhivas GmbH	61.7%
Free Float	38.3%

Source: Media and Games Invest plc

INCOME STATEMENT

All figures in EUR '000	2017	2018	2019E	2020E	2021E	2022E
Revenues	**n.a.**	**32,621**	**71,766**	**100,473**	**135,638**	**176,330**
Capitalised work	n.a.	2,791	3,658	3,841	4,033	4,235
Total output	**n.a.**	**35,412**	**75,424**	**104,314**	**139,671**	**180,564**
Cost of goods sold	n.a.	-12,699	-24,401	-32,151	-43,404	-54,662
Gross profit	**n.a.**	**22,713**	**51,024**	**72,162**	**96,267**	**125,902**
Personnel expenses	n.a.	-10,438	-21,530	-29,137	-37,979	-47,609
Other OpEx	n.a.	-10,135	-23,683	-31,147	-40,691	-49,372
Other operating income	n.a.	6,506	5,550	5,661	5,774	5,890
EBITDA	**n.a.**	**8,646**	**11,361**	**17,540**	**23,371**	**34,810**
Depreciation & amortisation	n.a.	-6,318	-9,473	-9,043	-11,801	-15,341
Operating income (EBIT)	**n.a.**	**2,328**	**1,888**	**8,497**	**11,570**	**19,470**
Net financial result	n.a.	-1,641	-3,516	-4,695	-4,695	-3,384
Pre-tax income (EBT)	**n.a.**	**687**	**-1,628**	**3,802**	**6,875**	**16,086**
Income taxes	n.a.	895	529	-1,236	-2,234	-5,228
Net income	**n.a.**	**1,582**	**-1,099**	**2,566**	**4,641**	**10,858**
Discontinued operations	n.a.	3,673	0	0	0	0
Consolidated profit	**n.a.**	**5,255**	**-1,099**	**2,566**	**4,641**	**10,858**
Minority interests	n.a.	-932	521	-898	-928	-1,086
Net income to owners	**n.a.**	**4,323**	**-578**	**1,668**	**3,713**	**9,772**
Diluted EPS (in €)	**n.a.**	**0.09**	**-0.01**	**0.02**	**0.05**	**0.14**
Ratios						
Gross margin on revenues	n.a.	61.1%	66.0%	68.0%	68.0%	69.0%
EBITDA margin on revenues	n.a.	26.5%	15.8%	17.5%	17.2%	19.7%
EBIT margin on revenues	n.a.	7.1%	2.6%	8.5%	8.5%	11.0%
Net margin on revenues	n.a.	13.3%	-0.8%	1.7%	2.7%	5.5%
Tax rate	n.a.	33.3%	0.4%	130.3%	32.5%	32.5%
Expenses as % of revenues						
Personnel expenses	n.a.	32.0%	30.0%	29.0%	28.0%	27.0%
Other OpEx	n.a.	31.1%	33.0%	31.0%	30.0%	28.0%
Depreciation & amortisation	n.a.	19.4%	13.2%	9.0%	8.7%	8.7%
Y-Y Growth						
Revenues	n.a.	n.a	120.0%	40.0%	35.0%	30.0%
Operating income	n.a.	n.a	-18.9%	350.1%	36.2%	68.3%
Net income/ loss	n.a.	n.a	n.m.	n.m.	122.6%	163.2%

BALANCE SHEET

All figures in EUR '000	2017	2018	2019E	2020E	2021E	2022E
Assets						
Current assets, total	**n.a.**	**16,250**	**44,366**	**52,691**	**64,293**	**59,014**
Cash and equivalents	n.a.	4,447	21,755	21,035	21,558	3,458
Trade receivables	n.a.	11,803	22,611	31,656	42,735	55,556
Propeties held for sale	n.a.	0	0	0	0	0
Other ST assets	n.a.	0	0	0	0	0
Non-current assets, total	**n.a.**	**220,043**	**239,561**	**239,912**	**240,749**	**241,801**
Property, plant & equipment	n.a.	4,189	4,203	4,223	4,251	4,286
Intangible assets	n.a.	0	0	0	0	0
Shares in affiliates	n.a.	210,495	229,999	230,329	231,140	232,156
Long-term loans to investees	n.a.	5,359	5,359	5,359	5,359	5,359
Other non-current assets	n.a.	0	0	0	0	0
Total assets	**n.a.**	**236,293**	**283,927**	**292,603**	**305,043**	**300,815**
Shareholders' equity & debt						
Liabilities, total	**n.a.**	**24,358**	**32,545**	**38,360**	**45,859**	**53,345**
Trade payables	n.a.	9,162	17,165	22,792	30,101	37,392
Short-term liabilities	n.a.	333	348	363	379	396
Financial debt	n.a.	3,556	3,556	3,556	3,556	3,556
Provisions	n.a.	6,671	6,771	6,873	6,976	7,080
Other current liabilities	n.a.	4,636	4,706	4,776	4,848	4,920
	n.a.					
Provisions, total	**n.a.**	**53,395**	**82,345**	**82,639**	**82,939**	**60,369**
Long-term debt	n.a.	14,100	14,100	14,100	14,100	34,100
Bonds	n.a.	24,877	53,539	53,539	53,539	10,662
Deferred tax liabilities	n.a.	14,418	14,706	15,000	15,300	15,607
Shareholders' equity	**n.a.**	**158,540**	**169,037**	**171,603**	**176,244**	**187,102**
Total consolidated equity and debt	**n.a.**	**236,293**	**283,927**	**292,603**	**305,043**	**300,815**
Ratios						
Current ratio (x)	n.a.	0.7	1.4	1.4	1.4	1.1
Net debt	n.a.	38,125	49,479	50,199	49,676	44,899
Net gearing	n.a.	24%	29%	29%	28%	24%
Equity ratio	n.a.	67%	60%	59%	58%	62%
Return on equity (ROE)	n.a.	1.0%	-0.7%	1.5%	2.6%	5.8%
Capital employed (CE)	n.a.	6,830	9,650	13,087	16,885	22,450
Return on capital employed (ROCE)	n.a.	34%	20%	65%	69%	87%

