

Media and Games Invest

Equity+bond placings, FY20 guidance raised

Since listing on Scale in July 2020, Media and Games Invest (MGI) has completed a dual listing and share placing on Nasdaq First North and issued a €80m bond. In Q320, it reported 29% l-f-l revenue growth with revenues of €35.0m and adjusted EBITDA of €6.4m, supported by 16% organic growth year to date in the games portfolio. Adjusted EBITDA margins fell from 22% in H120 to 18% in Q320, reflecting a changed business mix (with increased digital media and ad tech revenues). Due to the strong growth, management raised its FY20 guidance, with revised targets of revenue of €125–130m (up from €115–125m) and EBITDA of €23–26m (€20–23m previously). Net debt, adjusted for the SEK300m (c €29m) equity placing, fell to €49.3m, leaving scope for M&A.

Changing business mix, more M&A to come

Gaming remains the principal driver behind MGI's year-to-date performance, representing 55% of revenues, but 83% of EBITDA, with an adjusted EBITDA margin of 31%. Despite this, adjusted EBITDA margins fell from 22% in H120 to 18% in Q320, reflecting an increased revenue contribution from lower-margin digital media and ad tech (45% of revenues, 17% of EBITDA, 9% adj EBITDA margin). The €80m bond placing allows management to refinance the €50m gamigo bond, simplifying the finance structure and, with a coupon of Euribor +5.75%, saves €1m per year in interest costs, offering €30m additional headroom for M&A.

FY20 guidance raised once more

In its preliminary Q3 trading update on 5 November, management again raised its guidance for FY20, with the top of the old range now the bottom of the new range for both revenue and EBITDA. Revenue guidance of €125–130m represents growth of 49–55% over FY19 (€83.9m). EBITDA guidance of €23–25m represents growth of 48–68% over FY19 (€15.5m).

Valuation: Attractive, reduced funding costs

Based on the mid-point of management's guidance for FY20, MGI trades at an EV/sales multiple of 1.4x and an EV/adjusted EBITDA multiple of 9.0x, compared to its closest peer, Stillfront, on 8.1x consensus FY20e revenues and 20.8x consensus FY20e EBITDA. Following €110m of equity and bond financing, MGI has access to €60m of free cash for M&A while saving 2% pa on its bond coupon (annualised €1m+). With predictable revenues and strong cash flow generation (cash conversion of c 80%), MGI's gearing should fall quickly. Underlying growth remains attractive and, supported by M&A (a full M&A pipeline), there is considerable scope for share price appreciation as investors become more familiar with the equity story and multiples normalise towards peer group averages.

Consensus estimates

Year end	Revenue (€m)	Adj. EBITDA* (€m)	PBT (€)	EPS (€)	EV/adjusted EBITDA* (x)	P/E (x)
12/18	32.6	13.4	0.7	0.01	16.4	113.1
12/19	83.9	18.1	(0.8)	(0.01)	12.2	N/A
12/20e	123.8	23.4	2.8	0.02	9.4	64.9
12/21e	139.5	28.3	7.1	0.05	7.8	32.4

Source: MGI accounts (historical figures), Refinitiv consensus (forecasts). Note: *EBITDA adjusted for one-off M&A and financing costs.

Software & computer services

1 December 2020

Price €1.46
Market cap €171m

Share price graph



Share details

Code	M8G
Listing	Deutsche Börse Scale / Nasdaq First North Premier
Shares in issue	117.1m
Net debt at 6 October 2020	€49.3m

Business description

Media and Games Invest is a fast-growing and profitable digital games company with a strong, supportive media unit. The company combines organic growth with value-accretive acquisitions to deliver strong and sustainable earnings growth.

Bull

- Management team with a proven track record.
- Capitalising on surge in gaming demand and long-term growth trends.
- €60m free cash to drive 'buy, integrate, build & improve' M&A strategy.

Bear

- Having undergone a period of transformation, the group structure is only starting to settle.
- Declining levels of debt, 2.1x consensus FY20e net debt/EBITDA.
- Limited free float, currently c 50%, with CEO retaining a controlling interest in the equity.

Analysts

Richard Williamson	+44 (0) 20 3077 5700
Dan Ridsdale	+44 (0) 20 3077 5700

tmt@edisongroup.com
[Edison profile page](#)

Edison Investment Research provides qualitative research coverage on companies in the Deutsche Börse Scale segment in accordance with section 36 subsection 3 of the General Terms and Conditions of Deutsche Börse AG for the Regulated Unofficial Market (Freiverkehr) on Frankfurter Wertpapierbörse (as of 1 March 2017). Two to three research reports will be produced per year. Research reports do not contain Edison analyst financial forecasts.

General disclaimer and copyright

This report has been commissioned by Media and Games Invest and prepared and issued by Edison, in consideration of a fee payable by Media and Games Invest. Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2020 Edison Investment Research Limited (Edison).

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia