Buy
Hold
Sell

An attractive buy-and-build story

We initiate coverage of Media and Games Invest (MGI) with a Buy rating and target price of SEK 64. With expected continued strong underlying growth in both segments, gaming and media, we believe MGI will continue to be a leading European online gaming and digital media powerhouse. With its loyal player base and impressive marketing know-how, we see further organic growth possibilities and margin improvement in the coming years.

European online gaming and digital media powerhouse

MGI operates two profitable segments – gaming and media – where the gaming segment (gamigo) represents most of the group's revenues (54% in 2020). The gaming portfolio consists of more than 5,000 third-party casual games and 10+ massively multiplayer online (MMO) games, with a player base mainly from Europe and North America. The B2B media segment offers a wide range of digital advertising services, from omnichannel advertising platforms to social and influencer marketing.

M&A adds further upside potential

MGI has successfully acquired and integrated 30+ gaming and media assets at value-accretive multiples of less than 6x EBITDA, enabled by strong restructuring skills. MGI currently has its strongest M&A pipeline to date, with further potential to add to economies of scale and group synergies. With a 3x net debt (ND)/EBITDA target, we estimate MGI to have further M&A firepower of EUR 52m.

We initiate coverage with a Buy rating and target price of SEK 64

We expect MGI to outperform underlying market growth going forward, with a revenue and EBIT CAGR of 21% and 52%, respectively, for the period 2020-2023E, well above relevant peers. We initiate coverage of MGI with a Buy recommendation and target price of SEK 64, supported by both peer multiple and DCF valuations.

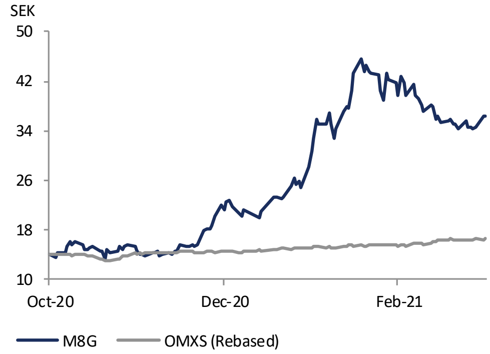
EURm	2019	2020	2021e	2022e	2023e
Revenues	84	140	187	214	246
EBITDA	16	27	52	64	74
EBIT adj	11	17	36	47	55
EBIT margin adj	12.5%	11.9%	19.4%	21.9%	22.5%
EPS	0.02	0.03	0.11	0.19	0.19
EPS adj	0.08	0.08	0.18	0.25	0.25
DPS	-	-	-	-	-
EV/EBITDA		11.6	10.8	9.1	7.4
EV/EBIT adj		18.4	15.4	12.4	9.9
P/E adj		24.7	20.0	14.0	14.2
P/B		1.37	2.39	2.12	1.91
ROE (%)	2.0	2.0	7.9	12.0	10.5
Div yield (%)		-	-	-	-
Net debt	35	64	104	121	91

Source: Pareto

Target price (SEK)	**64**
Share price (SEK)	37

Ticker	M8G.ST, M8G SS
Sector	Gaming
Shares fully diluted (m)	128.7
Market cap (EURm)	458
Net debt (EURm)	104
Minority interests (EURm)	0
Enterprise value 21e (EURm)	562
Free float (%)	48

Performance



Source: Factset

Analyst
Marlon Varnik
+46 8 402 5276, marlon.varnik@paretosec.com

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Investment case

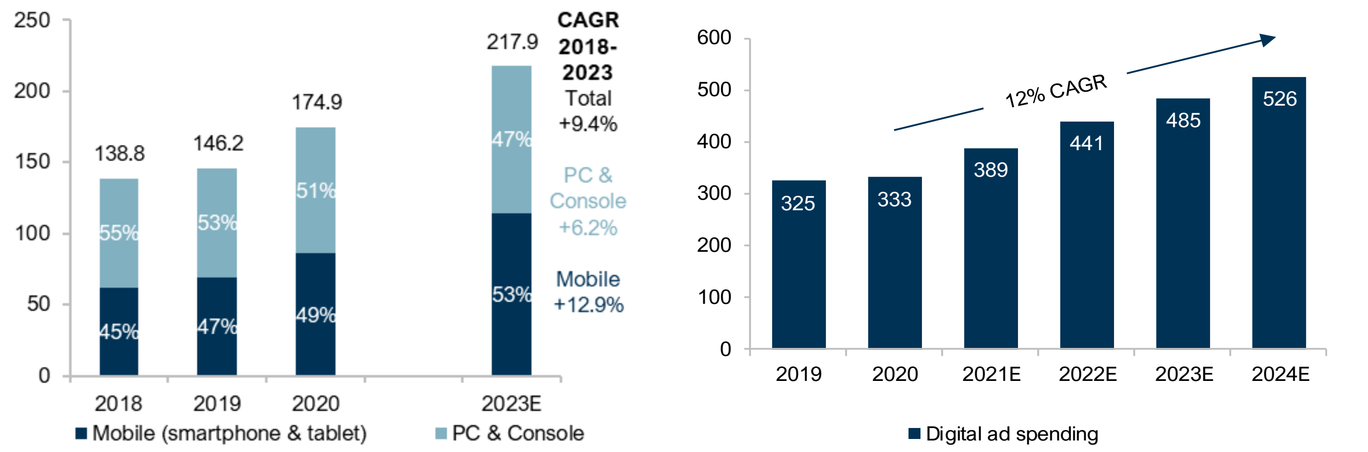
An attractive buy-and-build story

Exposure to two high-growth sectors

MGI operates within two high-growth sectors – games and online advertising

Media and Games Invest (MGI) operates within two synergetic sizeable, fragmented and high-growth sectors in games and online advertising. Going forward, we expect MGI to continue to grow steadily in the PC and console segment, which are less competitive. With a successful media vertical and stable European and North American player base, we argue that MGI should continue to focus on its strong success in PC and console, with additional upside from the mobile vertical.

Underlying market growth in gaming and media (USDbn)



Source: Newzoo (Global Games Market Report and Global Mobile Market Report), emarketer

The online advertising market is expected by emarketer to grow at a CAGR of c12% in 2020-2024E. MGI is active throughout the online advertising value chain, allowing for operating efficiencies, while a large exposure to the gaming and e-commerce segments limits the risk, as well data transparency and therefore allows for sizeable group synergies.

Outperforming underlying growth

Organic and acquisitive growth

MGI is well positioned in both of these high-margin markets and expects to achieve organic growth in line with or higher than the underlying markets, with growth to be further accelerated by MGI executing on its vast M&A pipeline and synergy opportunities as the media business to a large extent is geared towards gaming.

An established low-risk games business model

Low-risk model

MGI games operates a well-diversified games portfolio of 10+ established MMO games, with loyal player bases that allow for long-term recurring revenue, and 5,000+ third-party casual games distributed on its own platforms, allowing for high margins at low risk. MGI does not undertake any risky new games developments – instead organic growth is built on low-risk initiatives such as continuously upgrading and extending existing MMO games and their communities, adding new content, remasters, porting to other platforms or sequels of existing game IPs, internationalisation, publishing of third-party games, in-licensing of third-party IPs and outsourcing of own IPs for regions not covered by the group, all activities which are set to be accelerated to outgrow the market. On the media side, MGI is gearing towards strong organic growth via cross selling its various channels to customers as well as via adding new advertisers, new publishers and investing in technical improvements as well as technical innovation.

A proven and skillful market consolidator

Acquisitions made at value-accretive multiples of less than 6x EBITDA

MGI has successfully acquired and integrated 30+ gaming and media companies and assets at value-accretive multiples of less than 6x EBITDA or payback periods of less than 24 months for previously loss-making assets. While MGI's M&A focus used to be on distressed and inefficient companies, the focus now also includes profitable companies as there are many more targets available at not too high valuations. MGI currently has its strongest M&A pipeline to date, being in active talks with more than ten targets (and it has a target list of 65+ companies) with cumulative revenue of EUR 200m+ that could more than double the current revenue run-rate, adding to economies of scale and group synergies.

Scale and group synergies

Highly efficient user acquisition

MGI has strong tech with a cloud-based backend tech platform that allows it to scale operations at a lower cost with organic growth or quickly reduce technical costs for M&A targets by up to 70% as all assets are integrated onto the common tech platforms. The combination of gaming and media assets allows for highly efficient user acquisition (UA) and more ad-related income staying within the group. As revenue grows MGI will scale on group overheads, yielding higher EBITDA and a lower leverage ratio if additional debt is not used for M&A.

Shares trade at an excessive 40% discount to peers

Trading at an excessively large discount to peers

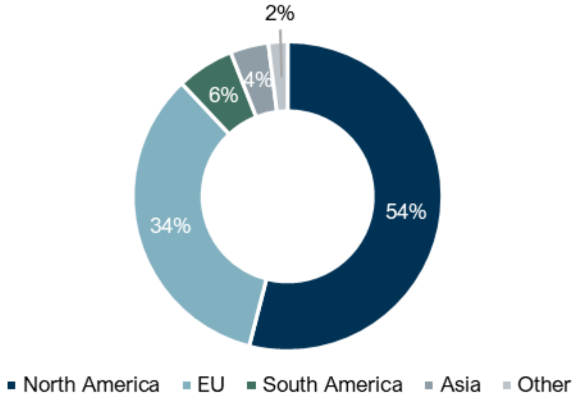
Based on Pareto's 2021 operational EBIT estimate, MGI trades at a c.40% discount to peers. Given its expected superior growth rate going forward, with a revenue and EBIT CAGR of 21% and 52%, respectively, for 2020-2023E, we argue that MGI should trade at a slight premium to peers. We estimate a fair value of SEK 64 per share, supported by a DCF valuation. The M&A pipeline might offer significant upside to our suggested fair value range depending on the deal size and level of valuation arbitrage. M&A could also bring assets to the group that might raise the overall perceived quality of the company, with higher multiples allowing for a lower cost of capital if/when raising additional equity to fund further M&A in addition to debt.

Key risks to the investment case

Some risks to consider…

The key risk to the investment case relates to Media and Games Invest not being able to achieve organic growth in line with the games market and the online advertising market or being less cost effective than what our estimates imply. As part of the growth strategy is based on M&A there is integration risk with new acquisitions, which could affect the group in a negative way. With its two bonds outstanding, a EUR 25m bond with maturity in October 2024 and a EUR 120m bond in November 2024, there is a refinancing risk related to the business. There is no guarantee that it will be possible to refinance these at equal or better terms at maturity.

Revenue per region (2020)



Source: Pareto, MGI

Initiating with a Buy recommendation and target price of SEK 64

Initiating with a Buy rating and TP of SEK 64

Based on peer multiple and DFC valuations, we see a motivated share price for Media and Games Invest of SEK 64 per share. We initiate coverage of MGI with a Buy recommendation and target price of SEK 64 per share.

Introduction

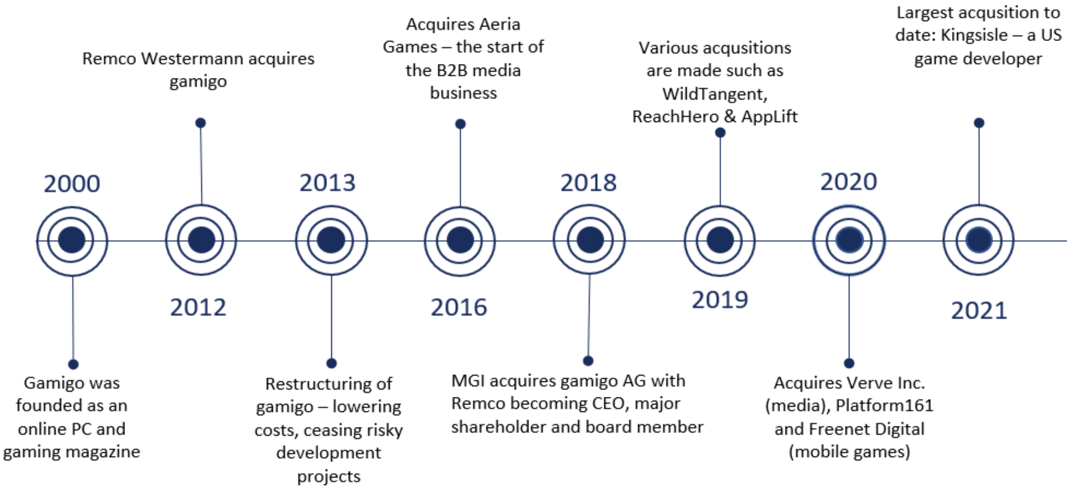
History and background

The ground for today's MGI was set in 2000 when the online gaming magazine gamigo AG was founded. gamigo AG evolved into a publisher of MMO games and online browser-based roleplaying games (RPGs) when the first licence right was acquired in 2001. The gaming portfolio grew with launches of Last Chaos and Fiesta Online, before the Axel Springer company acquired 100% of gamigo AG in 2009. Due to unsuccessful game launches, Axel Springer decided to sell the company to Mr Remco Westermann in 2012. On top of this he started to focus on Buy-and-build, which was the least risky way to reach critical mass.

Mr Westermann's ownership brought a buy-and-build focus

In 2016, an important milestone was reached by gamigo AG when it acquired Aeria Games GmbH, including the inhouse media company adspree, expanding gamigo's product portfolio by adding a substantial portfolio of MMO's, as well as a small first acquisition in the online media advertising segment. Besides Aeria, gamigo carried out other nameworthy acquisitions such as Looki Publishing (2015), Mediakraft (2017), Trion Worlds (2018) and WildTangent (2019). In 2018, MGI acquired the majority of gamigo AG and Mr Westermann became the majority owner and CEO, with gamigo being fully consolidated under Media and Games Invest Group it acquired the remaining 47% stake in gamigo AG in 2020. In 2020, MGI also acquired Verve Inc (media), Platform161 and freenet digital (gaming), a publisher focused on mobile games. The biggest acquisition to date was carried out in early 2021 when MGI acquired the US-based developer KingsIsle. In total, MGI has acquired more than 30 companies, significantly strengthening its games portfolio and user acquisition efficiency, as well as also building a strong media unit.

Historical timeline



Source: Pareto, company information

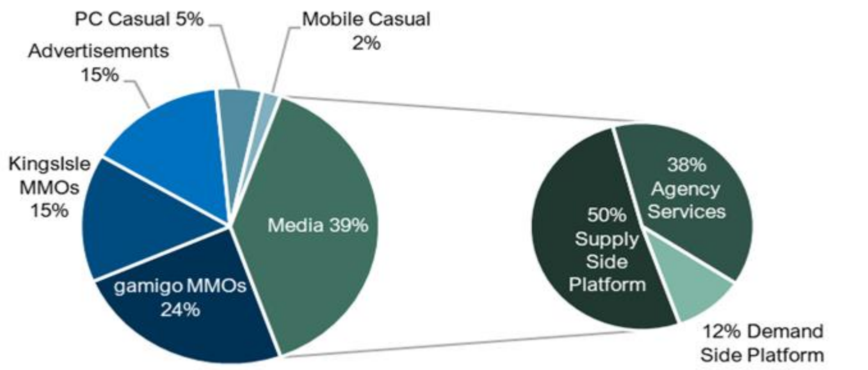
Business overview

Two profitable operating units

A leading European online gaming and digital media powerhouse

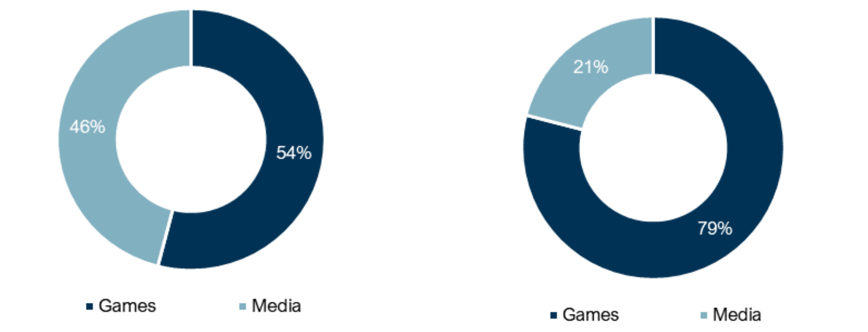
MGI is a leading European online gaming and digital media powerhouse, consisting of two profitable segments – gaming and media. In 2020, the gaming segment represented 54% of group revenues but 79% of adjusted EBITDA. With no internal gaming development studios focusing on new IP's, MGI purchases game licences or acquires IPs, with the core business to improve the existing fully owned games. This is part of MGI's long-term strategy to acquire, build, integrate and improve gaming and media companies, with north of 30 acquisitions throughout its history. By owning a profitable media segment, MGI achieves cost synergies, but also cross-selling synergies. With more of a focus on the mobile segment especially going forward, we argue that the synergies will be even larger given the higher user acquisition costs for mobile games compared with MMO games – which make up the bulk of the gaming portfolio today. Mobile casual games are estimated to represent only 2% of group revenue, with further room for growth going forward. Including KingsIsle, we estimate that the media segment represents 39% of group revenues. MGI has studios in Berlin and Darmstadt in Germany and Austin, the USA, with more than 100 developers.