** 2017 reporting reflects discontinued operations*

CASH FLOW STATEMENT

All figures in EUR '000	2017	2018	2019E	2020E	2021E	2022E
Pre-tax income	**n.a.**	**5,255**	**-1,099**	**2,566**	**4,641**	**10,858**
Depreciation and amortisation	n.a.	6,318	9,473	9,043	11,801	15,341
Change in trade rec & other assets	n.a.	-8,083	-10,935	-9,174	-11,212	-12,955
Change in payable & other liabilities	n.a.	14,501	8,476	6,109	7,799	7,791
Results from sale of subsidaries	n.a.	-5,645	0	0	0	0
Other non-cash adjustments	n.a.	-6,150	0	0	0	0
Net interest expense	n.a.	1,641	3,516	4,695	4,695	3,384
Tax result	n.a.	-895	-529	1,236	2,234	5,228
Operating cash flow	**n.a.**	**6,942**	**8,901**	**14,475**	**19,959**	**29,646**
Tax expense	n.a.	0	529	-1,236	-2,234	-5,228
Interest income	n.a.	1	0	0	0	0
Net operating cash flow	**n.a.**	**6,943**	**9,430**	**13,239**	**17,724**	**24,418**
CapEx	n.a.	-8,251	-158	-221	-298	-388
Investment in intangible assets	n.a.	-3,919	-28,706	-9,043	-12,207	-15,870
Change in financial assets	n.a.	0	0	0	0	0
Other adjustements	n.a.	-1,943	0	0	0	0
Cash flow from investing	**n.a.**	**-14,113**	**-28,864**	**-9,264**	**-12,506**	**-16,258**
Free cash flow (FCF)	**n.a.**	**-7,170**	**-19,434**	**3,975**	**5,218**	**8,161**
Equity inflow, net	n.a.	3,792	11,596	0	0	0
Debt inflow, net	n.a.	-15,992	0	0	0	20,000
Corporate debt	n.a.	25,800	28,662	0	0	-42,877
Interest paid	n.a.	-2,014	-3,516	-4,695	-4,695	-3,384
Other adjustments	n.a.	-489	0	0	0	0
Cash flow from financing	**n.a.**	**11,097**	**36,742**	**-4,695**	**-4,695**	**-26,261**
Net cash flows	**n.a.**	**3,927**	**17,308**	**-720**	**523**	**-18,100**
Fx adjustements	n.a.	114	0	0	0	0
Cash, start of the year	n.a.	406	4,447	21,755	21,035	21,558
Cash, end of the year	**n.a.**	**4,447**	**21,755**	**21,035**	**21,558**	**3,458**
EBITDA/share (in €)	**n.a.**	**0.18**	**0.17**	**0.25**	**0.33**	**0.50**
Y-Y Growth						
Operating cash flow	n.a.	n.m.	35.8%	40.4%	33.9%	37.8%
Free cash flow	n.a.	n.m.	n.m.	n.m.	31.3%	56.4%
EBITDA/share	n.a.	n.m.	-2.6%	45.0%	33.2%	48.9%

** 2017 reporting reflects discontinued operations*

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	7 November 2019	€ 1.22	Buy	€ 2.10

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

[1] The expected price trend is in combination with sizable confidence in the quality and forecast security of management.

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- **valuation methods and principles**
- **sensitivity of valuation parameters**

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