



Full Year Results 2018

Andrew Day, CEO

David Broderick, CFO

8 April 2019



Support | Deliver | Evolve

2018 financial highlights

Revenue up 66%

€250.8m (CC: €258.6m)
(2017: €151.4m)

Gross margin

38.2%
(2017: 36.4%)

Adj. PBT up 65%

€37.9m
(2017: €23.0m)

Adj. EPS up 53%

47.75c
(2017: 31.18c)

DPS up 10%

1.61p
(2017: 1.46p)

ROCE up 360 bps

19.4%
(2017: 15.8%)



Key achievements in 2018

Strong underlying performance and organic investment

- 10.1% increase in like-for-like revenue¹ (or 14.9% excluding the impact of VMC)
- Invested in capacity, adding 930 work stations across multiple studios to support organic growth
- 99 clients now using three or more services, up from 93 in 2017 indicating further cross-selling success
- Further strengthened the senior management team with newly created positions

Expanded new and existing services

- Pro forma revenue² of €265.4m
- Integration of VMC across four service lines and five studios completed ahead of schedule, giving us the benefits of scale in North America
- 8 acquisitions in 2018 completed and integrated, expanding new and existing service lines:
 - Significantly expanded newer engineering service line
 - Added marketing services, music management and predictive analytics to our range of services
- Keywords Ventures launched to make modest investments in innovations that will benefit our clients

¹ Like for like revenue at constant exchange rates is calculated by adjusting the prior year revenues comparison by adding pre acquisition revenues for the corresponding period of ownership in the current year results and applying consistent foreign exchange rates in both years

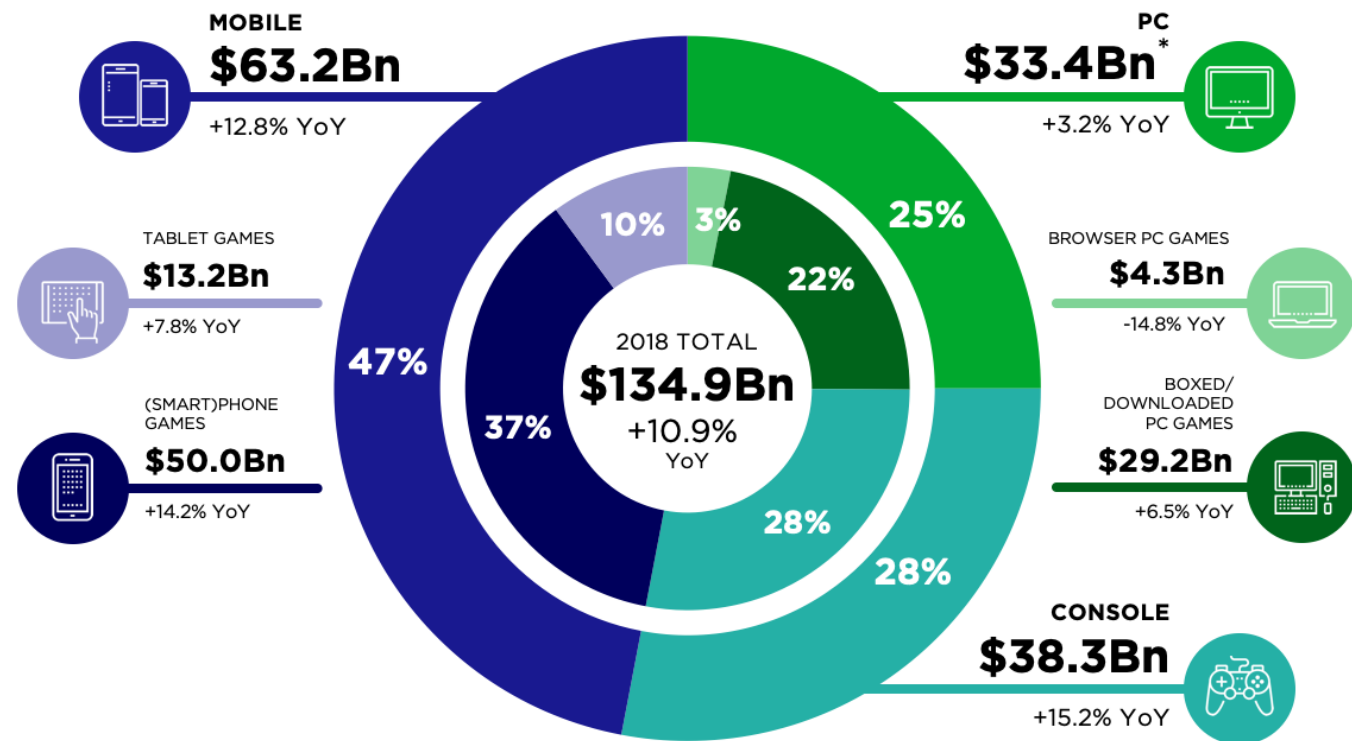
² Pro forma revenue includes the annualised sales of all acquisitions made in each year, in order to provide a better overview of the balance of the business at the end of each year.