Revenue split (including KingsIsle on a pro forma basis)



Source: Company data

Revenue and EBITDA split, full-year 2020



Source: Company data

Games acqusitions (Q3 2020) **Media acqusitions (Q3 2020)**

Source: Pareto, company information

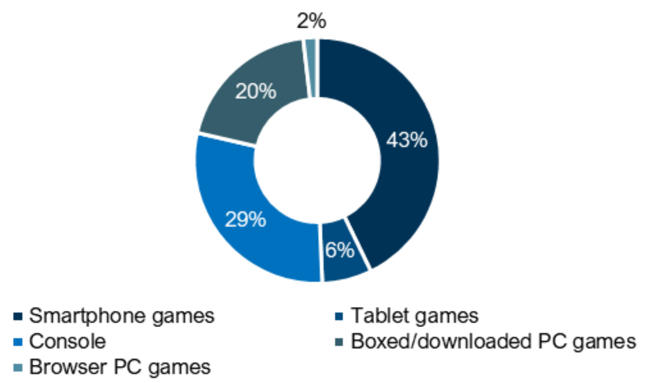
The gaming segment

The global gaming market

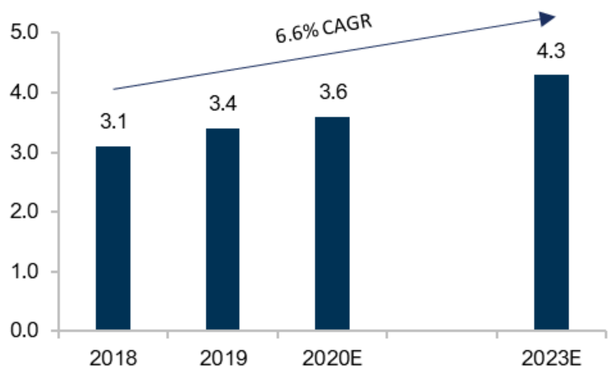
Total gaming market expected to grow by c9% in 2018-2023E with mobile growing by c13%

In total, revenue for the global gaming market is estimated by Newzoo to grow by c9% annually between 2018-2023E with a 3bn+ player base by 2023E. Newzoo says that the mobile segment (smartphones and tablets) will continue to be the fastest-growing segment with a CAGR of c13% in 2018-2023E, reflecting the shift towards gaming "on-the-go" due to the increasing global smartphone penetration; the number of smartphones is expected to grow at a 6.6% CAGR, reaching penetration of 4.3bn by 2023E, mainly driven by the Asia Pacific region. In total, revenues from the mobile gaming market were estimated by Newzoo at USD 86.3bn in 2020, with the segment representing 49%.

Gaming market by device, 2020E

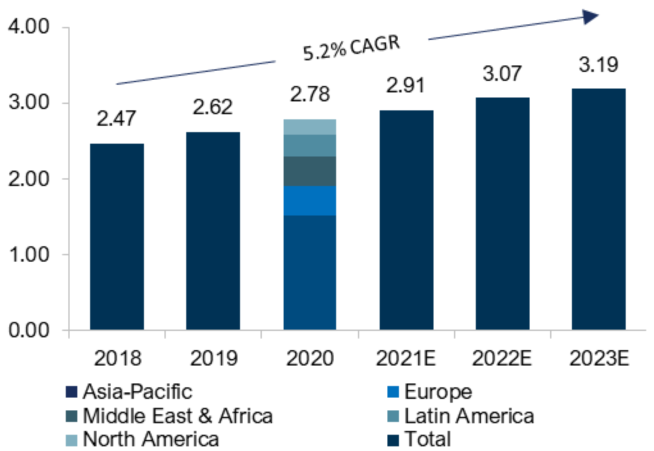


Number of smartphone users globally (billions)

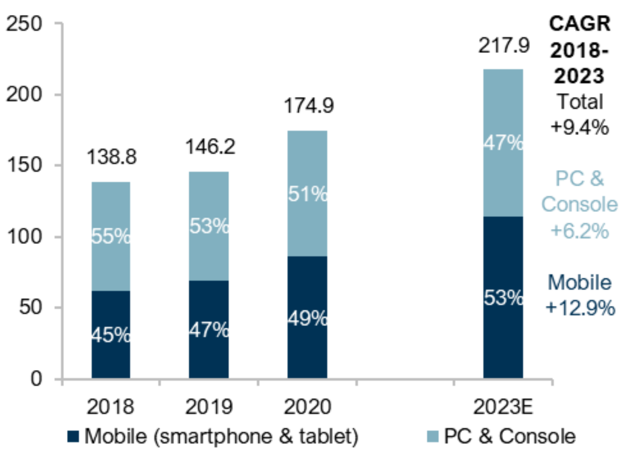


Source: Newzoo (Global Games Market Report and Global Mobile Market Report)

Number of gamers globally, 2018-2023E (in billions)



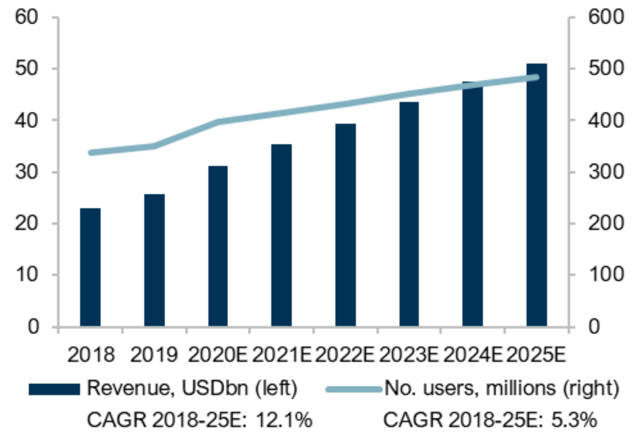
Global games market by device, 2018-2023E (USDbn)



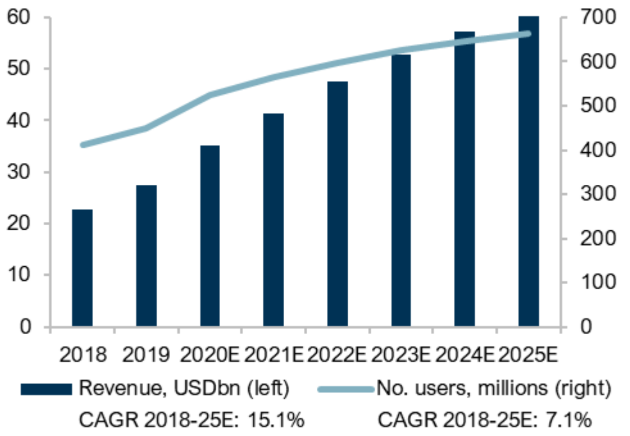
Source: Newzoo (Global Games Market Report and Global Mobile Market Report)

MGI's core markets today are Europe and North America, together representing roughly 90% of group revenues. With its focus on free-to-play (F2P) games, the opportunities in Asia are huge, with the region estimated to represent 70% of the F2P market. Newzoo estimates that the Asian market will continue to be the fastest-growing market, significantly outperforming Europe and North America in the coming years. With only 4% of group revenues from Asia, we expect steady growth opportunities in the region going forward. The mobile segment will play an important role in the future growth opportunities in Asia. PC, which represents the majority of MGI's revenues today, is estimated by Newzoo to only grow by c6% annually going forward, with many gamers transitioning to mobile gaming dampening the overall growth for PC. MGI focus area within PC, MMO PC gaming is growing much faster.

Mobile games market: Europe and N. America, 2018-2025E



Mobile games market: China, 2018-2025E



Source: Statista Digital Market Outlook

Gaming overview

In MGI's gaming segment, the company offers more than +10 massive multiplayer online (MMO) games and over 5,000 third-party casual games. The genres range from casual puzzles, quizzes and role-playing, to fantasy, strategy and shooter MMOs, with long lifetimes and loyal customer bases for the MMO games. MGI both publishes and further develops PC client, browser, console and mobile games, with revenue streams from in-game purchases, game subscriptions and from advertisements. MGI mitigates risk by not developing new game IPs, instead acquiring the game company or purchasing the licence from the game developer. Due to this, MGI possesses much smaller game developing risk due to lower upfront costs and uncertainty of success. MGI does not have any plans in the coming years to develop its own IPs from scratch. Owned games and licensed games make up roughly 50% each of the gaming portfolio (prior to the Kingslsle acquisition), with a lower gross margin for the licensed games due to having to pay royalty costs. We estimate that the gross margin for owned games is around 75%, with licensed games having 50% margins. The licensed games are normally acquired from third parties (developers) for a three-year period with automatic extension when the game generates revenues, in specific regional territories (typically in Europe and North America).

Gaming – 54% of group revenue and 79% of adjusted EBITDA in 2020

For full-year 2020, the gaming segment represented 54% of group revenue and 79% of adjusted EBITDA. Going forward, including Kingslsle, we estimate the gaming segment will represent roughly 60% of group revenues in 2021, but more than 75% of group adjusted EBITDA. There are some seasonality effects, where the fourth quarter is normally the strongest, followed by the first quarter. The low season is normally in the third quarter. We argue that the gaming segment will continue to grow strongly going forward with annual organic growth rates of around 15%, mainly due to further internationalisation and converting titles to other platforms.

Gaming segment overview (excluding KingsIsle)

Source: Pareto, company data

A focus on platform expansion, internationalisation and game updates

To increase game lifetimes and stabilise revenues, MGI focuses on platform expansion, internationalisation and game updates. These expansions will be the main driver of organic growth for the segment going forward. Games with substantial revenues get further investments in content and user acquisition and are ported to other platforms. Games that do not meet expectations are discontinued or phased out.

For the publishing business, MGI distributes third-party casual games through its own distribution platforms, with lower margins than for owned games. With a stable European and US player base, MGI normally publishes its games itself in the US, European and South American markets, while it uses external publishers in the Asian market. A great example is the MMO game Trove, which was recently launched on PC with Aprogen Games in South Korea.

Revenue streams

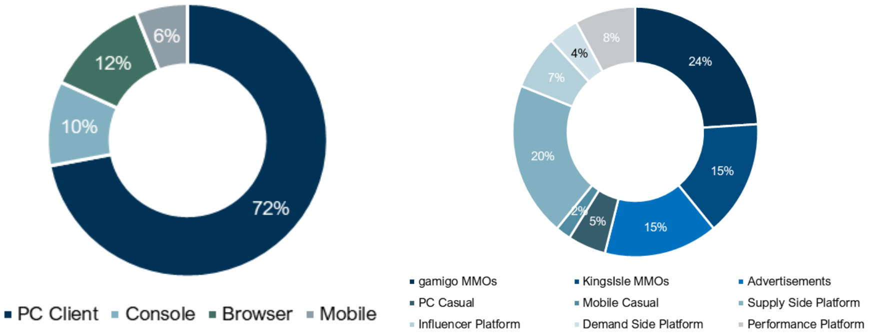
Main revenue streams: game subscriptions, in-game purchases, buy-to-play and from advertisements

The gaming segment has the following main revenue streams: in-game purchases, game subscriptions, buy-to-play and from advertisements. Generally, MMO games are so-called free-to-play, where MGI instead monetises its player base from in-game purchases where players can, for example, unlock functions via in-game goods or items. On top of this, the company can monetise free-to-play games through advertising in the games.

MGI's casual games, which mainly consist of single-player games, are offered on a subscription-based revenue model, where the players purchase a monthly subscription to have access to all or a selection of the games on a specific portal such as WildTangent or deutschland-spielt.de. Those games are also available on mobile devices or Facebook, with additional revenues generated by in-game advertising or promotional videos.

One of MGI's most popular games, ArcheAge: Unchained, is a so-called pay-to-play game (launched as free-to-play), where the players must purchase the game fully upfront to play it. A free trial period of three days is offered, to give the potential paying player a taste. However, the original launched free-to-play version, still exists next to the pay-to-play version. With early revenue streams, the return on investments tends to be quick, where the players purchase expansion packs with new content updated typically every 3-6 months.

Gaming revenue by device and by source, 2020



Source: Pareto, company data

MMO games

The bulk of the gaming segment's revenues are from F2P MMO games

Today, the bulk of the gaming segment's revenues 85% are from F2P MMO games, mostly fantasy, role-playing, strategy, anime or shooter games. MGI has more than 10 top MMO games in its portfolio, such as Wizard101, Trove and ArcheAge: Unchained etc. MMO games tend to have higher barriers to entry and add a social layer to the game play. The games universe connects friends and acts as a social community, which contributes to long lifespans and hence high recurring revenues. MGI monetises its player base when players are converted to paying users, where they can purchase in-game items, for example. MMO games tend to have long lifetimes of more than ten years, with relatively low UAC to retain players compared with casual games, but with larger development budgets. However, since MGI does not develop any IPs from scratch, the game risk is minimised, where usually the bulk of the MMO game cost is taken at development. To extend game lifespans, MGI strives to support games with updates and other live ops, to increase player excitement further. Due to this the player base remains loyal, where more than 50% of revenues are generated by users who have been active in the game for more than five years, indicative of impressive stickiness. Games such as Fiesta Online and Desert Operations have already been on the market for more than ten years, with revenues growing year after year with optimised marketing and improved game content.

Ten top MMO games from MGI

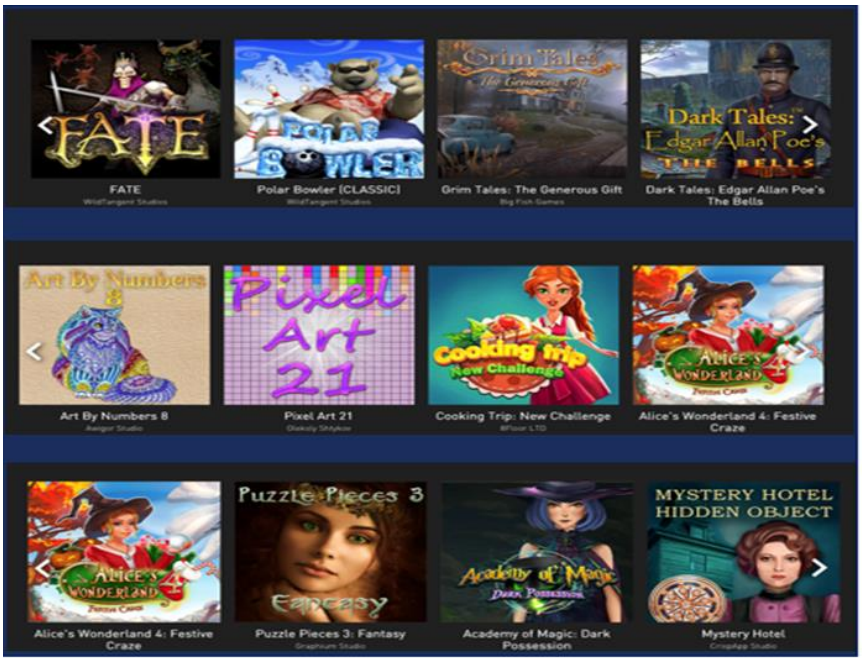
Source: Company information

Casual games make up 15% of the gaming segment's revenues

Casual games

Within its gaming portfolio, MGI offers more than 5,000 casual games, primarily single-player games focused on PC client, browser and mobile. In total, these games have more than five million monthly active players and represent roughly 15% of revenues for the gaming segment. Example of types of games are puzzles, board games, marble games, simulator games etc. These games are generally simpler than MMO games, with shorter lifetimes, and are more user acquisition heavy. Usually, casual games are offered through a subscription model, where users purchase monthly subscriptions to have full game access. With an increased focus on the mobile segment, particularly after the acquisition of freenet digital, we expect the casual segment to grow even further within the mobile gaming segment especially in the coming years.

A few of MGI's casual games



Source: Company information

We believe mobile could represent 20% of gaming revenues in 2023 versus 6% today

Mobile game focus going forward

The bulk of gaming revenues are derived from PC client, representing 72% in 2020, followed by browser and console contributing 12% and 10%, respectively. Going forward, we expect an increased focus on the mobile games segment, which is estimated to represent roughly 6% of the games portfolio today. MGI has already announced the licensing of two new mobile games, with Golf Champions and Heroes of Twilight expected to launch in 2021. Furthermore, the strategy game Desert Operations is expected to launch a mobile version, currently only available to be played in the browser on PCs. Additionally, we expect further launches, not to mention a mobile version of Wizard101 and Pirate101 in the next couple of years. However, we do not expect the mobile launch of Wizard101 to happen anytime soon; instead we believe it more likely towards 2023. We argue that mobile games could represent 20% of the gaming portfolio in 2023 if it were to have an M&A focus towards the mobile segment. In 2021, we also look forward to the Nintendo Switch launch of MGI's successful game Trove, which we expect to happen in the second half of the year. In total, MGI has more than ten other projects in stealth mode expected to launch in 2021/2022, indicating a continuing steady pipeline.

Even though the mobile segment is more competitive, we believe that MGI now has a well-diversified and broad platform ready for further mobile launches. Looking at Newzoo data, the mobile segment is expected to be the fastest-growing platform going forward with a CAGR of c13% in 2018-2023E. Generally speaking, mobile games are more UA heavy, with shorter lifetimes. We expect UA to increase going forward, with good synergies from the media segment for marketing. With that said, given the strong pipeline and the support from the media segment, we argue that MGI is ready to broaden its gaming platform even further within mobile games, despite the competitiveness.

Organic growth pipeline in the gaming segment

Heroes of Twilight Launch 2021	• gamigo has acquired the worldwide licensing rights for the mobile game "Heroes of Twilight". • The competitive and turn-based role-play game is characterized by a dynamic day and night change, which means that the characters and the game environment can change unexpectedly at any time. • The free-to-play game is the sequel to the multiple award-winning Little Lords of Twilight and thus has a strong existing fanbase.
Golf Champions - Swing of Glory Launch 2021	• MGI's gaming segment (gamigo) has acquired the worldwide development and publishing rights of the triple-A mobile game "Golf Champions - Swing of Glory" from top Canadian developer Behavior Interactive. • Golf Champions is a competitive, free-to-play mobile game in which players compete in leagues. Players unlock different golf characters and can improve their skills as they compete against each other.
Desert Operations Goes Mobile Launch TBA	• Our successful strategy wargame Desert Operations is currently only available to be played in the browser on PCs. • Strategy games are a successful genre on mobile devices, and Desert Operations is very suitable, which lead to this project. • Desert Operations will be available on mobile in a completely new setting to reach a broader audience and increase playtime.
Trove Nintendo Switch +South Korea Launch TBA	• The successful Voxel MMO Trove is currently available to be played on the platforms Windows PC, Sony Playstation 4 and Microsoft XBOX. As Switch has become very popular it was decided to test Trove as a first game to be ported to Switch. • This technical port will make the game available on Nintendo Switch consoles, targeting yet another major audience. • Together with Aprogen Games, gamigo is bringing the PC version of this action-packed MMO to South Korea.
10+ Other projects in stealth mode Launches 2021-2023	• Sequels of existing games: various projects in the pipeline with total development cost volume of €5m+. • In-licensing deals for various MMOs' and mobile games; for games ready to launch. • Outlicensing deals with publishers in China and Japan for some of MGI's games IPs' in negotiation. • More to come...

