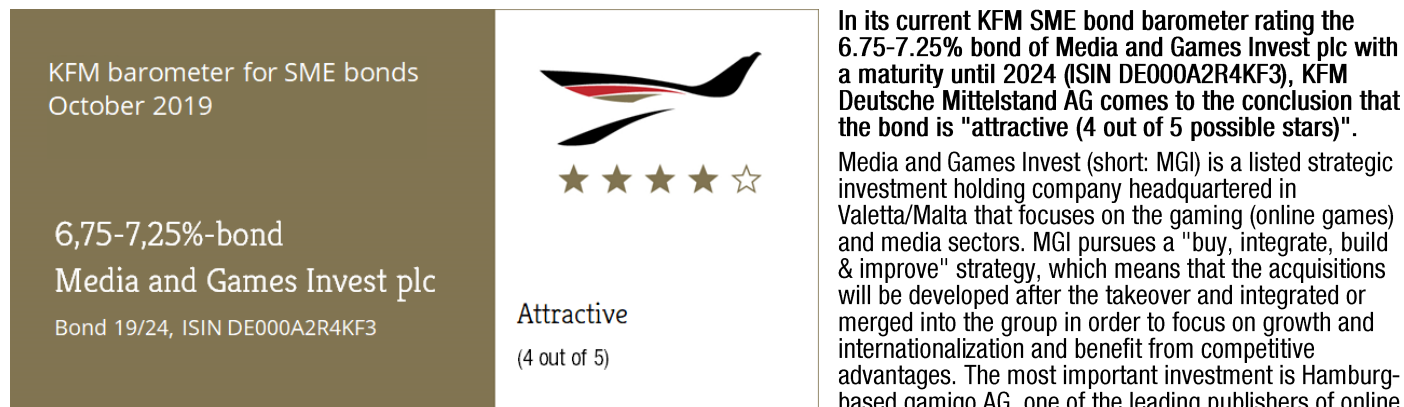


## KFM-SME Bond Barometer

KFM-SME Bond Barometer - The "6.75-7.25% Media and Games Bond"

6.75-7.25% Media and Games Bond rated "attractive" (4 out of 5 possible stars)

Düsseldorf, 08 October 2019



and mobile games in Europe and North America. MGI currently holds a 53% stake in gamigo AG, but controls already 67% of the voting rights, and plans to increase its stake to over 75% with funds from the currently issued bond. The beginnings of gamigo AG date back to the year 2000, when it was founded as an online magazine for PC and console games. Between 2008 and 2011, Axel Springer AG acquired all shares of gamigo AG and then sold them to the CEO of MGI, Remco Westermann. Since its takeover by Remco Westermann at the end of 2012, the gamigo Group has grown strongly over the past six years. During this period, gamigo AG or MGI (formerly: blockscience plc.) executed more than 20 acquisitions and achieved strong organic and inorganic growth. The largest purchase in 2018 has been the game developer "TrionWorlds", where MGI acquired three very strong online role-playing games as part of an asset deal, which are operated highly profitably. The last major acquisition by gamigo AG in April 2019 comprises the company "Wild Tangent", a casual game publisher from the USA. With the last two acquisitions, the company now owns successful games such as the role-playing game "Trove" and the games "Rift" and "Defiance", which already have a history of more than four years. The games continue to develop dynamically, in particular as a result of impulses from users and "fans".

MGI is currently consolidating at a high level following the acquisitions of recent years. In order to promote its own growth and synergies throughout the integration of its investments, the company has succeeded in ensuring that almost all games are now operated cost-efficiently in the cloud. In addition, the back-ends will also be consolidated in order to create further efficiencies. Due to the still positive market environment for online games, gamigo AG are offered many attractive companies for purchase. The company would like to continue to be able to select the "gems" that are promising and developable based on its own market experience and assessment. The gaming market with a current world market of approx. USD 140 billion, estimated to reach USD 180 billion by 2021, is very fragmented, i.e. even large players such as Electronic Arts and Tencent do not control more than 5% of the entire market. Players are willing to spend between 50 and 80 euros per month on average. Experience has shown that players remain loyal to a game permanently and for years, so that more than 50% of gamigo's core portfolio turnover is generated with players who have been active in the game for more than five years. A further growth market in this context is the online advertising market, from which the company benefits through so-called banner and video advertising as well as influencers and social media. The gaming and digital advertising markets have many similar conditions, not least similar technology and cloud solutions are used in both markets. The marketing of games via the (social) media should also be mentioned. In addition, MGI itself recently acquired 67% of the shares in "ReachHero", a technical influencer platform (now with over 70,000 registered influencers) and 100% of "AppLift GmbH", a mobile performance network focusing on customer acquisition for mobile apps with a performance marketing background, to strengthen the young "Media" segment. Social networks are generally the key to many interactions in the online world. The use of online media with a focus on streaming is increasing, the mobile sector is growing, but online use via desktop PCs is also growing. Around 600,000 users use the Group's games daily and there are around 5,000,000 game users per month.