Growing video games market driving more strategic outsourcing

Video games are a rapidly growing, almost \$135bn, niche global market – with expected growth of 9% p.a

- Increased complexity, volume and speed of content generation has driven the trend towards outsourcing - most of it on a tactical basis.
- Going forward there will be more strategic outsourcing as publishers need to focus on what makes their IP unique - vertically integrated models can be a distraction.
- We estimate the services market to be worth over \$6bn, with around 40% of that outsourced today. In film and TV, 90%+ of production is outsourced.
- Cloud based gaming (Netflix of games) is a major theme for 2019 and a new console generation is expected in 2020/21.



Source: NewZoo Global Games Market Report, October 2018



Expertise across the game development cycle

Art Services

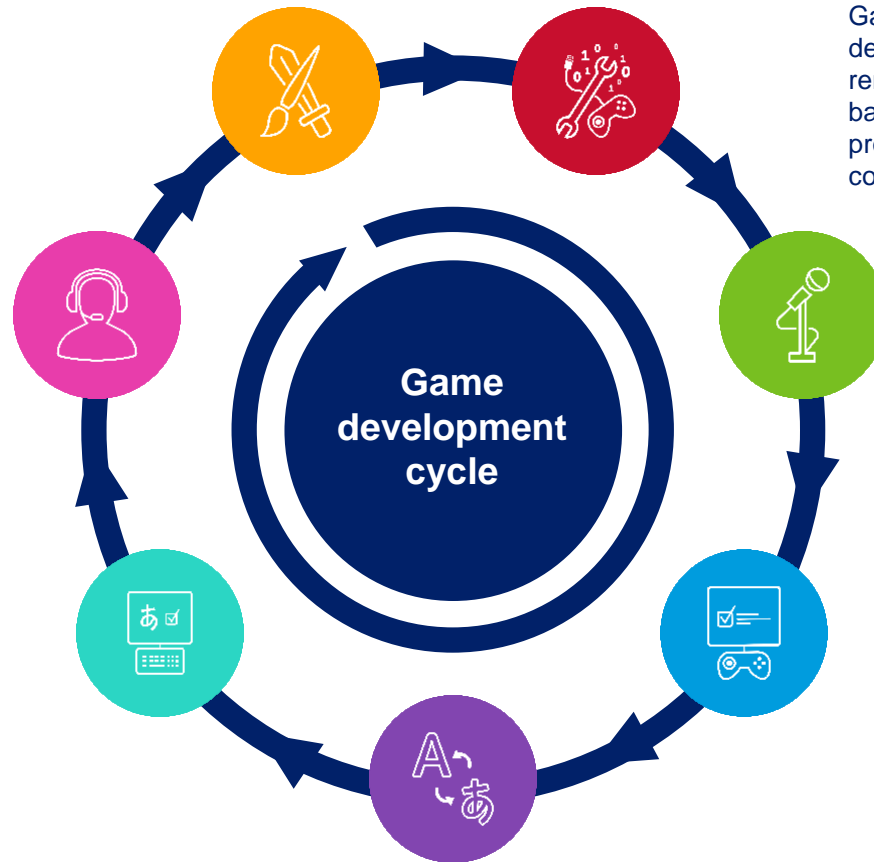
The creation of video game graphical art, including concept art, 2D and 3D art asset production & animation. Marketing services including game trailers, marketing art and materials.

Player Support

365/24/7, multilingual support for gamers when games are in live operation, forum monitoring and moderation services & social media engagement on behalf of the game brand.

Localization Testing

Testing for out of context translations, truncations, overlaps, spelling, grammar, age rating issues, geopolitical and cultural sensitivities and console manufacturer compliance requirements in over 30 languages using native speakers.