Source: Company information

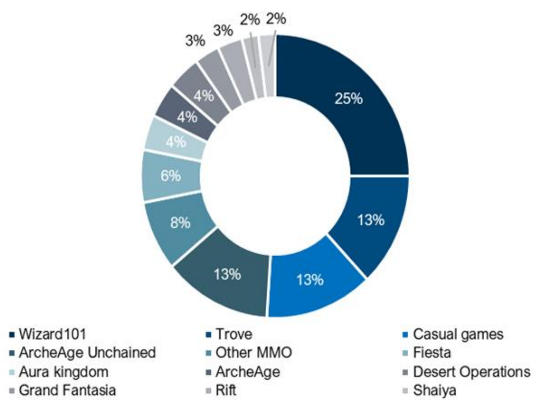
Games portfolio

Well-diversified portfolio

Despite the acquisition of KingsIsle, and hence the Wizard101 game, MGI's gaming portfolio continues to be well diversified with more than 10 MMO and 5,000+ casual games. We estimate that Wizard101 is the largest game in the portfolio and represents roughly 25% of games revenues, followed by Trove and ArcheAge: Unchained, representing 13% of the portfolio each. These titles belong to the genres adventure MMOG and fantasy MMOG, while other titles also include strategy and build (e.g. Desert Operations) and shooters (e.g. S4League), which showcases the wide spectrum of players that MGI has attracted.

Games portfolio overview

Title	Genre	Monetization	Share of gaming segment revenue	Own IP
Wizard101	MMO	Free-to-Play	25%	Yes
Trove	MMO	Free-to-Play	13%	Yes
Casual games	Casual	Unknown	13%	n.a.
ArcheAge Unchained	MMO	Paid	13%	No
Other MMO	MMO	Unknown	8%	n.a.
Fiesta	MMO	Free-to-Play	6%	Yes
Aura kingdom	MMO	Free-to-Play	4%	No
ArcheAge	MMO	Free-to-Play	4%	No
Desert Operations	Strategy/War game	Free-to-Play	4%	Yes
Grand Fantasia	MMO	Free-to-Play	3%	No
Rift	MMO	Free-to-Play	3%	Yes
Shaiya	MMO	Free-to-Play	2%	Yes
Pirate101	MMO	Free-to-Play	2%	Yes



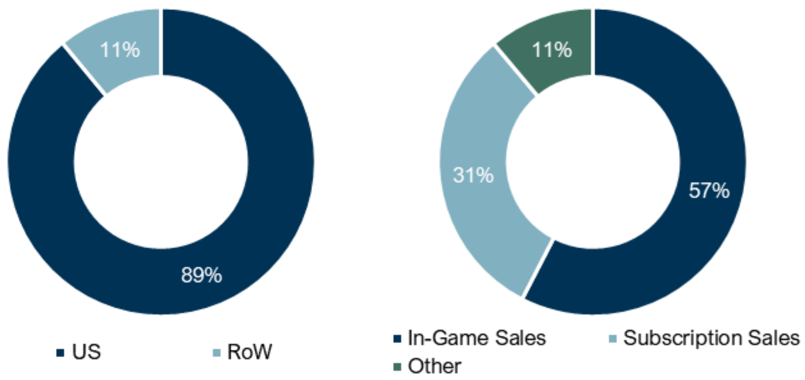
Source: Pareto, company data

KingsIsle acquisition

Increased exposure to the US through the KingsIsle acquisition

In January, Media and Games Invest entered an agreement to acquire the leading US-based MMO game developer and publisher KingsIsle for a fixed purchase price of USD 126m, with an additional earn-out up to USD 84m. KingsIsle's portfolio consists of Wizard101 and Pirate101, making up 93% and 7%, respectively, of KingsIsle's revenue contribution. Wizard101 and Pirate101 are two MMORPG with strong IPs and lifetime revenues exceeding USD 400m combined. The longer player lifetime for these games brings a high level of stickiness and stable cash flows to the group. In total, KingsIsle has more than 50 million registered gamers, with 89% of revenues derived from the US market.

KingsIsle revenue split by region and source (Q1-Q3 2020)

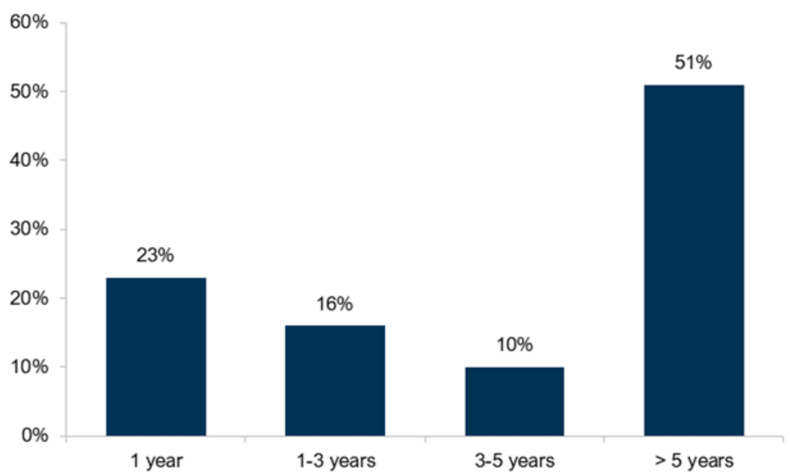


Source: Pareto, company data

Wizard101 – The Harry Potter of online games

Wizard101 is a F2P MMO game, first launched in 2008, and has since then generated more than USD 375m in revenues. It targets 20-35-year-old players, both male and female, and today is considered to be The Harry Potter of online games. Wizard101 has a high share of recurring revenues due to its very loyal player base. More than 50% of the player base is players who have been playing for over five years, suggesting a high level of stickiness, with around 15% of new players converting to paying users. The revenue stream is mainly subscription and in-game purchases. With Harry Potter's high popularity all around the world, we see good cross-selling opportunities to further internationalise the game as well as expanding to additional platforms. Today, Wizard101 makes up roughly 93% of KingsIsle's revenues and is the largest revenue contributor to the MGI Group at roughly 25% of game revenues.

Wizard101 – Recurring revenues per user tenure

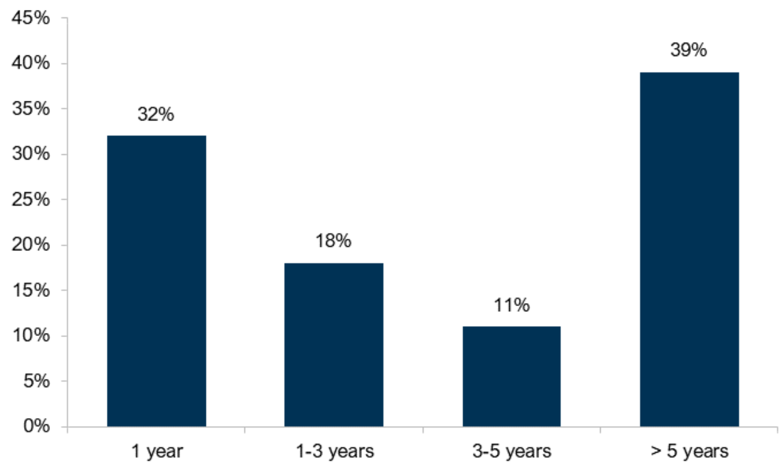


Source: Pareto, company data

Pirate101 – a successful spin-off from Wizard101

As a spin-off from Wizard101, Kingslsle released Pirate101 in 2012, a F2P pirate-themed MMORPG where the player searches for treasure within the "spiral". The game targets the younger audience but is overall a family-friendly game play for everyone. As with Wizard101, Pirate101 has a high share of recurring revenues from 39% of the player base deriving from players who have been active for more than five years. The conversion rate of new players to paying users has been stable at around 11% since launch, where Pirate101 makes up roughly 7% of Kingslsle's revenues.

Pirate101 – Recurring revenues per user tenure



Source: Pareto, company data

Kingslsle acquisition means synergies

Strong cross-selling opportunities from the KingsIsle acquisition

With the Kingslsle acquisition, MGI adds two leading MMO games – Wizard101 and Pirate101 – to its portfolio and will further increase the growth rate within the gaming segment. With strong cross-selling opportunities, we expect MGI to expand Kingslsle's portfolio to Europe, and to additional platforms. With their high player lifetime, the Kingslsle games add a high level of stickiness and profitability to the group given their high recurring revenues. Pro forma for January to September 2020, Kingslsle would have increased the group's combined adjusted EBITDA margin from 21% to 28% due to its impressive 66% EBITDA margin. For 2021, MGI expects Kingslsle to add USD 32m in revenues and adjusted EBITDA of USD 21m, representing a strong EBITDA margin of 66%. Besides the cross-selling revenue synergies, we expect significant synergies from efficient in-house marketing, strengthening both the US and the European position, with more of the effect coming through from 2022E onwards, with Kingslsle's EBITDA margin of towards 70%. We argue that MGI will expand Wizard101 and Pirate101 to additional platforms such as mobile and console and look at Asian market opportunities from 2023. We believe this will result in some minor investments of EUR 1-2m per year. With more update possibilities for Pirate101, we expect this game to grow faster than Wizard101 in the coming years and estimate it to contribute around 10-15% of Kingslsle's revenues in 2023/2024.

Media segment (B2B)

MGI is one of only a few players that can offer a fully integrated programmatic platform that covers the entire value chain

The media segment was started in 2016 and has grown rapidly over the past few years as a result of acquisitions in both Europe and North America. It offers a wide range of digital advertising services, from omnichannel advertising platforms to social and influencer marketing. The acquired companies cover different parts of programmatic advertising – an automated process for the matching of supply and demand in the digital advertising market. MGI is one of only a few players that can offer a fully integrated programmatic platform that covers the entire value chain, from the advertiser side to the publisher side.

The segment supports MGI's gaming business, but it is also an important segment in its own right

The media companies come under Verve Group

The segment supports MGI's gaming business, generating substantial synergies, but it is also an important segment in its own right with a strong and diversified base of external clients. Around 60% of the media segment's revenues are derived from the gaming industry, where MGI helps its clients with efficient user acquisition as well as advertising inside their games. The segment also serves many other industries, for example e-commerce, with many Fortune 500 companies among its clients. Since 2020, the media companies have been consolidated under the newly established Verve Group.

Verve Group: Gaming companies and Fortune 500 companies as clients

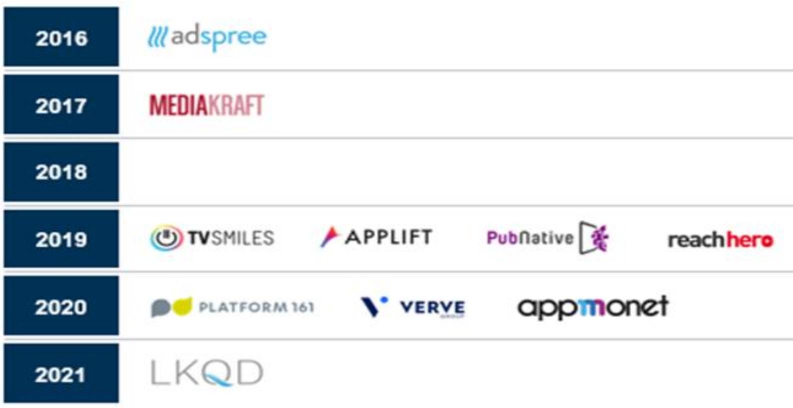
Source: Pareto, company information

Verve Group is active in 20 countries, and has more than 200 employees and more than 25 offices worldwide. MGI's strategy for the media segment is similar to that for the gaming segment – the acquired media companies are integrated, resulting in substantial cost and revenue synergies, consolidated expertise and development synergies.

Its open ad exchange is one of the top 20 programmatic marketplaces globally

According to company data, the media segment's open ad exchange is today one of the top 20 programmatic marketplaces globally. The scalability of the business model should support strong organic growth and margin expansion in the media segment going forward. The focus within the segment is shifting from more labour-intensive services like influencer and affiliate marketing to programmatic software, resulting in an increasing share of SaaS revenues. This development is expected to continue with many further acquisitions to follow.

Timeline of acquired media companies



Source: Pareto, company information

Introduction to programmatic advertising

Programmatic advertising is an automated software-based process through which buying and selling of digital advertising takes place. From an advertiser's perspective, programmatic advertising addresses a major question faced by many businesses today: on what digital platforms should they advertise? The overwhelming number of options makes it very difficult for companies to assess where they can best target their customers and achieve maximum ROI on their advertising. Programmatic advertising automates and facilitates this process by using artificial intelligence (AI).

Through a programmatic platform, the advertiser specifies key parameters for the campaign, such as target market, budget and goals of the campaign. These parameters are analysed against all the ad space that is available for sale by publishers on the other side of the platform. There are databases on the publishers' side of the platform, containing for example data about the users who visit their websites. With the help of AI, all these data points are analysed, and a bid is automatically placed for the ad space that best matches the pre-specified parameters. A wide range of advertisers will probably bid for the same ad space, each constrained by their budgets, and the highest bid wins. The bidding process is referred to as real-time bidding (RTB) and usually takes no longer than 100 milliseconds. The RTB process starts when a user for example clicks on the link to a website or application, and the process is completed faster than the page or application loads. The outcome of the bidding process determines which ad the user will see when entering the webpage or application. Programmatic advertising exists in a range of digital channels, including display, mobile, video and social media.

Benefits of programmatic advertising

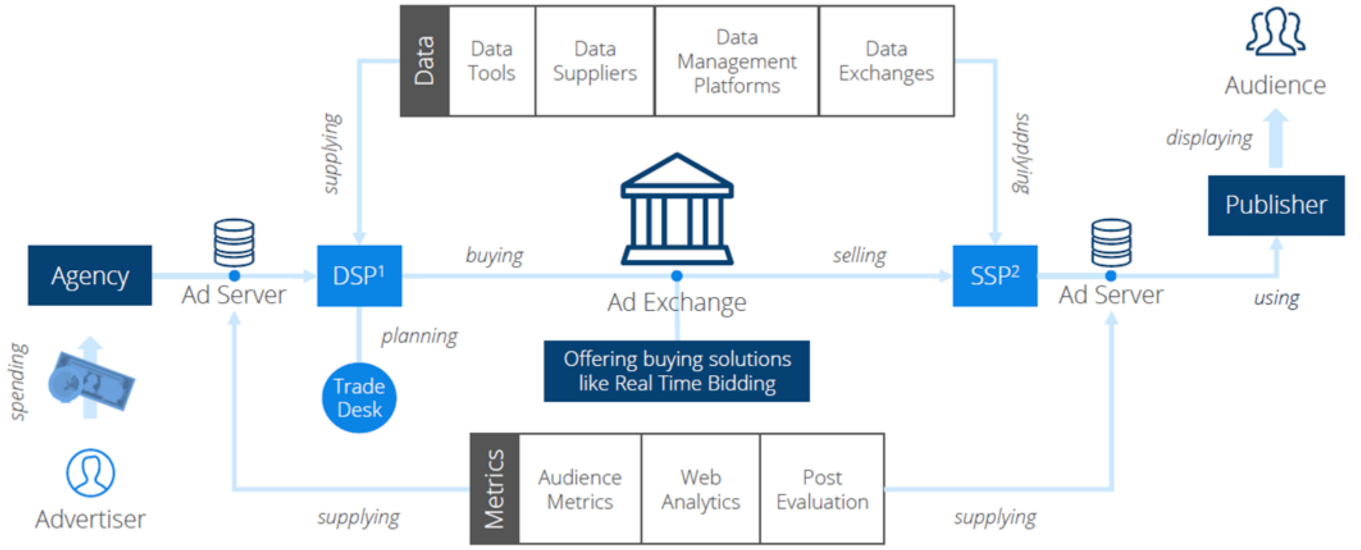
Advertiser	Publisher
E.g. gamigo purchasing ad space on other platforms to promote its games	**E.g. gamigo selling ad space inside its games**
▸ Improved targeting of customers ▸ Access to a wide range of ad inventory ▸ Time-efficient: no need for time-consuming negotiations with several publishers ▸ Can be used across different devices → supports an omni-channel marketing strategy ▸ Possibility to make real-time adjustments to ads based on their impressions ▸ RTB ensures that the price paid is not higher than necessary	▸ Maximum fill rate, i.e. no unsold ad inventory ▸ Access to a wide range of advertisers ▸ Only user-relevant ads are displayed, improving the customer experience ▸ Time-efficient: no need for negotiations with several advertisers ▸ RTB ensures highest possible pricing
Maximum conversion rates and ROI	**Maximum advertising revenues**

Source: Pareto, company information

A strong core in user acquisition for games and generation of advertising revenues for game publishers

There are basically five layers in the programmatic advertising value chain: Service layer, Demand layer, Supply layer, Data management layer and Content layer. MGI is present in all of them with a strong core in user acquisition for games and generation of advertising revenues for game publishers.

The programmatic advertising value chain



1) Demand-side platform, 2) Supply-side platform
Source: Pareto, company information

1) Service layer: Advertiser, agency and/or trade desk

Depending on the degree of outsourcing required, the first stop in the digital advertising ecosystem from the advertiser's point of view is either an agency or a trade desk. An agency offers complete outsourcing of advertising-related activities, including creation, planning and execution of advertising campaigns. A trade desk is very similar but does not engage in the creation of advertising content. MGI's acquisitions of Medikraft, Applift and Verve added these capabilities.

2) Demand layer: Demand-side platforms (DSPs)

The next stop in the value chain is demand-side platforms (DSPs), which ad agencies and trade desks use to automate the ad-buying process. DSPs aggregate the demand from a wide range of advertisers and enrich it with specific data in order to efficiently match advertising content with suitable advertising inventory offered by publishers. Once appropriate ad inventory has been identified, DSPs determine the bidding price to be placed for it, based on the pre-defined target parameters of the campaign. MGI's acquisitions of Verve, ReachHero and Platform161 added these capabilities.

3) Supply layer: Supply-side platforms (SSPs)

The counterpart to a DSP is on the publisher's side a supply-side platform (SSP). SSPs aggregate the supply of advertising inventory from publishers, including specific information about the characteristics of the inventory, for example data about the users that are usually exposed to the ads from a publisher. The services provided by SSPs aim to maximise the price paid to the publisher for its ad inventory. Most large networks, e.g. Google, have their own SSPs. The RTB process between SSPs and DSPs is conducted through an ad exchange, which is like a marketplace for supply and demand of ad space. MGI's acquisitions of Pubnative and LKQD added these capabilities.

