

# Media and Games Invest

**Software & computer services**
**28 April 2021**

## Full steam ahead, with two M&A deals in Q121

MGI's Q121 results showed an increasing benefit from the combination of media and games despite the easing impact of lockdown (higher margins, 38% organic growth), together with a significant contribution from the acquisitions of KingsIsle and LKQD (58% M&A-driven growth), delivering revenue growth of 96% y-o-y. Net interest-bearing debt increased to €97.6m at 31 March 2021 after MGI completed a €40m bond tap issue in March, sustainable as Q121 adj. EBITDA rose 127% y-o-y to €13.5m. Net debt/adj LTM EBITDA of 2.7x at 31 March 2021 (with KingsIsle only included in Q121) leaves scope for further selective M&A in FY21. At 12.6x consensus FY22 EV/adj EBITDA, MGI trades in line with its peers.

### Q121 results, lockdown benefit continues

Q121 net revenues increased 96% y-o-y to €51.9m (Q120: €26.5m). Adjusted EBITDA rose to €13.5m, up 127% y-o-y. Adj. EPS rose to €0.04, a 94% increase y-o-y. Net interest-bearing debt increased to €97.6m at 31 March 2021 (FY20: €61.6m), meaning that net debt/adj LTM EBITDA was 2.7x at 31 March 2021.

### Media margins stronger, but Games leads the way

Despite a fairly even split of revenues, Media represented only 19% of adj EBITDA (Q121: €2.6m vs €10.9m), with Q121 adj. EBITDA margins of 11% versus 40% in Games, delivering a blended margin of 26%. Nevertheless, the media proposition remains integral to the investment case, delivering cheaper user acquisition, stronger monetisation and revenue diversification. Management anticipates a recovery in digital media sales later this year once the pandemic abates.

### Growth on target, M&A remains in focus

MGI is already meeting management's medium-term targets: revenue CAGR of 25–30% (Q121: 96% y-o-y, 46% annual CAGR over the past six years); 25–30% adjusted EBITDA margins (Q121: 26%); 15–20% EBIT margins (Q121: 18%); and 2–3x net leverage (Q121: 2.7x). MGI has invested aggressively in future growth, with a pipeline of launch titles including Heroes of Twilight and Skydome, among others. MGI is in discussions with five M&A targets (three games publishers and two demand-side platforms) with the potential to close in the next six months. MGI's M&A focus has shifted from distressed acquisitions to value propositions, with a target acquisition multiple of up to 6x adj EBITDA, including synergies.

### Valuation: In line with peers despite growth prospects

With multiple growth projects in the pipeline, MGI's valuation is supported by continuing organic growth. M&A remains a fundamental part of the mix, with net debt of 2.0x FY21e adj EBITDA. At an FY22e P/E of 28.4x and an FY22e EV/adj EBITDA of 12.6x, MGI trades in line with its peer group despite its strong growth.

#### Consensus estimates

Year end	Revenue (€m)	Adj. EBITDA* (€m)	PBT (€)	EPS (€)	EV/ adjusted EBITDA* (x)	P/E (x)
12/19	83.9	18.1	(0.8)	(0.01)	39.6	nm
12/20	140.2	26.5	3.9	0.03	27.1	160.7
12/21e	177.7	49.2	18.7	0.13	14.6	36.0
12/22e	204.6	56.8	25.4	0.17	12.6	28.4

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

**Price** €4.82  
**Market cap** €621m

#### Share price graph



#### Share details

Code	M8G
Listing	Deutsche Börse Scale / Nasdaq First North Premier
Shares in issue	128.7m
Net interest-bearing debt as at 31 March 2021	€97.6m

#### 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

- Experienced management team with a proven buy-and-build M&A track record.
- Capitalising on surge in gaming demand and long-term growth trends.
- 45% revenue CAGR FY14–20.

#### Bear

- After a period of rapid transformation, the group structure is only just 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 still substantially under-represented.

#### Analysts

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