Engineering

Game development services including full game development, co-development, porting of games from one platform to another including remastering, tool development and consulting services on a work for hire basis. Also includes proprietary software solutions for analytics, procedural generation of art assets and player behaviour research consulting services.

Audio Services

Multi-language voiceover recording, original language voice production, Hollywood production, music management, sound effects and related services.

Functional Testing

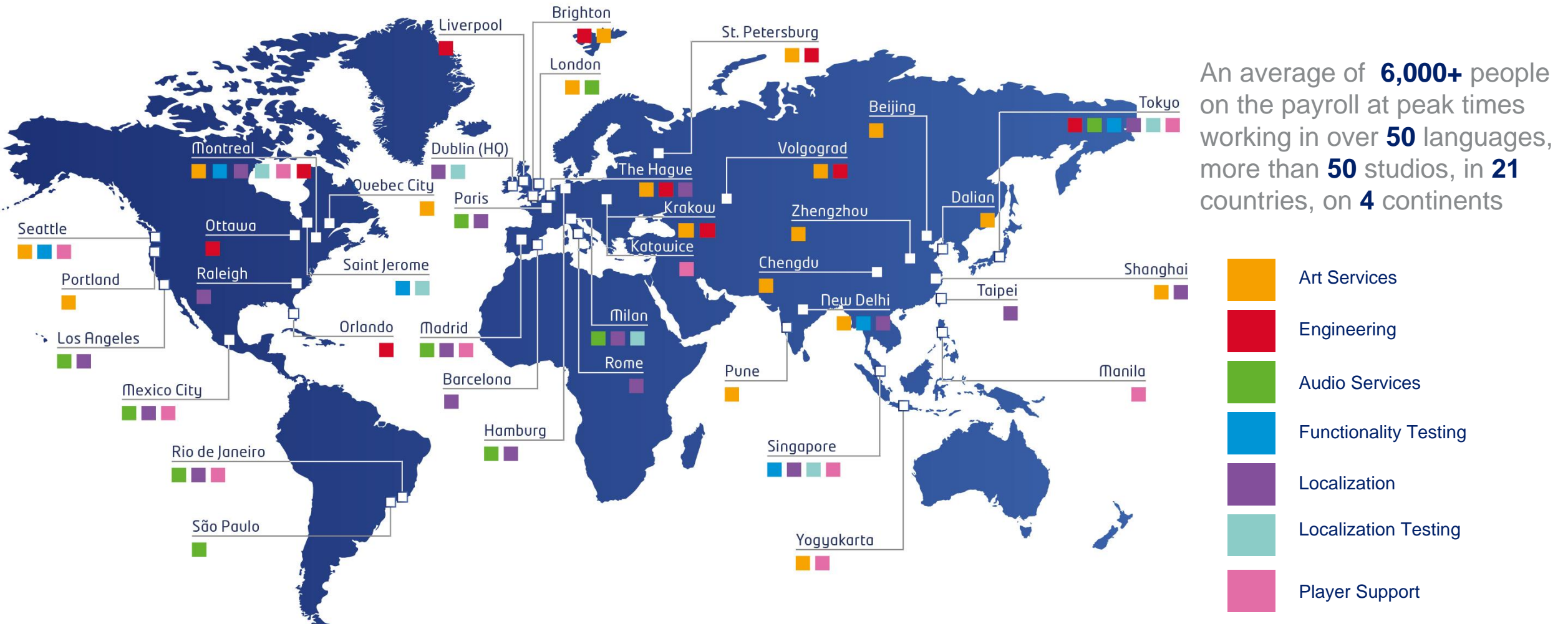
Quality assurance, including discovery and documentation of game defects and testing to verify the game's compliance with hardware manufacturers' and app stores' specifications, as well as focus group and user experience testing and consulting.

Localization

Translation of in-game text, audio scripts, cultural and local adaptation, accreditation packaging and marketing materials in over 50 languages.