4) Data management layer: Data management platforms (DMPs)

Data is crucial for both DSPs when identifying the most suitable ad space to bid for given the specified target group, and for SSPs when trying to maximise revenues for the available ad space. Data management platforms (DMPs) gather and store data that DSPs and SSPs use to achieve efficient results. DMPs also allow DSPs and SSPs to provide their clients with transparent reporting of the campaigns. MGI's acquisition of Verve added these capabilities.

5) Content layer: Publisher and audience

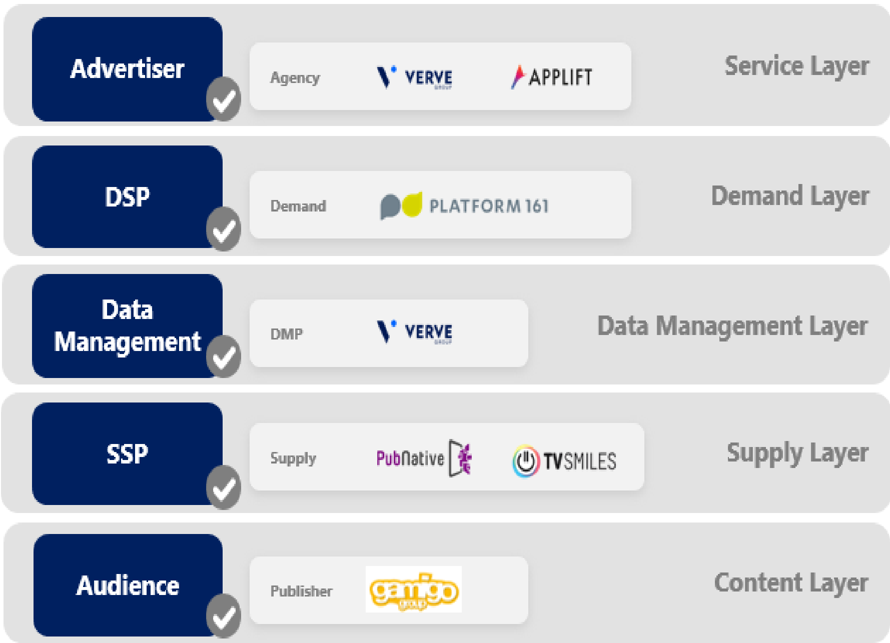
At the end of the value chain is the publisher, the owner of a medium or media platform wanting to sell its ad inventory. When ad inventory has been sold through RTB, the winning advertising content is sent to the publisher and displayed to the desired audience. Examples of publishers include YouTube and Facebook, or in the case of MGI: gamigo (via own games) and adspree (via own game portals like mmogames.com).

Overview of the acquired companies in the media segment

A large number of acquisitions have been made in the areas of social and influencer marketing and ad-tech

Since the start of the B2B media business in 2018, a large number of acquisitions have been made primarily in two areas. The first is social and influencer marketing, with the acquisitions of adspree, Mediakraft and ReachHero. The second is ad-tech, meaning solutions for the automatic matching of supply and demand in the digital advertising market. The most recent acquisitions have been in this field, including Applift, PubNative, Verve, Platform161, AppMonet and LKQD. Since 2020, the media companies have been consolidated under the newly established Verve Group.

Acquired media companies and their positions in the value chain



Source: Pareto, company information

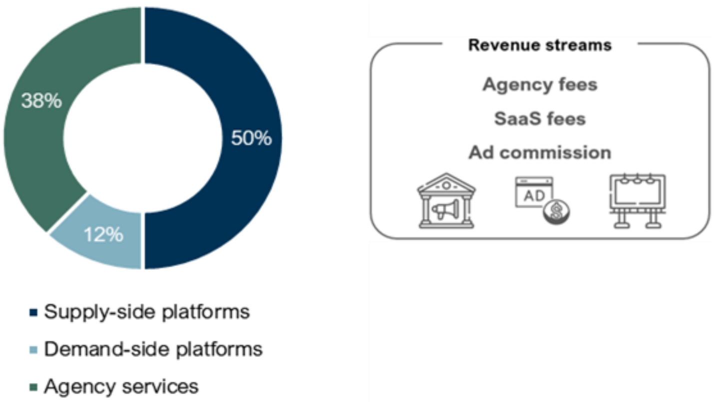
Customer base and revenue model of the media segment

60% of MGI's media business is focused on gaming

In terms of revenues, about 60% of MGI's media business is focused on gaming. Its clients include many strong gaming companies, such as Zynga and King, and the client base is well diversified with basically no gaming client accounting for more than 5% of revenues. The second-largest customer group is e-commerce with ~20% of segment revenues, including clients like Amazon. The segment is active in 20 countries and serves publishers that can be found in the top 100 in relevant app stores. We estimate that user acquisition to MGI's own gaming segment accounts for slightly below 10% of the revenues in the media segment (assuming user acquisition costs of 10% of sales in the gaming segment and that 80% of user acquisition is in-house).

As illustrated in the chart below, 62% of the revenues in the media segment are derived from programmatic ad-tech solutions, whereof supply-side platforms account for the vast majority. Agency services, with a strong focus on influencer and social marketing, account for 38% of the revenues. Agency services is split between the performance platform (20%) and the influencer platform (18%).

Media segment revenue split (2020) and types of revenue streams



Source: Pareto, company information

The revenues from supply- and demand-side platforms are both very scalable and stable. Part of the income is SaaS-based as advertisers and publishers pay a subscription fee to access the platform. This type of self-serve platform is preferred by many large customers and agencies, giving them the ability to run marketing campaigns on their own. Also, smaller brands benefit from the self-serve platform solution, since it opens up a whole new dimension of advertising opportunities that has previously been largely inaccessible for companies with smaller budgets. Besides the fixed SaaS fee, MGI also charges a provision fee based on the amount of traffic that the clients route over the platform. For example, MGI receives a portion of the payment that advertisers are paying for placing ads into the apps of the publishers. The revenue-share model typically gives MGI a 25-30% revenue share, allowing the company to grow together with the clients as the traffic increases. Since the programmatic advertising process is automatic, the scalability is very high.

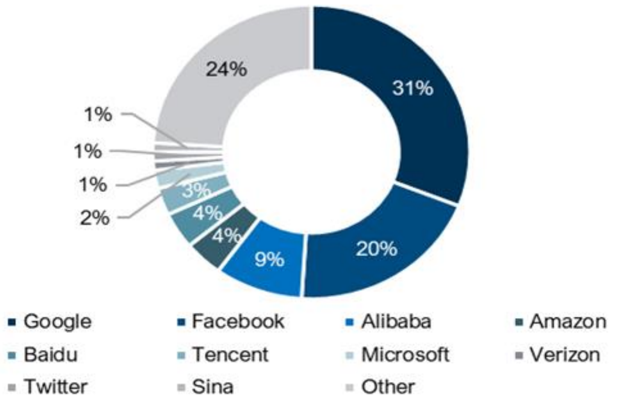
The revenues from agency services comprise agency fees that are tied to advertising campaigns. Through the acquisitions of adspree, Mediakraft and ReachHero, MGI has built up a particularly strong focus on agency services within influencer marketing, which refers to social media marketing performed by influencers, people or organisations that are influential in their field. The marketing includes product placements and endorsement. MGI offers advertisers the ability to run social media and influencer campaigns all the way from concept to production to results. Agency fees are charged to produce marketing content and for the management of the campaigns. The fees could be performance-based, for example tied to the number of clicks or new users that are generated by a campaign. Compared with DSP and SSP income, the profitability for agency services is more sluggish as it depends on the agreed price terms in each campaign. It is also more labour-intensive and thereby less scalable.

Competitive landscape

The digital advertising market is very fragmented

The fast-growing digital advertising market is very fragmented, with a high number of players, channels and apps. The market is highly competitive and consists of a few dominating players, like Google and Facebook, and a lot of small players. The market share held by the smaller players, which MGI focuses on, is typically referred to as the “open internet”.

Market shares of digital ad sellers globally (2019)



Source: Pareto, eMarketer

The Trade Desk (DSP) and Google Ad Manager (SSP) are two of the largest global players in the ad-tech space. Other listed ad-tech peers include Magnite, Viant Technology, PubMatic, Criteo and Quotient Technology. Compared with some of the larger players, MGI's media segment has clear differentiation with its expertise in the gaming sector. Although the ad-tech market has been penetrated by some large players, it is still highly fragmented with many potential M&A targets. The market is currently experiencing consolidation as players are focusing more on scale effects.

Key players in the digital advertising market

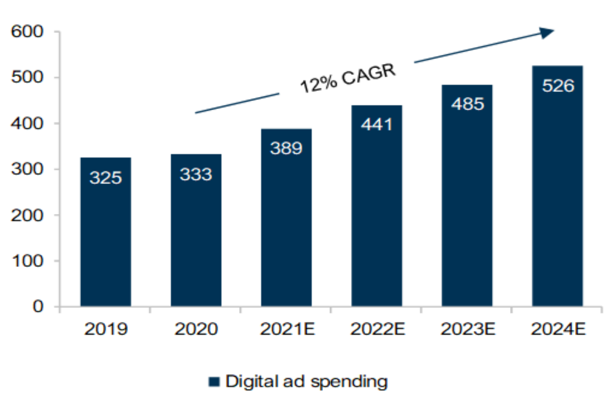
Source: Pareto, Statista Digital Market Outlook

Outlook for the media segment

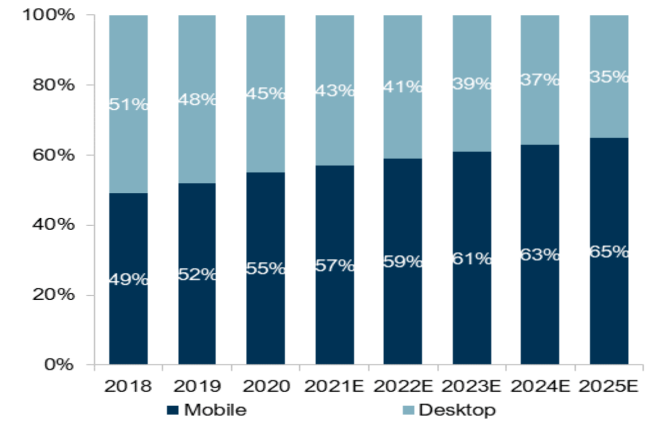
Organic growth for the segment of 10-15% a year expected

MGI expects the media segment to grow organically by 10-15% per year. This is higher than the overall digital advertising market, which is projected by emarketer to grow at a CAGR of 12% between 2020-2024E, with social media advertising as the main growth driver. Search, banner and video advertising are expected to grow fairly in line with the market, while traditional classifieds are expected to grow at a slower rate. In 2021, the market growth across all subsegments is expected to be particularly strong given the slower growth related to COVID-19 in 2020.

Digital ad spending by segment globally (USDbn)



Digital ad spending by device globally



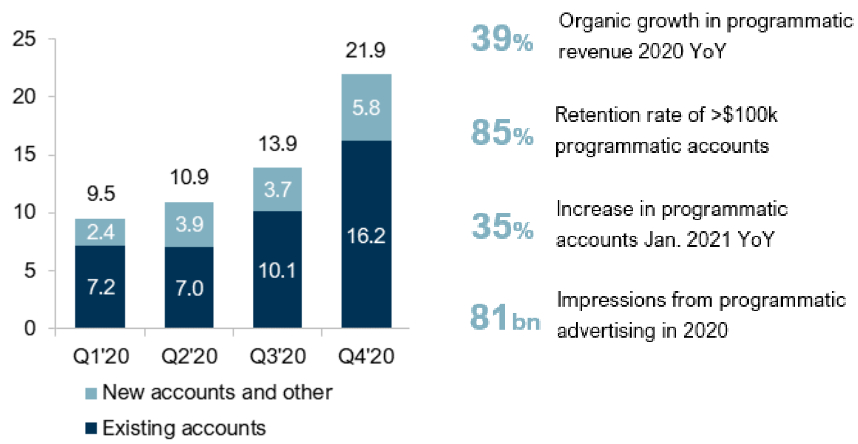
Source: Pareto, Statista Digital Market Outlook

Verve constitutes an interesting opportunity for organic growth in 2021

The collection and handling of user data has emerged as an increasing challenge for digital advertisers, not least after the introduction of GDPR. Apple's upcoming update to iOS 14 will also make IDFA (Identifier for Advertisers) opt-in instead of opt-out at the app level. In other words, the update will require apps to ask users for permission to collect and share data. If the users don't give their permission, it will be more difficult for advertisers to use targeted ads. However, MGI has developed a promising solution to overcome this challenge, which has been tested together with a few clients and a patent is pending. The tool will make it possible for advertisers to target users on their devices without data leaving the devices, and is now being rolled out and constitutes an interesting opportunity for organic growth in 2021.

In addition to organic growth, MGI will make further acquisitions within the media segment. In the Q4 earnings call, the company highlighted two deals with good potential to be signed within the next six months. Both are demand-side platforms, with revenues of EUR 20-30m and EUR 30-40m, respectively. We expect MGI to focus on acquisitions primarily in the ad-tech/programmatic advertising space rather than agency services going forward. This has been the case with the most recent acquisitions too. The programmatic ad-tech business is more profitable, more scalable and less labour-intensive than agency services. It is also more stable and has a higher retention rate. As shown in the chart below, programmatic revenues have grown rapidly during 2020.

Programmatic revenues[1] in 2020 (EURm) and KPIs in programmatic[1]



1) Calculated as if all acquired ad-tech companies have been part of the group since 1 January 2020 to eliminate M&A effects.
Source: Pareto, company data

Gaming and media synergies

Synergies are achieved by running two segments under one group

Due to the recent media acquisitions, MGI has strategically positioned itself as a leading online game publisher present in the digital marketing industry with market-leading in-house media knowledge and user acquisition optimisation.

As with any other gaming company, expertise in online marketing and user acquisition is necessary for successful game launches. With a media and marketing vertical, MGI can leverage its in-house advertising capabilities, especially for the free-to-play games, which account for the bulk of its gaming revenues. With the cross-selling of marketing in-house to the media segment, the gaming segment lowers its user acquisition and marketing costs significantly, but also increases the flexibility to ramp up marketing volumes fast if necessary. Vice versa, the media segment benefits from the cross-selling of in-game ad revenues.

With more of a focus on mobile games, which tend to be more user acquisition heavy, we argue that the synergies will grow even bigger going forward. Furthermore, as 60% of the revenues from the media segment is gaming related, MGI has a lot of know-how and data on marketing from the industry. This gives the company a competitive advantage when entering new regions and/or expanding games to additional platforms. MGI knows how to attract and target the right users for the right types of games.

Cross-selling and cost synergies

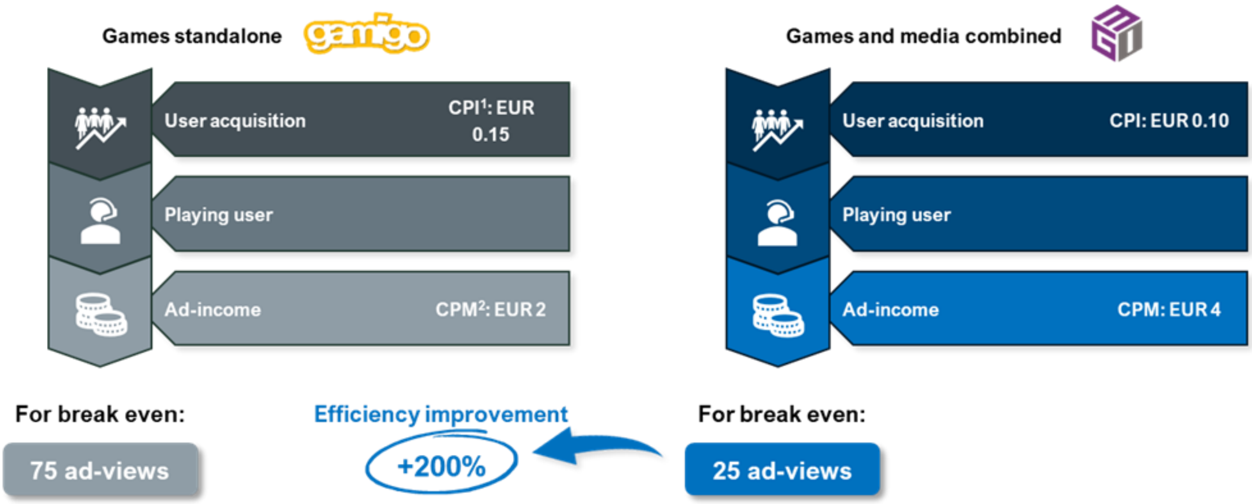
By running two segments under one group, cost synergies are achieved. For example, IT support, administration and other overhead costs can be reduced. Furthermore, by adding scale other fixed costs such as data centres reduce as a share. Additionally, MGI can advertise across the current player base within its gaming portfolio to retain the player base and hence increase recurring revenues.

User acquisition and in-game ad income

The example provided in the illustration below shows how MGI achieves significant user acquisition and in-game ad income synergies by having in-house advertising capabilities. For a typical mobile gaming application that is promoted via paid ads, cost per install (CPI) is around EUR 0.15. The ad income generated by paid ads inside the game, measured as cost per thousand (CPM) impressions, is typically around EUR 2, which nets to EUR 0.002 per ad view. This implies that 75 ad views are required for a standalone gaming company to cover the user acquisition cost and break even.

With gaming and media combined, the user acquisition cost in terms of CPI is around EUR 0.10, i.e. ~33% lower. The ad income in terms of CPM is around EUR 4, i.e. ~100% higher compared with if MGI did not sell the ad through its own media segment. Consequently, the number of ad views required to cover the user acquisition cost and break-even is now only 25, implying an efficiency improvement of 200%. The efficient user acquisition leads into a higher number of players in MGI’s games, which in turn benefits the media segment because more advertising space can then be sold inside the games.

User acquisition cost and ad income with gaming standalone vs gaming and media combined



Note: Example for a typical mobile game app promoted via paid ads, with income generated by paid ads, excluding any other costs.
1) CPI = Cost Per Install, 2) CPM = Cost Per Thousand Impressions
Source: Pareto, company information

The launch of ArcheAge: Unchained, a licensed buy-to-play game, is a very good example case of user acquisition synergies between gaming and media. In order to acquire the right players to the game, internal data from the media segment was used to set the right target group. Verve's advertising production capabilities were combined with the skillsets of gamigo's marketing graphics team and a highly successful launch campaign was created. A video spot was created in-house and a large number of influencers were booked through the media segment. The campaign achieved 2.4m views and contributed to organic revenues of more than EUR 10m.

