

M|17

M17 Capital Management



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A de-risked business model being scaled up (M8G.GR)

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I. **M17's approach to investing**

II. Investment case: Media and Games Invest (M8G)

III. Questions & Answers

1. We look to **identify upcoming changes to an industry's and company's operating environment**, driven by changes in regulation, legislation, competitive environment, conduct or other external factors, and anticipate the impact of these changes in the company's financial performance before it is reflected in the share price.
2. **We focus on buying well managed, structurally growing companies, operating in niche segments with reasonably strong pricing power and trading on attractive valuations with identifiable catalysts to crystallize underlying upside.**
3. **We actively avoid consensual positions**, preferring to take a contrarian and uncrowded position, provided our stance is justified following extensive financial modelling as well as strategic and operational reasoning.
4. **We strive for diversification not only in the number of securities and industries in the portfolio, but also in the breadth of investment themes used in a market cap-agnostic approach** across several risk categories such as compounders, accelerators, spin-offs, turnarounds, catalyst oriented situations including management changes, deep value, potential activist candidates, mispriced conglomerates or cyclicals. We think this flexibility is a key advantage relative to managers who focus on a narrower set of frameworks.
5. Additional degrees of freedom are to be **market-cap blind, opportunistic as to sector, FX and geographic exposure** within the investment restrictions of the investment product. Despite this freedom, we ensure there are not too many position overlaps.
6. Each idea has an attributed **time until when the investment case must play out**. Only those ideas who meet our ROIC objectives within our investment time horizon (margin of safety and maximum downside) are considered for our portfolio. In consequence we also apply a "stop loss in time".
7. Risk management is critical. **To compound returns at a high rate, we need to limit drawdowns** ("to finish first, we first have to finish"). So although M17 is willing to establish 7-10% positions, tail hedges to these positions are often established. Additionally, larger positions require a high degree of uniqueness in terms of risk category, lack of crowdedness, overlap of risks and most importantly, an independence in the fundamentals of the investment case.

1 Develop a “living” hypothesis tree

- A strong and coherent hypothesis tree forms the basis of a good understanding of a company’s competitive positioning
- Each branch of the hypothesis tree helps generating a holistic storyline.
- In order to confirm or falsify a hypothesis, one or more analysis are required.

2 SCP and non-financial evaluation of investment*

- The industry dynamics analysis evaluates the importance of and the changes to the structure and the competitors’ conduct on the performance of the investment opportunity
 - Strategy
 - organizational setup
 - processes and
 - other (non-) financial elements

4 Understand differences to consensus

- M17 will only earn a significant profit provided our analysis and valuation is different to consensus and these differences are identified ahead of the market appreciating those factors.

3 Financial valuation of investment

- Historic review of all financials to provide context of current valuation
- Detailed forecast of financials based on our hypothesis tree and SCP analysis
- Consideration of different scenarios and catalysts (incl. their respective impact on our valuation)

* SCP = Structure – Conduct – Performance framework.

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- M8G specific focus on **gaming** (especially via in-games purchases in MMOGs*) and **media** advertising (agency business and programmatic ad-tech solutions). Its main asset is gamigo, a games publisher with more than 30 well-established MMOGs and 5k+ casual games.
- Revenues are generated with loyal customers. The majority of games generate over **60% of revenues** with users who have been **playing the game for more than five years**.
- M8G is acting as a successful **consolidator** in the gaming market by purchasing distressed assets (games and media) for low prices and leveraging the acquired user base with its existing infrastructure.
- M8G is pushing into mobile games with its **roll-up strategy**. It acquired freenet digital and bundles the digital mobile entertainment offerings of freenet AG with over 1,500 mobile games via its own platforms, as well as other products in the digital entertainment sector.

* Massively multiplayer online game is an online game with large numbers of players, often hundreds or thousands, on the same server

Details

SIMPLIFIED

Gaming

Game development

- The complete design and programming of a game takes 6-24 months and EUR 5-50 million in capex

M8G does not develop games, but only maintains them

Infrastructure

- A dedicated IT infrastructure must be in place to deploy and make the game available.
- Often, game developers rely on own assets

M8G brings all games to its own cloud and thus reduces costs

User acquisition

- Even with a great game, user acquisition is very competitive and costly
- Initial user acquisition costs can be as high as EUR 5 p.u.

M8G acquires games which already have their user base

Maintain user base

- Single game companies – even if they have several games – don't have an environment to lock in the user base

