

## Media and Games Invest

### Acquisition of KingsIsle Entertainment

Media and Games Invest (MGI) has announced the acquisition of US-based KingsIsle (online PC games Pirate101, Wizard101) for a cash consideration of US\$126m plus a cash earn-out of up to US\$84m (up to US\$210m in total). FY21 guidance for KingsIsle is for revenues of US\$32m and adj. EBITDA of US\$21m (68% adj. EBITDA margin). The fixed cash consideration represents an EV/adj. EBITDA multiple of 6.0x, with a range of 5.8–7.3x including the earn-out. This is a major, transformative acquisition for MGI, struck at an attractive multiple (6–7x FY21 adj. EBITDA) given the high multiples seen elsewhere in the games sector. Assuming MGI can deliver similar efficiencies to previous acquisitions, there should be further EBITDA upside from the transaction, with the potential for mobile and console launches based on the IP from FY22.

### Mature PC titles with mobile/console upside

KingsIsle's flagship title is the MMORPG Wizard101 (launched in 2008), supported by Pirate101 (launched in 2012). Wizard101 and Pirate101 generate revenues almost exclusively from North America. With the mobile rights for Wizard101 and Pirate101 included in the transaction, there is future growth potential from launching the games on console and mobile from FY22.

### 9M20: 28% pro-forma group adj. EBITDA margin

With sustainable revenues and a 9M20 adj. EBITDA margin of 66% (MGI 9M20: 21%), KingsIsle strengthens MGI's quality of earnings, delivering pro-forma margins of 28%. MGI generated €19m of adjusted EBITDA and KingsIsle €12m during the first nine months 2020; on a proforma basis, MGI's 9M20 EBITDA rises by c 60%, to €31m, even after normalising KingsIsle's earnings for the positive effect of COVID-19. The transaction is expected to be earnings enhancing from day one.

### €25m placing to Oaktree at €2.14 per share

To fund the transaction, MGI placed 11.7m shares at €2.14 per share (a 4% discount to the prevailing price) to Oaktree Capital Management, generating proceeds of €25m. Holding c9% of MGI, Oaktree is expected to be an anchor investor for MGI over a three- to five-year investment horizon.

### Valuation: Attractive growth fundamentals

Although MGI's net leverage ratio is at the top end of management's target range of 2–3x, with strong cash flows it is expected to reduce to the lower end over the next 12–18 months. MGI's underlying growth remains attractive (43% revenue CAGR FY15–20 based on consensus), supported by M&A. Multiples should continue to normalise towards peer averages as investors become more familiar with MGI.

#### 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	28.4	N/A
12/19	83.9	18.1	(0.8)	(0.01)	21.0	N/A
12/20e	130.3	24.5	3.1	0.03	15.6	95.0
12/21e	143.0	29.3	6.8	0.05	13.0	57.0

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

### Software & computer services

19 January 2021

**Price** €2.85  
**Market cap** €334m

#### Share price graph



#### Share details

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

#### Business description

Media and Games Invest (MGI) 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

- Experienced management team with a proven buy-and-build M&A track record.
- Capitalising on surge in gaming demand and long-term growth trends.
- 43% forecast revenue CAGR FY15–20.

#### Bear

- After a period of rapid transformation, the group structure is only starting to settle.
- Debt levels remain elevated, towards the top of management's 2–3x EV/EBITDA guidance.
- MGI's portfolio is PC focused, with mobile an area of future strategic development.

#### Analysts

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