M&A

A buy, integrate and improve M&A strategy

Buy

Since 2012, MGI's management has carried out more than 30 value-accretive acquisitions (20+ in gaming), with a proven M&A track record of buying assets and improving them. MGI targets EUR 5-40m-size companies that have a sub-optimal size, and could be pressure due to their small scale and efficiency problems as well as high overhead costs. Under the MGI umbrella, the acquired company is optimized and integrated with the focus on realising cost and revenue synergies and improving marketing efficiency. The competitive landscape for the smaller acquisition targets is less fierce; hence, more attractively priced targets.
Due to this strategy, Mr Westermann and his experienced management team have turned MGIs games unit gamigo AG into one of the fastest-growing game publishers in Europe and North America. With the synergies between the gaming and media segments, MGI generally improves group margins but also adds organic growth by expanding platforms. The payback time for unprofitable companies is below 24 months, including investments, purchase price and other operating expenses, and most of the acquisitions are successful after two years.
For profitable companies, MGI targets a 6x multiple, including synergies. With that said, excluding synergies, it may result in paying up to 10x EBITDA, if there are enough synergies to be realized.

For its latest acquisition, Kingslsle, MGI paid 5.8-7.3x EV/EBITDA excluding and including earn-outs. Going forward, we expect MGI to continue to be active within M&A, especially on the mobile gaming side, with a higher focus on EBITDA-positive cases. Currently, MGI is in intense discussions with five acquisition targets with good potential to be signed within the next six months. In total, the management has done 3-5 acquisitions per year, and aiming to slowly increase this number going forward.

Integrate

A detailed plan is made on how to integrate the acquired company and realise cost synergies from it. Generally, cost efficiency is achieved by leveraging overhead costs, technical platforms and cancellations/renegotiations of old contracts. The acquired assets are integrated and connected to a hybrid cloud, which also reduces the risk of downtime. A good example is the acquisition of Trion World in the gaming segment, where the monthly tech cost base was reduced by 74% after 12 months. By operating the media and gaming segments under one group, significant user acquisition synergies are achieved due to the marketing vertical. Another good example of significant cost cutting was the acquisition of Verve within the media segment, where MGI managed to reduce Verve's tech costs by 57% in the first few months after acquisition.

Improve

MGI is looking for acquisition targets that it can improve and expand further, for example by improving and extending the content, by internationalising or expanding the games portfolio to additional platforms. Recently, MGI has increased its focus on organic growth, where the most recent acquisition of Kingslsle is a good example of this. By acquiring Kingslsle, MGI will be able to cross-sell well between North America and Europe, but also expand Kingslsle's existing games portfolio to other platforms. This adds strong organic growth to the group, with further expansion possibilities globally. Since MGI does not focus on building new IPs from scratch, regular releases with content updates are crucial to keep players engaged and to stabilise recurring revenues. In the past, the improve process has been carried out successfully in Trion World, with organic growth increased to north of 24% after 12 months, with significantly improved profitability. This was due to tech synergies, internationalisation, content updates, sequels, relaunches etc.

Financial history and forecasts

Track record and financial targets

A track record of meeting or exceeding guidance

MGI has a track record of exceeding its short-term financial guidance. For 2020, MGI exceeded its revenue guidance set in February of that year by 27%, to some extent boosted by positive COVID-19 effects. However, also, each updated full-year 2020 guidance since the February guidance was exceeded by a good margin of 4-22%. This strengthens our view that management will continue to be conservative in its guidance going forward. Factoring in the Kingslsle acquisition, MGI has already reached its financial targets for 2021. Beyond 2021, we expect MGI to continue to grow at an organic growth rate at the upper end of its target of 10-15%, with EBITDA margins slightly above the target interval of 25-30%.

Medium-term financial goals and the changing guidance given over 2020

Medium-term financial goals and short-term guidance

	Revenue CAGR	EBITDA margin	EBIT margin	Net debt /EBITDA
Medium term goals	25-30%	25-30%	15-20%	2-3x
*of which organic**	*10-15%*			

			Achieved	
2020 Guidance	**Revenue 2020**	**EBITDA 2020**	**Revenue 2020**	**EBITDA 2020**
February:2020	EUR 110m			
August:2020	EUR 115-125m	EUR 20-23m**		
October: 2020	EUR 115-125m	EUR 23-26m**		
5 November:2020	EUR 125-135m	EUR 23-26m**		
30 November:2020	EUR 135m	EUR 26m**	EUR 140m	EUR 29m

* Group revenue, Gaming and Media **Reported EBITDA inc EO costs

Source: Pareto, company data

Financial targets

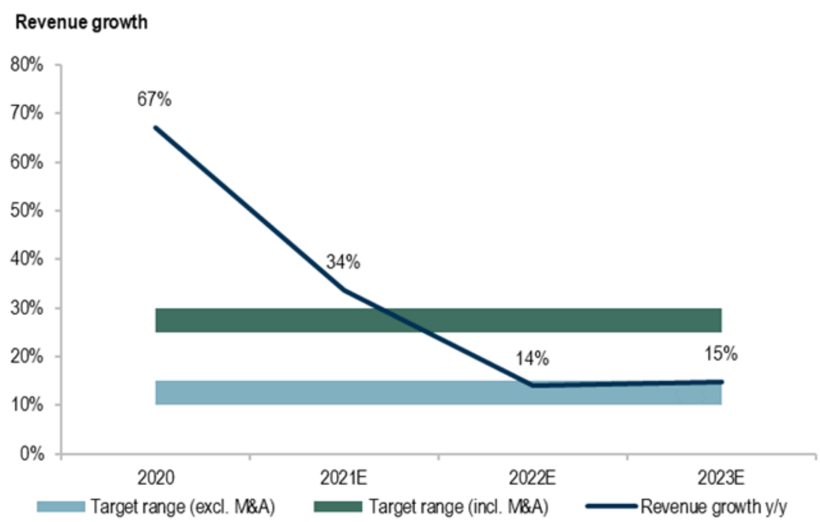
MGI's medium-term financial targets compared with current levels

	Revenue CAGR	EBITDA margin	EBIT margin	Net debt/adj. EBITDA
Medium-term targets	25-30%	25-30%	15-20%	2-3x
Current (FY2020)	67%	21%	12%	2.1x*

**As per 31 December 2020*

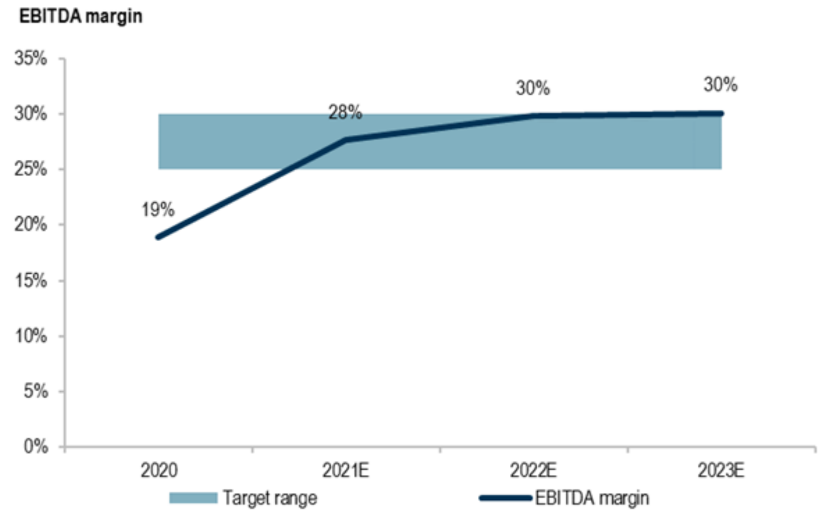
Source: Pareto, company data

Revenue growth, 2020-2023E (Pareto estimates)



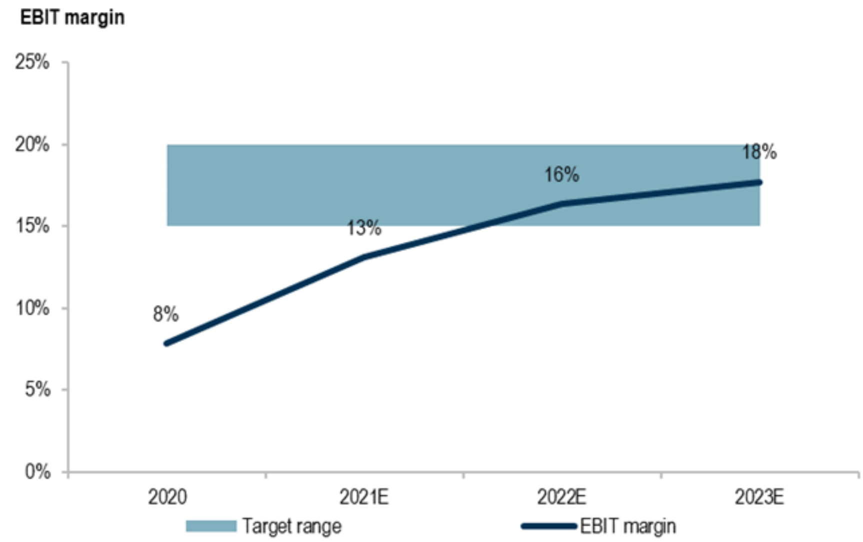
Source: Pareto, company data

EBITDA margin, 2020-2023E (Pareto estimates)



Source: Pareto, company data

EBIT margin, 2020-2023E (Pareto estimates)

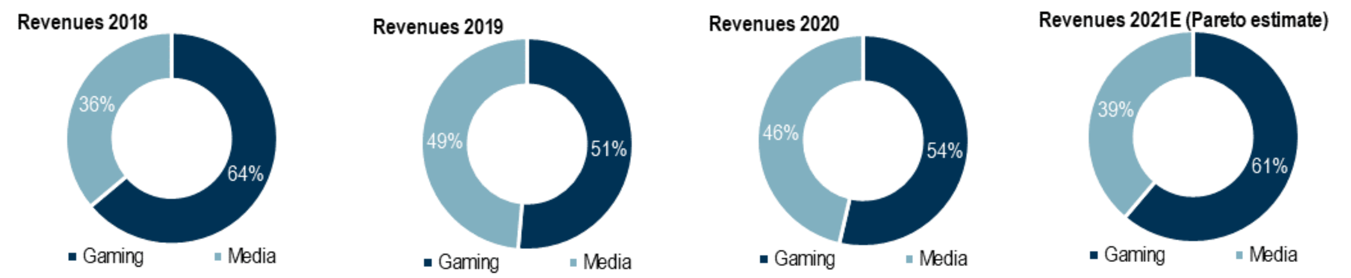


Source: Pareto, company data

Historical growth and forecasts

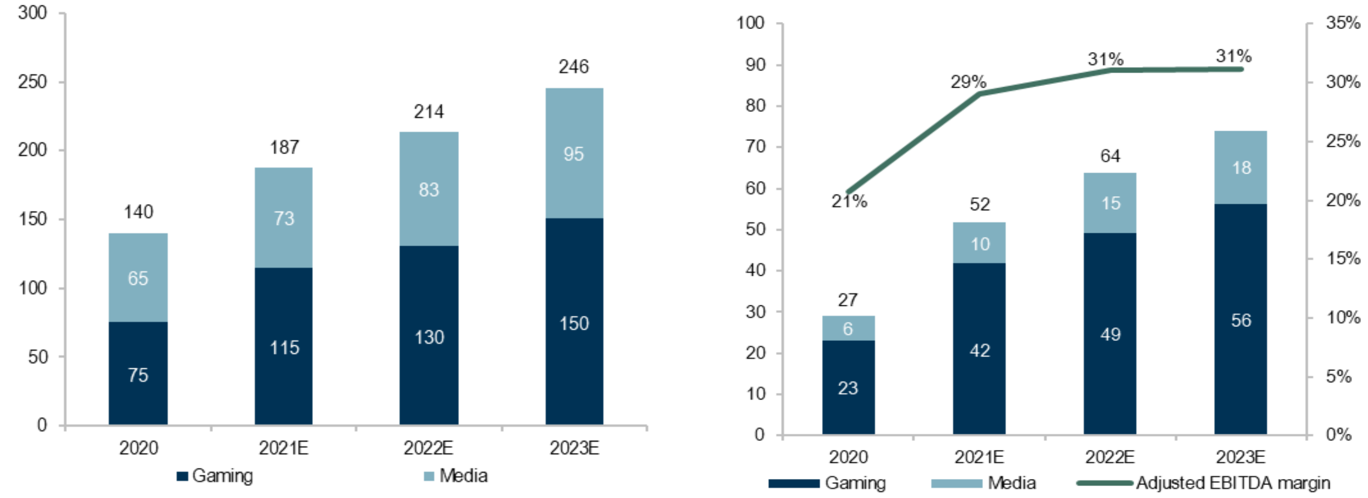
As MGI, in its current form with two synergetic verticals in gaming and media, has a short history, it is only possible to evaluate the company from the gaming side. We expect the gaming segment revenues, excluding M&A, to grow at an annual CAGR of 15% in the years 2021-2023E, significantly outpacing the gaming market. We forecast MGI to continue to grow steadily in both segments, as well as margins, lifting the group adjusted EBITDA margin from 21% (2020) to 31% (2023E).

Revenue split between gaming and media, 2018-2021E



Source: Pareto, company data

Revenue and adj. EBITDA per segment (EURm), 2020-2023E



Source: Pareto, company data

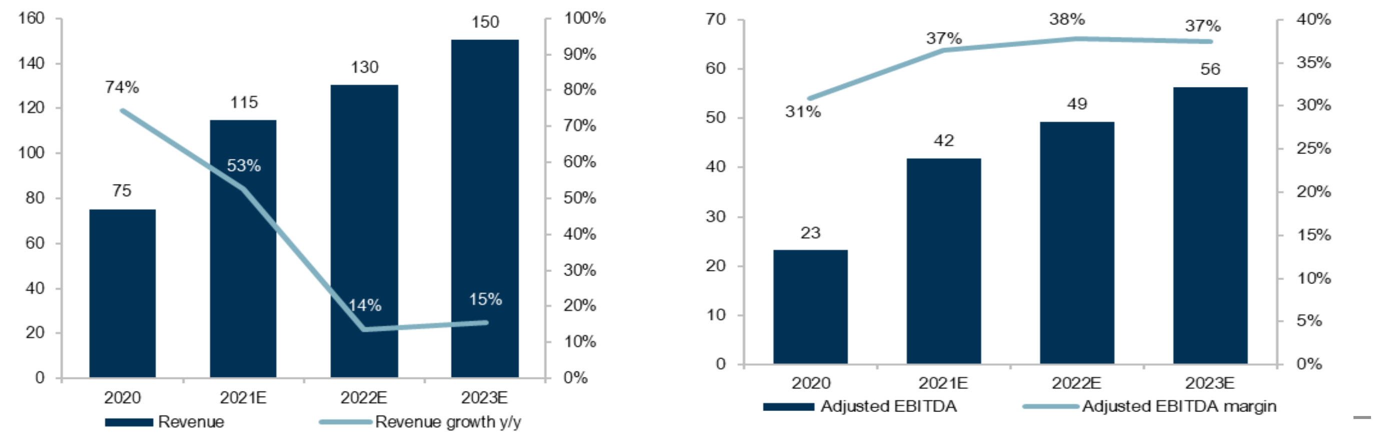
Gaming segment expected to outperform underlying growth

Gaming expected to grow faster than the underlying market

Going forward, we expect MGI to continue to grow steadily in the PC and console segment, which are less competitive. With a successful media vertical and stable European and North American player base, we argue that MGI should continue to focus on its strong success in PC and console, with additional upside from the mobile vertical. The mobile segment is expected to grow the fastest in the coming years, with a CAGR of c13% in 2018-2023E. Mobile games tend to be more user acquisition heavy; however, given the UAC synergies with the media segment and strong marketing know-how, we argue that a mobile focus would make sense even though this segment is much more competitive. Additionally, this would open up the Asian potential even further, which is expected to grow the fastest in the coming years, according to Newzoo. With more synergies in mobile, we expect MGI to scale well with revenues increasing significantly faster than opex going forward. We see potential, not only in additional platform launches such as Nintendo Switch and mobile but also in internationalising existing games as well as content updates.

In total, we argue that MGI's gaming segment will grow faster than the underlying market, with organic growth of around 15% for the next couple of years. At maturity, we expect MGI to boost its gaming EBITDA margin towards 40%. With its strong pipeline, we expect more effects on organic growth from the KingsIsle acquisition from 2022 onwards, with potential new platform launches such as Nintendo Switch and mobile, but also from expanding into Asia and Europe – which will increase organic growth even further from 2023 onwards. We argue that KingsIsle could increase its EBITDA margin from today's 66% towards 70% within a few years.