M8G acquires entire environments with thousands of games

Media

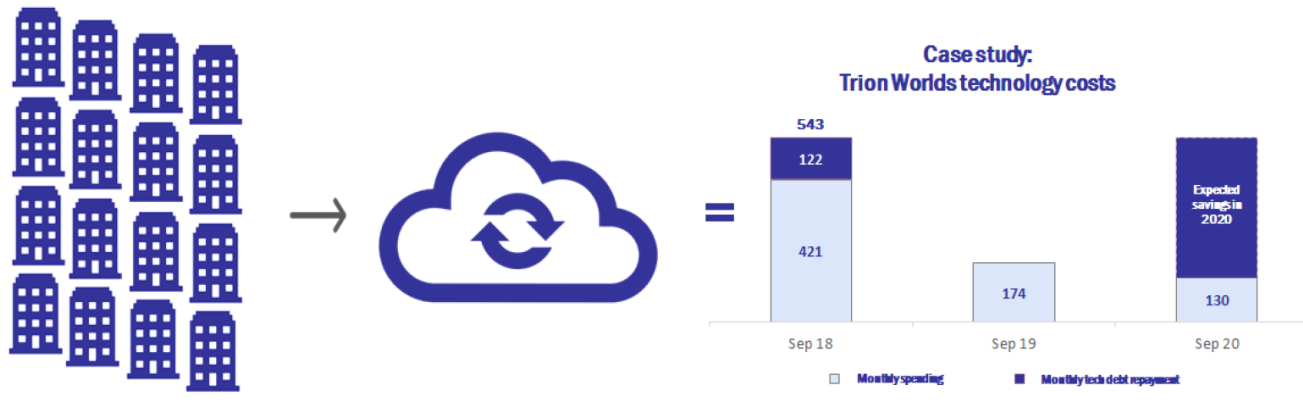
Real time interaction

- For most media houses, real time interaction with (potential) customers is difficult to achieve and costly

M8G leverages its gaming / influencer community

SIMPLIFIED

Figure 1: Trion Worlds' technology optimisation



Data centers:
 High fixed costs
 High personnel costs
 Capital-intensive investments

Use of Cloud Technology:

- Variable cost depending on traffic
- Scalable
- Low personnel costs
- No capital-intensive investments

Result:

- Massive cost savings
- Variable costs
- Reduced risk
- Reduction of downtimes

- Monthly costs reduced from EUR 543k to EUR 130K
- Time for implementation of new model is 2 years
- Secondly, M8G optimized the revenue model to require only EUR 0.10 in user maintenance cost (vs. EUR 0.15) while doubling the ad-income to EUR 4 CPM – a 3x improvement
- M8G's **buy, integrate, build and improve** delivers superior returns

M8G's valuation

SIMPLIFIED

All figures in EUR '000	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Revenue	114,933	142,517	165,320	190,118	218,636	240,500	252,525	262,626
NOPLAT	4,826	10,644	13,736	18,290	22,119	27,025	28,270	31,198
(+) depreciation & amortisation	13,217	12,399	14,383	16,540	19,021	18,518	19,444	17,596
Net operating cash flow	18,044	23,043	28,119	34,830	41,140	45,543	47,714	48,794
(-) Investments	-29,493	-13,140	-15,243	-17,529	-20,158	-19,769	-20,758	-18,962
(-) Working capital	-1,769	-2,524	-2,081	-2,705	-2,614	-2,082	-819	-688
Free cash flows (FCF)	-13,219	7,379	10,795	14,596	18,368	23,692	26,138	29,145
PV of FCF's	-12,742	6,490	8,662	10,684	12,266	14,435	14,529	14,780

All figures in thousands		Terminal EBIT margin							
		16.7%	18.7%	20.7%	22.7%	24.7%	26.7%	28.7%	
PV of FCFs in explicit period	118,055	6.6%	3.77	4.39	5.01	5.63	6.25	6.87	7.49
PV of FCFs in terminal period	203,648	7.6%	3.01	3.48	3.95	4.42	4.89	5.36	5.83
Enterprise value (EV)	321,703	8.6%	2.46	2.83	3.19	3.56	3.93	4.30	4.66
(+) Net cash / (-) net debt	-46,145	9.6%	2.04	2.34	2.63	2.92	3.22	3.51	3.80
(-) Non-controlling interests	-6,112	10.6%	1.72	1.96	2.19	2.43	2.67	2.91	3.14
Shareholder value	269,446	11.6%	1.46	1.65	1.85	2.04	2.24	2.43	2.63
Fair value per share (€)	2.90	12.6%	1.24	1.41	1.57	1.73	1.89	2.05	2.21

		Terminal growth rate							
		0.0%	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	
Cost of equity	11.0%	6.6%	4.53	4.84	5.20	5.63	6.15	6.80	7.63
Pre-tax cost of debt	6.0%	7.6%	3.69	3.90	4.14	4.42	4.75	5.14	5.62
Tax rate	32.5%	8.6%	3.05	3.20	3.37	3.56	3.78	4.04	4.34
After-tax cost of debt	4.1%	9.6%	2.56	2.67	2.79	2.92	3.08	3.25	3.45
Share of equity capital	80.0%	10.6%	2.16	2.24	2.33	2.43	2.54	2.67	2.81
Share of debt capital	20.0%	11.6%	1.84	1.90	1.97	2.04	2.12	2.22	2.32
WACC	9.6%	12.6%	1.57	1.62	1.67	1.73	1.79	1.86	1.94

*Please note our model runs through 2030 and we have only shown the abbreviated version for formatting purposes

- ⊕ M8G currently trades at EUR 1.34 (0.7 P/BV)
- ⊕ Margin of safety over 50%
- ⊕ WACC is more conservative than in reality (equity ratio 50%)
- ⊖ High volatility (beta 1.6) requires long investment horizon

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Markus Matuszek, CFA

CEO & Chief Investment Officer

Direct +41 (79) 374 6322

Email mm@m17cap.com

M17 Capital Management Ltd.

Sihleggstrasse 23

8832 Wollerau

Switzerland

www.m17cap.com