### Majority acquisition of gamigo AG / consolidated sales of investment holding Media und Games Invest plc. in the first half of 2019

In the last four years, gamigo AG has been able to increase its annual revenues by approx. 32% (CAGR) and its annual earnings before interest, taxes, depreciation and amortisation (EBITDA) by 64% (CAGR). In 2018, the revenue reached 45.3 million Euro after 42.1 million Euro in the previous year. In 2018, EBITDA reached 11.0 million Euro (previous year 7.0 million Euro), which corresponds to an EBITDA margin of 24.3% (previous year 16.7%).

For the first half of 2019, MGI (including gamigo AG) achieved consolidated revenues of EUR 28.6 million. This corresponds to an increase of 20.4% compared to the second half of 2018 with EUR 23.7 million. EBITDA rose to EUR 7.5 million in the first half of 2019 (HY2 2018: EUR 5.9 million). This represents an increase of 27.6%. Earnings before interest and taxes (EBIT) of EUR 3.3 million in the first half of 2019 were 84.5% higher than in the second half of 2018 (EUR 1.8 million).

The operating cash flow of the largest investment gamigo AG increased from EUR 3.8 million in 2017 to EUR 10.5 million in 2018. Before management changed in 2012, gamigo AG has been a restructuring case with a negative operating cash flow of EUR -1.5 million still in 2013. Capital expenditures (CAPEX for short) amounted to EUR 7.7 million in 2018 after EUR 6.9 million in the previous year (of which approximately 1/4 was attributable to "maintenance", i.e. the further development of existing games, and 3/4 to expansion and growth investments, including acquisitions).

Intangible assets amounted to EUR 196.1 million as of June 30, 2018, which corresponds to approx. 90% of the balance sheet total. This includes intangible assets of gamigo AG amounting to EUR 67.6 million (thereof EUR 27.9 million goodwill). This item represents the book value of all online games and media activities and goodwill reported in the balance sheet. An impairment test of goodwill confirmed the carrying amounts. The equity ratio as of June 30, 2019 was a comfortable 54% (previous year: 67%). For 2019 as a whole, MGI (including gamigo AG) is expected to generate consolidated sales of EUR 70-75 million.

#### **6.75-7.25% Media and Games bond maturing in 2024**

The currently issued non-subordinated and unsecured bond of Media and Games Invest plc with an issue volume of up to EUR 25 million and a denomination of EUR 1,000 (minimum order amount for the issue offered exclusively to institutional investors: EUR 100,000) carries a coupon of 6.75-7.25% p.a. (quarterly interest payment on 11.01., 11.04., 11.07. and 11.10.) and has a term from 11.10.2019 to 11.10.2024. Early redemption options at the issuer's option are provided for in the bond terms in the periods from 01. to 31.10.2021 at 103% of the nominal value, from 01. to 31.10.2022 at 102% and from 01. to 31.10.2023 at 101% of the nominal value. The bond terms also include a negative declaration and the obligation to maintain a minimum equity ratio. After completion of the subscription phase, the bond will be listed on the Open Market of the Frankfurt Stock Exchange

#### **Conclusion: Attractive evaluation**

The business model is strongly future-oriented. Online games can provide impetus for new technologies and vice versa. In our opinion, the opportunities here outweigh the risks. Based on the size and wealth of experience of the company with currently more than 30 well-established online games in conjunction with the strong synergies for customer acquisition by the purchased marketing companies, we see future potential for value enhancement. In conjunction with the return of 6.92% p.a. (based on the issue price of 100% with a coupon of 6.75% p.a.) up to 7.45% p.a. (based on the issue price of 100% at a coupon of 7.25% p.a.), the 6.75% - 7.25% Media and Games bond is rated "attractive" (4 out of 5 possible stars).

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#### **Press contact**

KFM Deutsche Mittelstand AG  
Rathausufer 10  
D - 40213 Düsseldorf  
Germany  
Tel.: + 49 (0) 211 21073741  
Fax: + 49 (0) 211 21073733  
Mail: [info@kfmag.de](mailto:info@kfmag.de)  
Web: <http://www.kfmag.de>  
<http://www.deutscher-mittelstandsanleihen-fonds.de>