Revenue and adjusted EBITDA for the gaming segment (EURm), 2020-2023E



Source: Pareto, company data

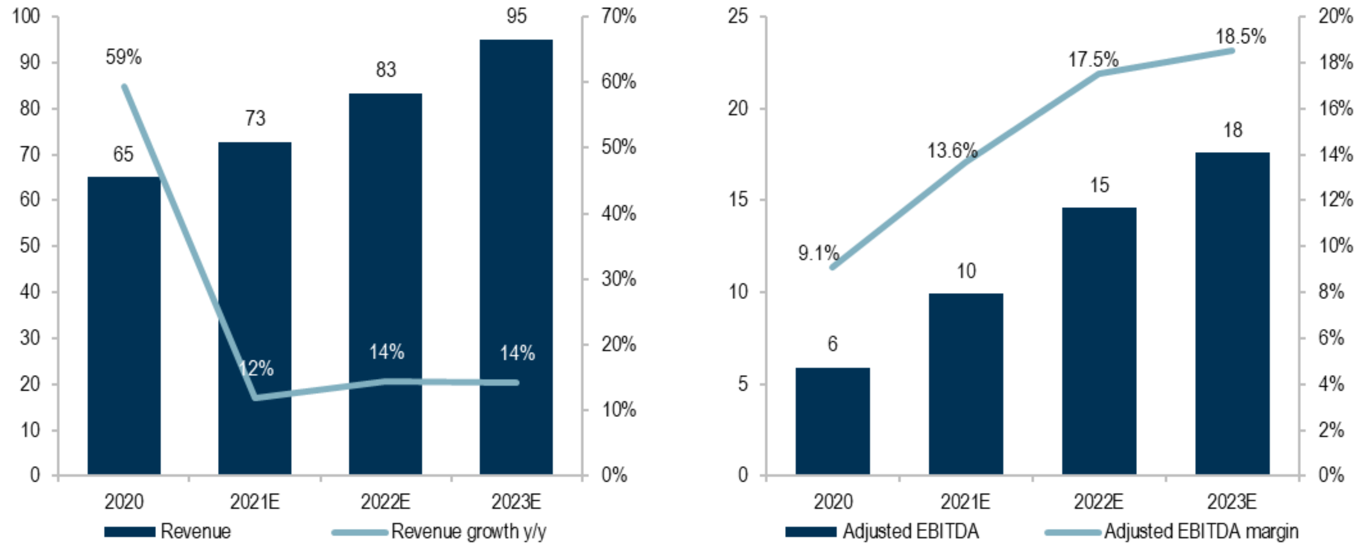
Media segment to ramp up profitability

Well positioned to achieve above-market organic growth in the media segment

There are several reasons why MGI is well positioned to achieve above-market organic growth in the media segment. One is that the share of mobile advertising is expected to increase compared with desktop advertising, as illustrated in the right-hand chart on page 22. Several of the acquired media companies, like Applift and PubNative, will benefit from this development. Secondly, the share of programmatic advertising versus non-programmatic advertising is expected to increase further. Programmatic advertising is estimated to already account for 80% of the digital advertising market today but is expected to take further market share from non-programmatic advertising. The revenue-share model in programmatic advertising also means that MGI is able to grow with its customers in the media segment, besides the growth that is achieved by acquiring new clients.

It is also the increasing share of programmatic ad-tech and SaaS revenues that will drive a margin expansion in the media segment. MGI is targeting a segment-level EBITDA margin of 15-20% and expects to achieve this within 12-18 months. The target can be compared with the 9% adjusted EBITDA margin in 2020. We expect the media segment to reach its EBITDA margin target in 2022E, with organic annual growth of 14%.

Revenue and EBITDA for the media segment (EURm), 2020-2023E

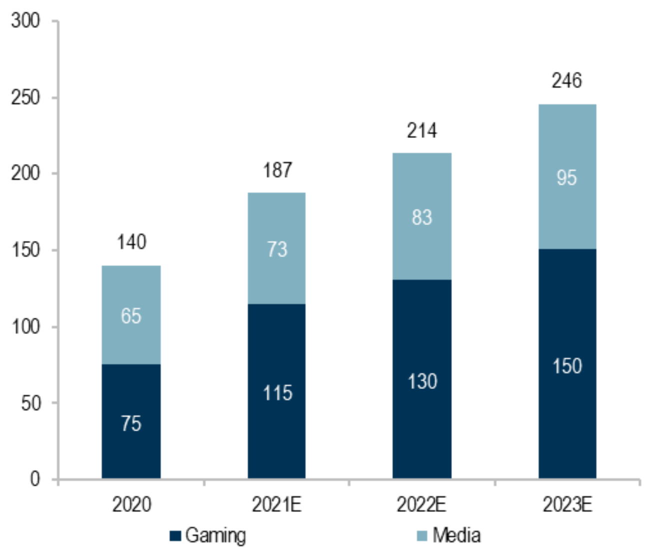


Source: Pareto, company data

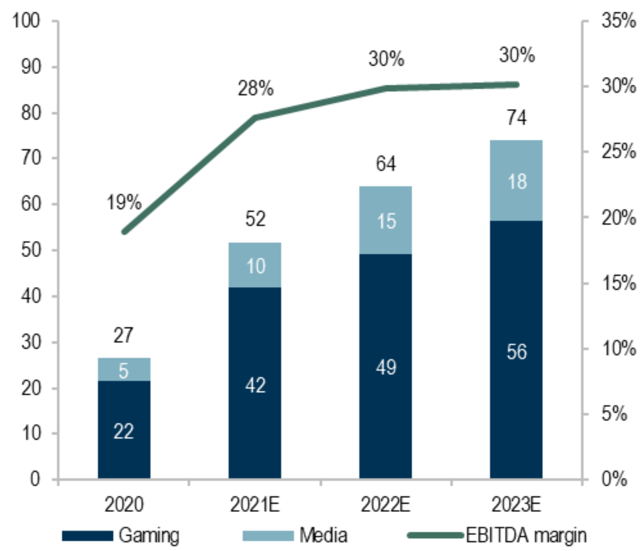
Growth rate and margin expectations

In total, we expect MGI to grow by 15% organically going forward. Due to significant scalability effects, we expect the company to increase its adjusted EBITDA margin to slightly north of 31% in 2023, from today's 21% in 2020. Margin expansion is expected despite the growth focus on the mobile segment, which tends to have much higher user acquisition costs. With that said, we expect MGI to continue to overdeliver on its financial targets, as management has done in recent years.

Revenue estimates for MGI in total (EURm)



EBITDA estimates for MGI in total (EURm)



Source: Pareto, company data

M&A firepower and upside potential with current acquisition capacity

We do not include acquisitions in our estimates but expect MGI to continue to execute on its M&A strategy with 2-5 acquisitions per year. The net debt/EBITDA ratio target is 2-3x. If the net debt/EBITDA ratio is increased to 3x for 2021E, we argue that MGI has M&A firepower of EUR 52m, excluding proforma EBITDA of the acquired target. MGI usually pays below 6x EBITDA, including synergies, for acquisitions. Based on this acquisition multiple, EUR 52m M&A firepower would add 17% to EBITDA for 2021E, significant upside potential. In the sensitivity table below, one can see the effects on EBITDA based on different M&A multiples and net debt/EBITDA ratios for 2021E, excluding pro forma of the acquired target. If we would include EBITDA of the acquired target, the M&A firepower would increase to above EUR 60m.

M&A potential upside on EBITDA

		EV/EBITDA		
		5.5x	**6x**	**6.5x**
	2.0x	0%	0%	0%
Net Debt/ EBITDA	**2.5x**	9%	8%	8%
	3.0x	18%	17%	15%

Source: Pareto

Detailed P&L quarterly and yearly (Pareto estimates)

	Q1 20	Q2 20	Q3 20	Q4 20	Q1 21E	Q2 21E	Q3 21E	Q4 21E	2019	2020	2021E	2022E	2023E
Revenue	**26.5**	**30.0**	**35.0**	**48.7**	**42.6**	**44.9**	**46.3**	**53.7**	**84**	**140**	**187**	**214**	**246**
q/q	*-5.8%*	*13.1%*	*16.5%*	*39.3%*	*-12.6%*	*5.5%*	*3.2%*	*15.8%*					
y/y	*99.1%*	*97.0%*	*28.8%*	*72.8%*	*60.3%*	*49.5%*	*32.5%*	*10.2%*	*85.2%*	*67.1%*	*33.7%*	*14.0%*	*14.9%*
Gross profit	**13.1**	**14.6**	**14.2**	**20.7**	**20.0**	**21.1**	**21.6**	**25.0**	**38.1**	**62.6**	**87.7**	**100.0**	**115.1**
Margin	*49%*	*49%*	*41%*	*43%*	*47%*	*47%*	*47%*	*47%*	*45%*	*45%*	*47%*	*47%*	*47%*
Opex	*-7.8*	*-8.3*	*-8.3*	*-11.7*	*-8.9*	*-8.9*	*-9.0*	*-9.1*	*-22.5*	*-36.1*	*-35.9*	*-36.2*	*-41.2*
EBITDA	**5.3**	**6.3**	**5.9**	**9.0**	**11.1**	**12.3**	**12.6**	**15.8**	**15.5**	**26.5**	**51.8**	**63.8**	**73.9**
Margin	*20%*	*21%*	*17%*	*19%*	*26%*	*27%*	*27%*	*29%*	*19%*	*19%*	*28%*	*30%*	*30%*
adj EBITDA	**5.9**	**6.7**	**6.4**	**10.1**	**11.8**	**12.9**	**13.3**	**16.5**	**18.1**	**29.1**	**54.4**	**66.4**	**76.5**
Margin	*22%*	*22%*	*18%*	*21%*	*28%*	*29%*	*29%*	*31%*	*22%*	*21%*	*29%*	*31%*	*31%*
D&A	-2.5	-2.6	-2.3	-4.3	-6.7	-6.8	-6.9	-7.0	-10.5	-11.7	-27.2	-28.8	-30.4
of which PPA	*-0.7*	*-0.8*	*-1.1*	*-1.2*	*-2.3*	*-2.3*	*-2.3*	*-2.3*	*-2.9*	*-3.8*	*-9.2*	*-9.2*	*-9.2*
EBIT	**2.1**	**2.9**	**2.5**	**3.5**	**4.5**	**5.5**	**5.7**	**8.8**	**5.0**	**11**	**25**	**35**	**43.5**
Margin	*7.9%*	*9.8%*	*7.1%*	*7.2%*	*10.5%*	*12.3%*	*12.4%*	*16.5%*	*6.0%*	*7.9%*	*13.1%*	*16.4%*	*17.7%*
adj EBIT	**3.4**	**4.1**	**4.0**	**5.8**	**7.4**	**8.5**	**8.7**	**11.8**	**10.5**	**17.4**	**36.4**	**46.8**	**55.3**
Margin	*12.9%*	*13.8%*	*11.5%*	*12.0%*	*17.4%*	*18.8%*	*18.8%*	*22.0%*	*12.5%*	*12.4%*	*19.4%*	*21.9%*	*22.5%*
Financial net	-1.6	-1.8	-1.9	-1.8	-2.3	-2.3	-2.3	-2.3	-5.8	-7.1	-9.2	-9.2	-9.2
PTP	**0.5**	**1.1**	**0.6**	**1.7**	**2.2**	**3.2**	**3.4**	**6.5**	**-0.8**	**3.9**	**15.4**	**25.8**	**34.3**
Tax	-0.4	-0.7	-0.3	0.3	-0.1	-0.2	-0.2	-0.3	2.0	-1.2	-0.8	-1.3	-10.3
Net profit	**0.1**	**0.4**	**0.3**	**2.0**	**2.1**	**3.0**	**3.3**	**6.2**	**1.3**	**2.7**	**14.6**	**24.5**	**24.0**
Net profit adj	***1.0***	***1.2***	***1.4***	***3.6***	***4.1***	***5.1***	***5.3***	***8.3***	***5.1***	***7.2***	***22.9***	***32.8***	***32.3***
EPS	*0.00*	*0.00*	*0.00*	*0.02*	*0.02*	*0.02*	*0.03*	*0.05*	*0.02*	*0.03*	*0.11*	*0.19*	*0.19*
EPS adj	*0.01*	*0.01*	*0.02*	*0.04*	*0.03*	*0.04*	*0.04*	*0.06*	*0.08*	*0.08*	*0.18*	*0.25*	*0.25*
Shares	*85.5*	*85.5*	*85.5*	*85.5*	*128.7*	*128.7*	*128.7*	*128.7*	*60.4*	*85.5*	*128.7*	*128.7*	*128.7*
Gaming													
Revenue	**13.9**	**18.8**	**18.0**	**24.5**	**27.3**	**28.0**	**27.6**	**31.9**	**43.1**	**75.2**	**114.7**	**130.4**	**150.5**
Growth y/y					*96.4%*	*48.7%*	*53.1%*	*30.1%*		*74.5%*	*52.5%*	*13.7%*	*15.4%*
adj EBITDA	**5.0**	**5.5**	**5.0**	**7.7**	**9.3**	**10.1**	**10.0**	**12.5**	**14.5**	**23.2**	**41.9**	**49.3**	**56.3**
Margin%	*36.0%*	*29.3%*	*27.8%*	*31.4%*	*34.0%*	*36.0%*	*36.2%*	*39.3%*	*34%*	*31%*	*37%*	*38%*	*37%*
Media													
Revenue	**12.6**	**11.2**	**17.0**	**24.2**	**15.2**	**16.9**	**18.8**	**21.8**	**40.8**	**65.0**	**72.7**	**83.3**	**95.1**
Growth y/y					*21.0%*	*51.1%*	*10.5%*	*-10.0%*		*59.3%*	*11.9%*	*14.5%*	*14.1%*
adj EBITDA	**0.9**	**1.2**	**1.4**	**2.4**	**1.8**	**2.2**	**2.6**	**3.3**	**3.6**	**5.9**	**9.9**	**14.6**	**17.6**
Margin%	*7.1%*	*10.7%*	*8.2%*	*9.9%*	*12.0%*	*13.0%*	*14.0%*	*15.0%*	*8.8%*	*9.1%*	*13.6%*	*17.5%*	*18.5%*

Source: Pareto, company data

Valuation

Valuation consideration is complex for a gaming and media company like Media and Games Invest as: business model, size, type and diversification of the games portfolio, owned or licensed games, end-market and platform exposure, financial history, leverage, growth and margin potential as well as track record, strategy and pipeline for M&A are soft factors than need to be considered in a peer analysis. As there are differences in the business models and margins for MGI versus peers, we prefer to look at EV/EBITDA and adjusted EV/EBIT multiples with a preference for the latter, although it needs to be adjusted for PPA versus most relevant peers.

We value MGI by looking at peer multiple and DCF valuations

We choose to value Media and Games Invest on peer multiple and DCF valuations, where we prefer peer group multiples as they reflect the short/medium-term value potential while the DCF valuation returns a long-term equity value for the company. We argue that an historical valuation method is not justified, given that MGI's core business has changed significantly throughout the years.

The media segment accounts for 21% of EBITDA (2020) and normally warrants lower multiples given lower gross margins compared with the gaming segment. However, as 60% of media revenue stems from the gaming segment and group synergies are material, we find it fair to treat the whole MGI business as a gaming company mainly operating within the F2P space. We have learned that the media business is likely to decrease its share of total revenue due to M&A in the gaming segment, and is still expected to represent less than 25% of adjusted EBITDA in 2023, while the share of media revenue stemming from gaming is expected to remain around 60-70% going forward.

DCF valuation

Our DCF yields a fair value of SEK 67 per share

For our DCF valuation we use a WACC of 9%, a tax rate of 30%, a risk-free rate of 2%, an equity risk premium of 6.9% and an industry unlevered beta of 1.0x. Despite its M&A strategy, we have not included any future acquisitions in our estimates. We expect medium-term double-digit growth, with an EBITDA margin of 27.5% on average. The terminal growth rate is set at 3%. Based on these assumptions, our DCF valuation yields a fair value of SEK 67 per share. The table below shows the key assumptions and calculations in our DCF.

DCF summary

SEKm	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	Normalized
Sales	140	187	214	246	270	297	327	360	395	435	479	493
EBITDA	27	52	64	59	65	71	90	99	109	120	132	136
gains	-12	-27	-29	-31	-34	-36	-33	-35	-38	-41	-44	-54
EBIT	15	25	35	28	31	35	57	64	71	79	88	81
-Tax on EBIT	-4	-7	-11	-8	-9	-11	-17	-19	-21	-24	-26	-24
NOPLAT	10	17	25	19	22	25	40	45	50	55	61	57
gains	12	27	29	31	34	36	33	35	38	41	44	54
-Change in NWC	16	3	2	1	1	1	1	2	2	2	2	0
-Capex	-14	-19	-21	-25	-27	-30	-33	-36	-40	-44	-48	-59
Free cash flow	24	28	34	27	30	32	41	45	50	54	60	52
KEY ASSUMPTIONS												
Sales growth	67%	34%	14%	15%	10%	10%	10%	10%	10%	10%	10%	3%
EBITDA margin	19%	28%	30%	24%	24%	24%	28%	28%	28%	28%	28%	28%
Marginal tax rate	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
WACC	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%
Discount factor	0,96	0,92	0,84	0,77	0,71	0,65	0,60	0,55	0,50	0,46	0,42	0,42
Flow	22	26	29	21	21	21	25	25	25	25	25	22

WACC	CoC	CoC	capital
Debt	6,5%	4,6%	38%
Equity	10,8%	10,8%	62%
Total/WACC	8,99%		100%

COST OF EQUITY	
Risk free rate	2,00%
Market premium	6,90%
premium	6,25%
Beta un-levered	1,0
Cost of equity	9,0%

VALUATION	
PV 2020-2030E	287
PV Terminal value	340
EV	**626**
Net debt	64
Equity value	562
Per share	**6,57**
Per share (SEK)	**67**

Source: Pareto

Peer valuation

After its successful Nasdaq Stockholm dual listing we have benchmarked MGI to global mobile F2P peers and listed Nordic gaming peers to capture most aspects of the valuation differences, while we find major premium game peers irrelevant.

Key differences with MGI versus the peer group

We see MGI as an F2P gaming company with mainly PC and console exposure, a segment with few clean peers. Korean company **Nexon**, an industry giant within F2P and MMO games, has ~70% exposure to PC and 30% to mobile while being less active on M&A than MGI, and Asian assets have historically been valued lower.

The US company **Zynga** is a leading mobile F2P publisher, with a strong track record in M&A and organic growth, a relevant peer for MGI despite being listed in the US.

Stillfront has about 75% of its games' revenue from mobile (Q4 2020), a market segment expected to grow above the market average in contrast to PC casual games, while the remainder relates to browser games played mostly on PC.

Nordic/global peer **Embracer** operates mostly within premium games and is not the best peer even though it is highly active in M&A. The same applies to **PDX** and **Remedy**.

MGI's gaming revenue is more dependent on third-party IP revenue than peers, although these revenue streams seem sticky due to high switching costs, and third-party IP owners are likely to continue to add new games on to MGI's games distribution platforms that in turn will compensate for churning games. Thus, third-party revenue should be sticky; still, MGI is not in control of the IPs. Including Kingslsle, approximately 70% of the gaming revenues is from own IP's.