International scale & flexibility across markets is key



An average of **6,000+** people on the payroll at peak times working in over **50** languages, more than **50** studios, in **21** countries, on **4** continents



Market leading position

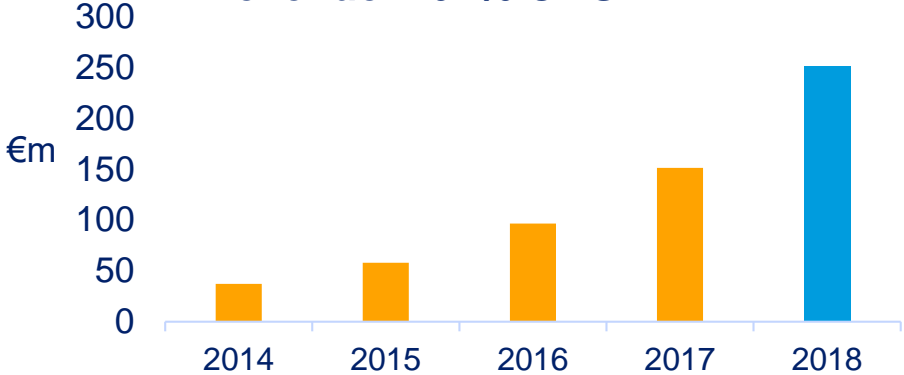


We work with 23 of the top 25 games companies by revenue and 9 of the top 10 mobile games publishers by revenue.*