Growth rate motivates a premium

Our peer multiple valuation indicates that a share price of SEK 64 is motivated

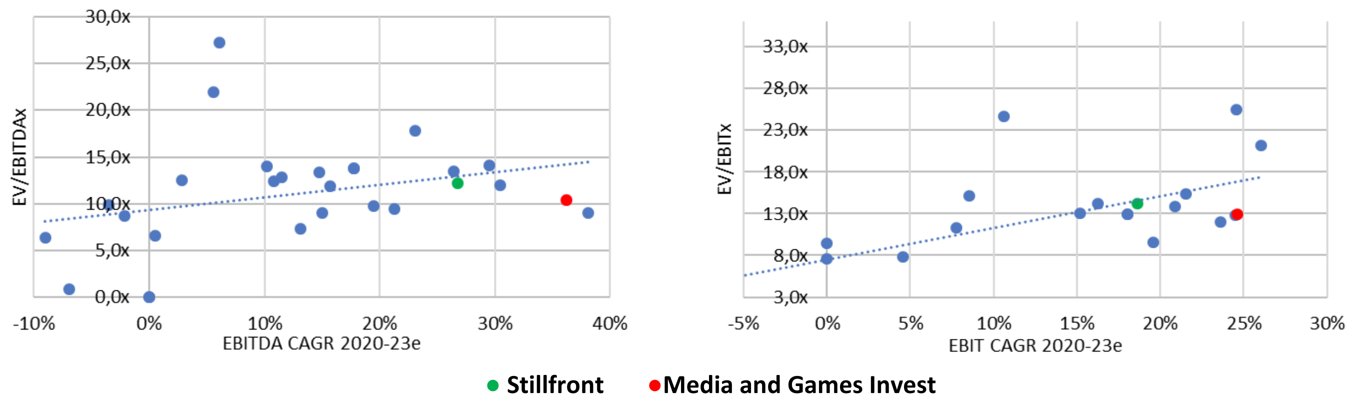
Given that MGI operates an F2P business model in the Western world, is listed in the Nordics and acts as a market consolidator within the F2P space, Stillfront and Enad Global 7 should be considered the best peers to it – although MGI has a slightly different M&A strategy compared with Stillfront. Going forward, both Rovio and G5 could become more relevant peers when MGI's casual/mobile segment exposure grows. Looking at Nordic peers, MGI trades at a 40% discount on 2022E EV/adjusted EBIT, despite growing faster in revenue and EBIT. We expect MGI to grow its revenues by a CAGR of 21% for 2020-2023E, and EBIT by a CAGR of 52% for the same period. With significant media synergies, and the expected strong growth rate, we argue that MGI should trade at a slight premium to F2P. At a 10% premium to F2P peers on 2022E EV/adjusted EBIT a share price of SEK 64 is motivated, based on Pareto's estimates. If comparing to Nordic peers, a similar share price is derived.

Peer group comparison (FactSet and Pareto estimates)

Company	Country	Price	Fx	M Cap (EURbn)	Net Debt '21e	EV '21e	EV/Sales '21e	EV/Sales '22e	EV/Sales '23e	EV/EBITDA '21e	EV/EBITDA '22e	EV/EBITDA '23e	EV/EBIT adj. '21e	EV/EBIT adj. '22e	EV/EBIT adj. '23e	Sales CAGR 2020-2023E	EBITDA CAGR 2020-2023E	EBIT CAGR 2020-2023E	EBITDA % 22e	EBIT% 22e	ND/EBITDA '21e	1m	3m	6m	YTD	12m
Mobile/F2P publishers																										
NEXON Co., Ltd	Japan	28.1	EUR	24,937	(4,191)	20,746	7.8	6.6	5.9	17.0	14.1	12.0	17.2	13.2	11.3	11.5%	18.1%	18.0%	47.1%	50.1%	(3.4)	8%	13%	38%	14%	
MAG Interactive AB	Sweden	4.3	EUR	112	(9)	104	3.8	3.4	3.1	24.0	17.9	15.2		46.8	36.8		46.8%		18.8%	6.2%	(2.0)	10%	53%	96%	52%	201%
Rovio Entertainment Oy	Finland	6.7	EUR	495	(147)	348	1.3	1.2	1.0	7.4	7.1	6.4	9.4	8.7	7.4	3.0%	-8.3%	5.1%	16.4%	13.3%	(3.1)	8%	5%	11%	6%	67%
Stillfront Group AB	Sweden	7.6	EUR	2,725	183	2,909	4.9	4.0	3.4	13.0	10.3	8.7	14.2	11.8	10.1	25.7%	27.2%	15.5%	38.9%	34.2%	0.8	-15%	-23%	-31%	-22%	94%
G5 Entertainment AB	Sweden	45.8	EUR	397	(35)	363	2.5	2.1	1.9	9.6	7.8	7.6	15.3	12.0	12.2	8.6%	12.8%	7.8%	27.4%	17.8%	(0.9)	-1%	16%	34%	16%	391%
Zynga Inc. Class A	United Stat	8.6	EUR	9,289	(798)	8,491	3.5	3.0	2.6	14.9	12.0	10.1	16.6	13.0	11.2	14.4%	16.3%	13.5%	25.3%	23.3%	(1.4)	-7%	9%	10%	2%	41%
Glu Mobile Inc.	United Stat	10.6	EUR	1,867	(345)	1,523	3.0	2.5		18.5	14.2		17.4	12.1		14.7%	30.2%	23.6%	17.5%	20.6%	(4.2)	3%	41%	64%	38%	92%
Media & Games Invest p	Malta	3.57	EUR	436	155	591	3.3	2.9	2.1	12.0	10.3	7.3	18.8	15.4	10.8	18.7%	36.2%	21.5%	27.6%	18.5%	3.1	-8%	79%	174%	70%	240%
Modern Times Group MTG	Sweden	12.24	EUR	1,257	(124)	1,133	2.2	1.8	1.4	13.7	10.3	6.9	17.4	12.7	9.9	20.2%	49.6%	22.8%	17.7%	14.4%	(1.5)	1%	-4%	15%	-3%	99%
Average							**3.8**	**3.2**	**2.9**	**14.5**	**11.7**	**9.6**	**15.0**	**16.8**	**14.8**	**14%**	**22%**	**15%**	**27%**	**23%**	**(1.4)**	**0%**	**21%**	**45%**	**19%**	**153%**
Median							**3.5**	**3.0**	**2.9**	**14.9**	**12.0**	**9.4**	**16.0**	**12.1**	**11.2**	**13%**	**18%**	**15%**	**25%**	**21%**	**(1.5)**	**1%**	**13%**	**34%**	**14%**	**97%**
Pareto estimates																										
Media & Games Invest p	**Malta**	**3.57**	**EUR**	**436**	**155**	**591**	**3.0**	**2.7**	**2.2**	**10.9**	**9.1**	**7.4**	**15.5**	**12.4**	**9.9**	**21%**	**40%**	**52%**	**30%**	**22%**	**2.0**	**-8%**	**79%**	**174%**	**70%**	**240%**
Noridc peers																										
Embracer Group AB	Sweden	22.5	EUR	10,349	(573)	9,775	6.5	5.9	5.1	15.6	13.4	11.0	18.3	16.1	14.3	24%	32%	9%	44%	36%	(0.9)	1%	17%	37%	17%	
Paradox Interactive AB	Sweden	18.2	EUR	1,923	(72)	1,851	10.2	7.8	6.9	17.3	13.0	11.5	34.8	24.9	21.7	13%	14%	25%	60%	31%	(0.7)	7%	-28%	-39%	-27%	27%
Remedy Entertainment O	Finland	39.5	EUR	516	(26)	490	10.7	9.9		29.4	28.6		31.6	32.8		18%	32%	26%	35%	30%	(1.6)	-4%	3%	23%	1%	179%
Enad Global 7 AB	Sweden	9.8	EUR	752	(22)	730	3.4	2.8	2.5	11.6	8.3	7.8	16.3	11.7	11.3	65%	141%	12%	34%	24%	(0.4)	0%	-18%	55%	-18%	278%
Stillfront Group AB	Sweden	7.6	EUR	2,725	183	2,909	4.9	4.0	3.4	13.0	10.3	8.7	14.2	11.8	10.1	26%	27%	16%	39%	34%	0.8	-15%	-23%	-31%	-22%	94%
MAG Interactive AB	Sweden	4.3	EUR	112	(9)	104	3.8	3.4	3.1	24.0	17.9	15.2		46.8	36.8	0%	47%	133%	19%	6%	(2.0)	10%	53%	96%	52%	201%
Rovio Entertainment Oy	Finland	6.7	EUR	495	(147)	348	1.3	1.2	1.0	7.4	7.1	6.4	9.4	8.7	7.4	3%	-8%	5%	16%	13%	(3.1)	8%	5%	11%	6%	67%
G5 Entertainment AB	Sweden	45.8	EUR	397	(35)	363	2.5	2.1	1.9	9.6	7.8	7.6	15.3	12.0	12.2	9%	13%	8%	27%	18%	(0.9)	-1%	16%	34%	16%	391%
Media & Games Invest p	Malta	3.6	EUR	436	155	591	3.3	2.9	2.1	12.0	10.3	7.3	18.8	15.4	10.8	19%	36%	22%	28%	19%	3.1	-8%	79%	174%	70%	240%
Average							**2.7**	**5.0**	**4.1**	**8.0**	**14.6**	**11.6**	**9.3**	**20.6**	**16.3**	**10%**	**37%**	**29%**	**32%**	**29%**	**(0.5)**	1%	2%	13%	13%	
Median							**4.3**	**3.7**	**3.1**	**14.3**	**11.7**	**8.7**	**16.3**	**14.1**	**12.2**	**16%**	**30%**	**14%**	**34%**	**27%**	**(0.9)**	0%	4%	29%	4%	
Average F2P							**3.1**	**2.7**	**2.4**	**13.5**	**10.8**	**9.4**	**13.0**	**19.8**	**16.6**	**5%**	**14%**	**30%**	**33%**	**22%**	**(0.7)**	3%	7%	20%	20%	
Median F2P							**3.1**	**2.8**	**2.5**	**11.3**	**9.1**	**8.1**	**14.2**	**11.9**	**11.1**	**6%**	**20%**	**12%**	**23%**	**16%**	**(1.5)**	4%	10%	22%	11%	
Pareto estimates																										
Media & Games Invest p	**Malta**	**3.57**	**EUR**	**436**	**155**	**591**	**3.0**	**2.7**	**2.2**	**10.9**	**9.1**	**7.4**	**15.5**	**12.4**	**9.9**	**21%**	**40%**	**52%**	**30%**	**22%**	**2.0**	**-8%**	**79%**	**174%**	**70%**	**240%**

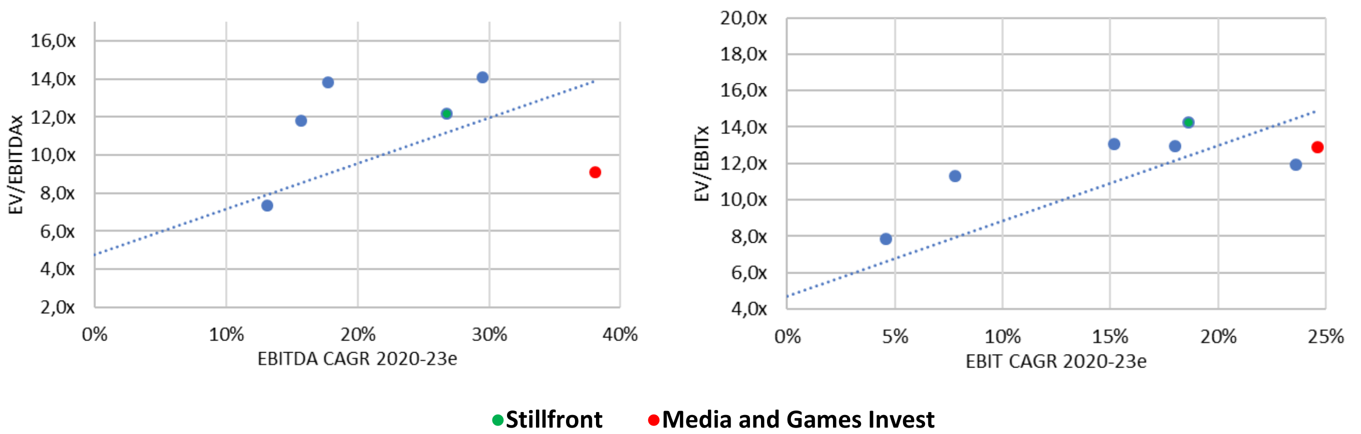
Source: Pareto, FactSet

Global peers – EV/EBITDA 2022E vs EBITDA CAGR 2020-2023E and EV/EBIT 2022E vs EBIT CAGR 2020-2023E



Source: Pareto, FactSet

F2P peers – EV/EBITDA 2022E vs EBITDA CAGR 2020-2023E and EV/EBIT 2022E vs EBIT CAGR 2020-2023E



Source: Pareto, FactSet

Initiating with a Buy recommendation and target price of SEK 64

Initiating with a Buy rating and TP of SEK 64

Based on peer multiple and DFC valuation approaches, we see a motivated share price for MGI of SEK 64 per share. As discussed earlier, no acquisitions have been taken into consideration. However, these would add additional upside to the MGI case going forward. We initiate coverage of Media and Games Invest with a Buy recommendation and target price of SEK 64 per share.

Management and shareholders

Remco Westermann has been the CEO and Chairman of the Board since 2012, when he acquired gamigo AG. Mr Westermann has an entrepreneurial background with more than 25 years of experience from various leadership positions within technology and media companies. Since 2012, he has been running the operating businesses as well as the acquisitions carried out, and is rightly the main reason for the success of MGI. Mr Westermann is the main shareholder of MGI and holds, via his holding company Bodhivas, 33% of the shares, corresponding to a SEK 1.6bn position.

Besides the CEO, MGI's top management consist of CFO Paul Echt, COO Jens Knauber, and well-balanced unit teams with experience from tech and gaming. Throughout the years, management has shown a proven track record of good value-accretive M&A. CFO Paul Echt has more than ten years of experience in the tech and finance industries, previously holding relationship manager positions at UniCredit Bank in Berlin, München and New York, as well as being Corporate Development Manager at Shopgate Inc in San Francisco.

With a phantom stock structure (synthetic options), the management team has strong incentives to continue performing well with share price appreciation. Under the employee stock ownership plan, MGI can issue via options up to 15 million new shares from April 2024 to 2030, with a strike price of EUR 2.6 per share, strongly incentivising new and existing employees. This is an important asset in the very competitive HR gaming market.

MGI – management team

Remco Westermann - CEO

- Over 25 years of experience as founder and top manager, specialized in New Media with a focus on Mobile and Online Entertainment
- MSc in Business Economics at Erasmus University Rotterdam
- Responsible for Strategy, Legal and M&A

Paul Echt - CFO

- 8+ years experience in Tech & Finance industry
- Occupying positions at UniCredit Bank and Shopgate Inc.
- Master in Business Management (M.A.) and Bachelor of Laws (LL.B)
- Responsible for Finance, Controlling and Investor relations

Jens Knauber - COO

- 10+ years experience as manager in the entertainment industry
- Game publishing expert – over 300 internationally-published games
- Occupying a series of leadership positions at the Hamburg-based publisher dtp
- Responsible for B2C Gaming Business

Source: Company information

To partly finance the KingsIsle acquisition a direct share issue to Oaktree was made at the end of 2020, making Oaktree MGI's second-largest shareholder with a 9% ownership stake. Oaktree is a well-respected, long-term diversified global asset manager, supporting European management teams growing their platform companies into market leaders. Oaktree has a proven track record of building multi-billion dollar listed companies with a long-term investment horizon of 3-5 years. With Oaktree, MGI can focus more on medium-sized acquisition targets. We welcome Oaktree being the second-largest shareholder and expect it to be supportive of MGI's buy-and-build strategy going forward.

MGI – major shareholders

Shareholder	Shares	Holding
Remco Westermann	42,718,632	33.18%
Oaktree Capital Management LP	11,676,241	9.07%
UBS Switzerland AG	1,960,888	1.50%
Avanza Pension	1,821,072	1.41%
Nordnet Pensionsförsäkring	1,784,974	1.39%
Dragfast AB	950,000	0.74%
Elizabeth Para	808,088	0.63%
Skandia Fonder	788,546	0.61%
Finlandia Rahastoyhtiö Oy	775,000	0.60%
Knutsson Holdings AB	670,000	0.52%
Livförsäkringsbolaget Skandia	537,534	0.42%
Others	64,258,773	49.93%
Total	128,749,748	100.00%

Source: Pareto, Holdings

PROFIT & LOSS (fiscal year) (EURm)	2016	2017	2018	2019	2020	2021e	2022e	2023e
Revenues	**39**	**42**	**45**	**84**	**140**	**187**	**214**	**246**
Growth Revenues		8.0%	7.6%	85.2%	67.1%	33.7%	14.0%	14.9%
EBITDA	**3**	**7**	**11**	**16**	**27**	**52**	**64**	**74**
Depreciation & amortisation	(13)	(10)	(8)	(11)	(16)	(27)	(29)	(30)
EBIT	**(10)**	**(3)**	**3**	**5**	**11**	**25**	**35**	**44**
EBIT adjusted	(10)	(3)	3	11	17	36	47	55
Net interest	(2)	(2)	(2)	(6)	(7)	(9)	(9)	(9)
Other financial items	-	-	-	-	-	-	-	-
Profit before taxes	**(12)**	**(6)**	**0**	**(1)**	**4**	**15**	**26**	**34**
Taxes	3	1	1	2	(1)	(1)	(1)	(10)
Minority interest	-	-	-	-	-	-	-	-
Net profit	**(9)**	**(5)**	**2**	**1**	**3**	**15**	**25**	**24**
EPS reported				0.02	0.03	0.11	0.19	0.19
EPS adjusted				**0.08**	**0.08**	**0.18**	**0.25**	**0.25**
Growth EPS adjusted					(0.6%)	111.3%	43.4%	(1.6%)
DPS	-	-	-	-	-	-	-	-

BALANCE SHEET (EURm)	2016	2017	2018	2019	2020	2021e	2022e	2023e
Tangible non current assets	2	2	4	4	2	2	2	2
Other non-current assets	60	55	78	253	292	359	402	396
Other current assets	7	9	8	23	46	43	47	52
Cash & equivalents	3	1	4	33	46	47	29	60
Total assets	**73**	**67**	**94**	**312**	**386**	**451**	**480**	**510**
Total equity	32	27	29	169	177	191	216	240
Interest-bearing non-current debt	14	14	39	68	105	145	145	145
Interest-bearing current debt	1	7	-	0	6	6	6	6
Other Debt	26	19	26	76	98	109	113	119
Total liabilites & equity	**73**	**67**	**94**	**312**	**386**	**451**	**480**	**510**

CASH FLOW (EURm)	2016	2017	2018	2019	2020	2021e	2022e	2023e
Cash earnings	3,652	5,401	10,081	11,796	18,215	51,792	63,840	73,932
Change in working capital	2,869	(999)	1,466	4,692	(15,692)	13,410	640	977
Cash flow from investments	(1,654)	(8,728)	(6,345)	(13,070)	(37,707)	(94,543)	(71,767)	(24,555)
Cash flow from financing	(1,249)	(868)	3,777	25,408	25,774	30,800	(9,200)	(9,200)
Net cash flow	3	(5,795)	7,913	28,537	13,269	691	(17,777)	30,860

CAPITALIZATION & VALUATION (EURm)	2016	2017	2018	2019	2020	2021e	2022e	2023e
Share price (EUR end)					**2.08**	**3.56**	**3.56**	**3.56**
Number of shares end period	-	-	-	67	117	129	129	129
Net interest bearing debt	12	20	35	35	64	104	121	91
Enterprise value					**307**	**562**	**580**	**549**
EV/Sales					2.2	3.0	2.7	2.2
EV/EBITDA					**11.6**	**10.8**	**9.1**	**7.4**
EV/EBIT					27.8	22.9	16.5	12.6
EV/EBIT adjusted					18.4	15.4	12.4	9.9
P/E reported					65.6	31.4	18.7	19.1
P/E adjusted					**24.7**	**20.0**	**14.0**	**14.2**
P/B					1.4	2.4	2.1	1.9

FINANCIAL ANALYSIS & CREDIT METRICS	2016	2017	2018	2019	2020	2021e	2022e	2023e
ROE adjusted (%)	-	-	-	5.2	4.2	12.4	16.1	14.2
Dividend yield (%)					-	-	-	-
EBITDA margin (%)	6.8	16.7	24.4	18.5	18.9	27.6	29.9	30.1
EBIT margin (%)	-	-	5.7	6.0	7.9	13.1	16.4	17.7
EBIT margin adj(%)	-	-	5.7	12.5	11.9	19.4	21.9	22.5
NIBD/EBITDA	4.63	2.82	3.17	2.24	2.42	2.00	1.90	1.23
EBITDA/Net interest	1.39	3.05	5.27	3.15	4.07	5.91	7.22	8.32

PROFIT & LOSS (fiscal year) (EURm)	1Q'20	2Q'20	3Q'20	4Q'20	1Q'21e	2Q'21e	3Q'21e	4Q'21e
Revenues	**27**	**30**	**35**	**49**	**43**	**45**	**46**	**54**
EBITDA	**5**	**6**	**6**	**9**	**11**	**12**	**13**	**16**
Depreciation & amortisation	(3)	(3)	(2)	(4)	(7)	(7)	(7)	(7)
EBIT	**3**	**4**	**4**	**5**	**4**	**6**	**6**	**9**
Net interest	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Other financial items	-	-	-	-	-	-	-	-
Profit before taxes	**1**	**2**	**2**	**3**	**2**	**3**	**3**	**7**
Taxes	(0)	(1)	(0)	0	(0)	(0)	(0)	(0)
Minority interest	-	-	-	-	-	-	-	-
Net profit	**1**	**1**	**1**	**3**	**2**	**3**	**3**	**6**
EPS reported	0.01	0.01	0.02	0.04	0.02	0.02	0.03	0.05
EPS adjusted	**0.02**	**0.01**	**0.02**	**0.04**	**0.03**	**0.04**	**0.04**	**0.06**
DPS	-	-	-	-	-	-	-	-

BALANCE SHEET (EURm)	1Q'20	2Q'20	3Q'20	4Q'20	1Q'21e	2Q'21e	3Q'21e	4Q'21e
Tangible non current assets	2	2	2	2	2	2	2	2
Other non-current assets	340	338	361	359	382	380	403	402
Other current assets	36	38	39	43	41	42	43	47
Cash & equivalents	12	58	38	47	29	36	19	29
Total assets	**390**	**435**	**439**	**451**	**454**	**460**	**467**	**480**
Total equity	179	182	185	191	197	202	208	216
Interest-bearing non-current debt	105	145	145	145	145	145	145	145
Interest-bearing current debt	6	6	6	6	6	6	6	6
Other Debt	101	102	104	109	106	107	109	113
Total liabilites & equity	**390**	**435**	**439**	**451**	**454**	**460**	**467**	**480**

CASH FLOW (EURm)	1Q'20	2Q'20	3Q'20	4Q'20	1Q'21e	2Q'21e	3Q'21e	4Q'21e
Cash earnings	11,127	12,260	12,601	15,804	14,947	14,978	15,406	18,509
Change in working capital	12,078	280	174	878	(423)	147	222	694
Cash flow from investments	(54,855)	(4,489)	(29,834)	(5,365)	(30,212)	(5,135)	(30,520)	(5,899)
Cash flow from financing	(2,300)	37,700	(2,300)	(2,300)	(2,300)	(2,300)	(2,300)	(2,300)
Net cash flow	(34,059)	45,592	(19,531)	8,689	(18,268)	7,414	(17,485)	10,562

CAPITALIZATION & VALUATION (EURm)	1Q'20	2Q'20	3Q'20	4Q'20	1Q'21e	2Q'21e	3Q'21e	4Q'21e
Share price (EUR end)				**2.08**	**3.56**	**3.56**	**3.56**	**3.56**
Number of shares end period	92	92	92	92	129	129	129	129
Net interest bearing debt	(13)	71	78	64	98	93	112	104
P/E reported				25.9	42.6	38.2	34.7	31.4
P/E adjusted				**23.4**	**34.0**	**27.4**	**22.9**	**20.0**
P/B				1.0	3.1	2.3	2.2	2.1

FINANCIAL ANALYSIS & CREDIT METRICS	1Q'20	2Q'20	3Q'20	4Q'20	1Q'21e	2Q'21e	3Q'21e	4Q'21e
Dividend yield (%)				-	-	-	-	-
EBITDA margin (%)	20.0	21.0	16.9	18.5	26.1	27.3	27.2	29.5
EBIT margin (%)	10.6	12.4	10.2	9.8	10.5	12.3	12.4	16.5
NIBD/EBITDA	0.32	1.18	1.97	1.88	2.41	2.18	2.04	1.97
EBITDA/Net interest	2.77	2.85	3.15	3.87	4.48	4.97	5.51	5.91

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Appendix A

Disclosure requirements pursuant to the Norwegian Securities Trading Regulations section 3-10 (2) and section 3-11 (1), letters a-b

The below list shows companies where Pareto Securities AS - together with affiliated companies and/or persons – own a portion of the shares exceeding 5 % of the total share capital in any company where a recommendation has been produced or distributed by Pareto Securities AS.

Companies	No. of shares	Holdings in %	Companies	No. of shares	Holdings in %
Helgeland Sparebank	2,015,935	9.66%	SpareBank 1Østfold Akersl	1,139,560	9.20%
Pareto Bank ASA	16,234,886	23.24%	Sparebanken Vest	6,803,873	6.34%

Pareto Securities AS or its affiliates own as determined in accordance with FINRA Rule 2241, 1 % or more of the equity securities of :

Companies	No. of shares	Holdings in %	Companies	No. of shares	Holdings in %
DOF ASA	3,712,491	1.27%	SpareBank 1Østfold Akersl	1,139,560	9.20%
Helgeland Sparebank	2,015,935	9.66%	SpareBank 1Østlandet	3,432,736	3.20%
Pareto Bank ASA	16,234,886	23.24%	Sparebanken Møre	305,239	3.09%
Selvaag Bolig ASA	2,893,099	3.09%	Sparebanken Sør	433,544	2.77%
SpareBank 1BV	1,633,220	2.59%	Sparebanken Vest	6,803,873	6.34%
SpareBank 1Nord-Norge	3,984,132	3.97%	Totens Sparebank	78,246	1.28%
SpareBank 1SMN	1,875,442	1.44%			

Pareto Securities AS may hold financial instruments in companies where a recommendation has been produced or distributed by Pareto Securities AS in connection with rendering investment services, including Market Making.

Please find below an overview of material interests in shares held by employees in Pareto Securities AS, in companies where a recommendation has been produced or distributed by Pareto Securities AS. "By material interest" means holdings exceeding a value of NOK 50 000.

Company	Analyst holdings*	Total holdings	Company	Analyst holdings*	Total holdings	Company	Analyst holdings*	Total holdings
Aker ASA	500	2,259	Fjordkraft Holding	0	12,605	PGS	0	11,676
Aker BP	0	32,441	Flex LNG	0	14,312	Protector Forsikring	0	12,000
Aker Carbon Capture	0	240,368	Frontline	0	82,308	Quantafuel	0	1,119,190
Aker Offshore Wind	0	167,028	Gjensidige Forsikring	0	7,400	REC Silicon	0	37,051
American Shipping Company	0	13,300	Golden Ocean Group	0	1,433	SalMar	0	105
Aprila Bank ASA	0	22,675	Grieg Seafood	0	12,753	Sandnes Sparebank	0	126,013
Archer	0	30,170	Hafnia Limited	0	137,330	Sbanken ASA	0	4,520
Arcus	0	2,784	HydrogenPro	0	37,851	Scatec Solar	0	20,000
Atlantic Sapphire	0	10,010	Ice Group ASA	0	200,000	Schibsted ASA B Aksjer	0	155
Austevoll Seafood	0	29,135	Komplett Bank	0	99,300	Selvaag Bolig	0	51,900
Avance Gas	0	3,362	Kongsberg Gruppen	0	35,581	Skitude	0	12,695
Axactor	0	44,376	KWS	75	75	SpareBank 1Nord-Norge	0	1,850
B2Holding AS	0	14,075	Lerøy Seafood Group	0	18,142	SpareBank 1SMN	0	12,740
BASF	270	270	Mowi	0	4,600	SpareBank 1SR-Bank	0	8,343
Bonheur	0	32,275	MPC Container Ships	0	45,944	Sparebank 1Østfold Akershus	0	1,252
Borregaard ASA	0	650	Nordic Semiconductor	0	5,406	SpareBank 1Østlandet	0	8,621
Bouvet	0	294	Norsk Hydro	0	106,867	Sparebanken Sør	0	16,235
BRABank	0	74,607	Norske Skog	0	8,225	Sparebanken Vest	0	15,535
BW Energy	0	43,825	Norwegian Energy Company	0	790	Sparebanken Øst	0	1,500
BW LPG	0	10,800	Norwegian Finans Holding	0	3,210	Stolt-Nielsen	0	1,817
BW Offshore	0	11,326	Norwegian Property	0	22,425	Storebrand	0	9,732
DNB	0	29,908	NTS	0	2,272	Subsea 7	0	9,226
DNO	0	155,978	Ocean Yield	0	72,970	Telenor	0	7,454
DOF	0	2,366,346	OHT	0	6,650	TGS-NOPEC	0	1,300
Elkem	0	35,426	Okeanis Eco Tankers	0	22,000	Volue	0	15,148
Entra	0	9,977	Orkla	0	19,542	VOW	0	5,981
Equinor	0	2,552	Panoro Energy	0	10,502	Wallenius Wilhelmsen	0	46,100
Europris	0	11,263	Pareto Bank	0	2,411,276	XXL	0	22,534
Fjord1ASA	0	50,000	Pexip Holding	0	32,283	Yara	0	14,595

This overview is updated monthly (last updated 15.03.2021).

*Analyst holdings refers to positions held by the Pareto Securities AS analyst covering the company.

Appendix B

Disclosure requirements pursuant to the Norwegian Securities Trading Regulation § 3-11, letters e-f, ref the Securities Trading Act Section 3-10

Overview over issuers of financial instruments where Pareto Securities AS have prepared or distributed investment recommendation, where Paret Securities AS have been lead manager/co-lead manager or have rendered publicly known not immaterial investment banking services over the previous 12 months:

24SevenOffice Scandinavia	DOF Subsea AS	Mercell	Talos Energy Inc
2G Energy	Element ASA	Mintra Group	Tise AS
Acconer AB	ELOP	Modex AS	Trønderenergi AS
Africa Energy Corp Corp	Endur ASA	MPC Container Ships	Watercircles Forsikring ASA
Aker ASA	Fertiberia S.A.R.L.	Mutares SE & Co. KGaA	West Coast Salmon
Aker Horizons	Fjordkraft Holding	Navigator Holdings Ltd.	Wheel.me
Akershus Energi	Flexistore AS	Navios	-
Akva Group	Genel Energy	Next Biometrics Group	-
Alussa Energy Acquisition Corp (Freyr)	Golden Ocean Group	Nordic Halibut	-
American Tanker, Inc.	Goliath Offshore	Norske Skog	-
Aprila Bank ASA	Hafnia Ltd.	Norwegian Block Exchange	-
Arctic Fish	Helgeland Sparebank	Odfjell SE	-
Arendals Fossekompani	HKN Energy Ltd	OHT	-
BioInvent	Hofseth BioCare	Panoro Energy	-
Boreal Holding AS	House of Control	Pelagia Holding AS	-
Borr Drilling Limited	Huddly AS	PetroTal	-
BRAbank	HydrogenPro	Pexip Holding	-
Brooge Energy Limited	Ice Group Scandinavia Holdings AS	Pioneer Property Group ASA	-
Bulk Infrastructure Holding	Idavang A/S	Proximar Seafood	-
BW Energy	Instabank ASA	Quantafuel	-
CentralNic Group PLC	Kalera AS	REC Silicon	-
Cibus Nordic Real Estate	Keppel FELS Limited	Saga Robotics	-
Circa Group	Klaveness Combination Carriers ASA	Salmon Evolution	-
Cloudberry Clean Energy	KLP	Scorpio Bulkers	-
Crayo Nano AS	Komplett Bank	Seafire AB	-
CRC Holding B.V. ("Pryme")	Kongsberg Automotive	Siccar Point Energy	-
Digiplex	Kraft Bank	Skitude	-
DOF	Meltwater	Sparebanken Vest	-

This overview is updated monthly (this overview is for the period 31.02.2020 – 31.02.2021).

Appendix C

Disclosure requirements pursuant to the Norwegian Securities Trading Regulation § 3-11 (4)

Distribution of recommendations

Recommendation	% distribution
Buy	67%
Hold	29%
Sell	3%

Distribution of recommendations (transactions*)

Recommendation	% distribution
Buy	91%
Hold	9%
Sell	0%

* Companies under coverage with which Pareto Securities Group has on-going or completed public investment banking services in the previous 12 months.

This overview is updated monthly (last updated 15.03.2021).

Appendix D

This section applies to research reports prepared by Pareto Securities AB.

Disclosure of positions in financial instruments
The beneficial holding of the Pareto Group is 1 % or more of the total share capital of the following companies included in Pareto Securities AB's research coverage universe: None

The Pareto Group has material holdings of other financial instruments than shares issued by the following companies included in Pareto Securities AB's research coverage universe: None

Disclosure of assignments and mandates
Overview over issuers of financial instruments where Pareto Securities AB has prepared or distributed investment recommendation, where Pareto Securities AB has been lead manager or co-lead manager or has rendered publicly known not immaterial investment banking services over the previous twelve months:

24SevenOffice Scandinavia AB	Cibus Nordic Real Estate AB	Isofol Medical AB	Swedencare AB
Azelio	Climeon AB	Media & Games Invest plc.	Vicore Pharma
Bionvent	Egetis Therapeutics	Re:NewCell	VNV Global
Biovica International	Implantica	Surgical Science	

Members of the Pareto Group provide market making or other liquidity providing services to the following companies included in Pareto Securities AB's research coverage universe:

Africa Energy Corp.	Logistri Fastighets AB	Minesto	ShaMaran Petroleum
ByggPartner i Dalarna Holding	Magnolia Bostad	Saltängen Property Invest	Surgical Science
Cibus Nordic Real Estate	Media & Games Invest plc.	SciBase Holding	Tethys Oil
Isofol Medical	Mentice AB	Sedana Medical	Vostok Emerging Finance

Members of the Pareto Group have entered into agreements concerning the inclusion of the company in question in Pareto Securties AB's research coverage universe with the following companies: None

Member of the Pareto Group is providing Business Management services to the following companies:

Bosjö Fastigheter AB	Bråviken Logistik	Halmslätten	Mälaråsen
Bonäsudden	Delarka	Logistri	Sydsvenska Hem

Members of the Pareto Group have entered into agreements concerning the inclusion of the company in question in Pareto Securities AB's research coverage universe with the following companies: None
This overview is updated monthly (last updated 30.03.2021).

Appendix E

Disclosure requirements pursuant to the Norwegian Securities Trading Regulation § 3-11, letter d, ref the Securities Trading Act Section 3-10

Designated Sponsor
Pareto Securities acts as a designated sponsor for the following companies, including the provision of bid and ask offers. Therefore, we regularly possess shares of the company in our proprietary trading books. Pareto Securities receives a commission from the company for the provision of the designated sponsor services.

2G Energy *	Gigaset *	MLP *	SMT Scharf AG *
Biotest *	Heidelberg Pharma *	mutares	Surteco Group *
CORESTATE Capital Holding S.A.	Intershop Communications AG	OVB Holding AG	Syzygy AG *
Daldrup & Söhne	Leifheit	Procredit Holding *	TAKKT AG
Demire	Logwin *	PSI SOFTWARE AG *	Viscom *
Epigenomics AG*	Manz AG *	PWO *	
Gesco *	MAX Automation SE	RIB Software *	
GFT Technologies *	Merkur Bank	S&T AG *	

* The designated sponsor services include a contractually agreed provision of research services.

Appendix F

Disclosure requirements pursuant to the Norwegian Securities Trading Regulation § 3-11, letter g, ref the Securities Trading Act Section 3-10

Sponsored Research
Pareto Securities has entered into an agreement with these companies about the preparation of research reports and– in return - receives compensation.

Adler Modemaerkte	Dermapharm Holding SE	MAX Automation SE	OHB SE
Baywa	Hypoport AG	Merkur Bank	OVB Holding AG
BB Biotech	Intershop Communications AG	mutares	Siegfried Holding AG
Daldrup & Söhne	Leifheit		

This overview is updated monthly (last updated 16.03.2021).