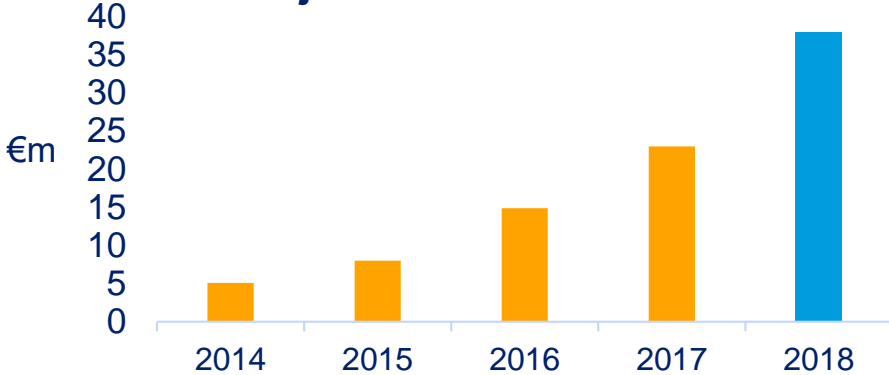


Strong growth across key metrics

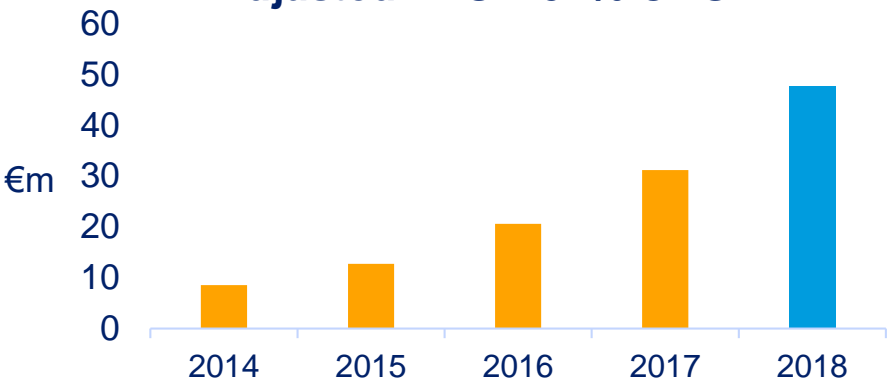
Revenue – 61% CAGR



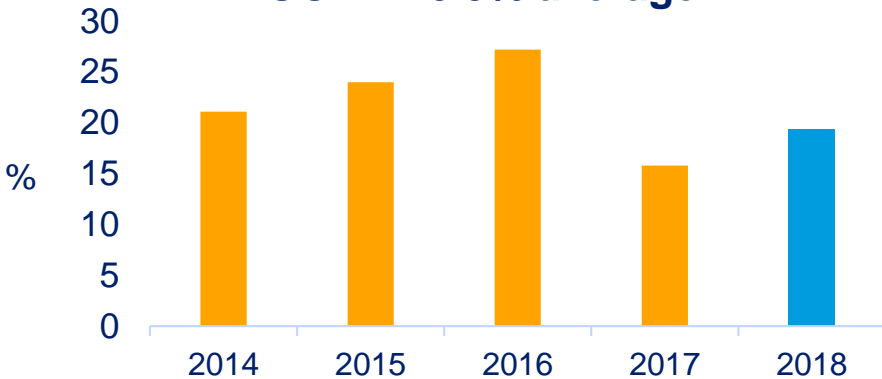
Adjusted PBT – 65% CAGR



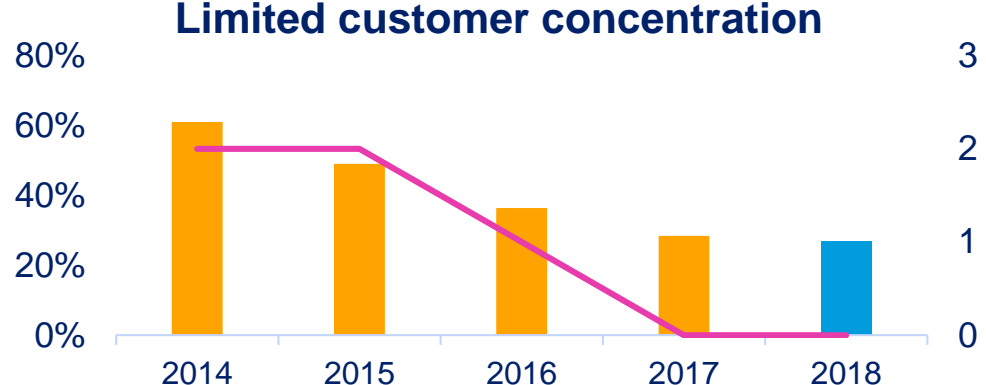
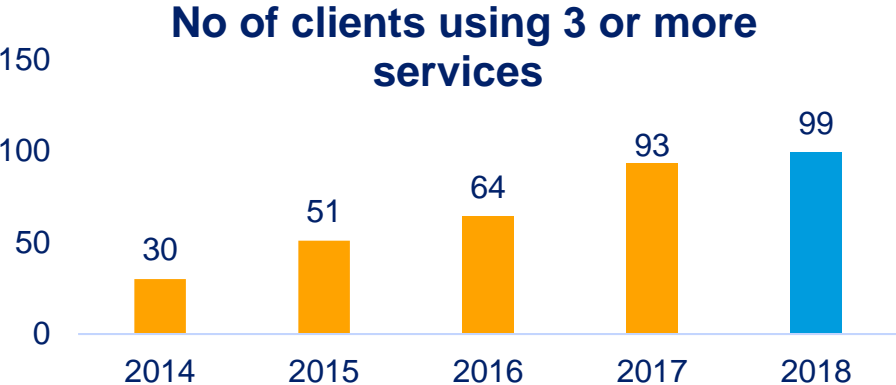
Adjusted EPS – 54% CAGR



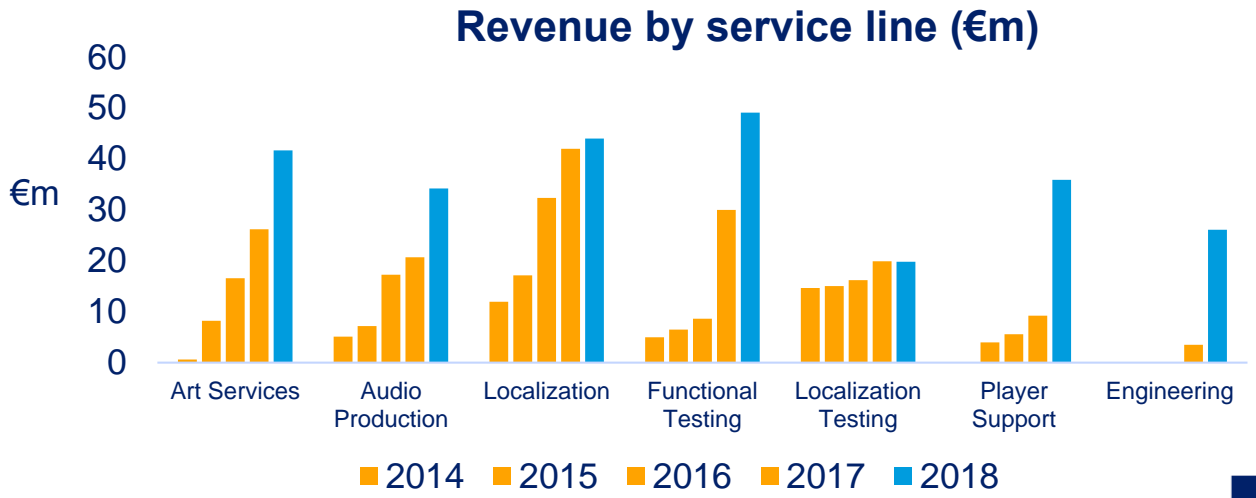
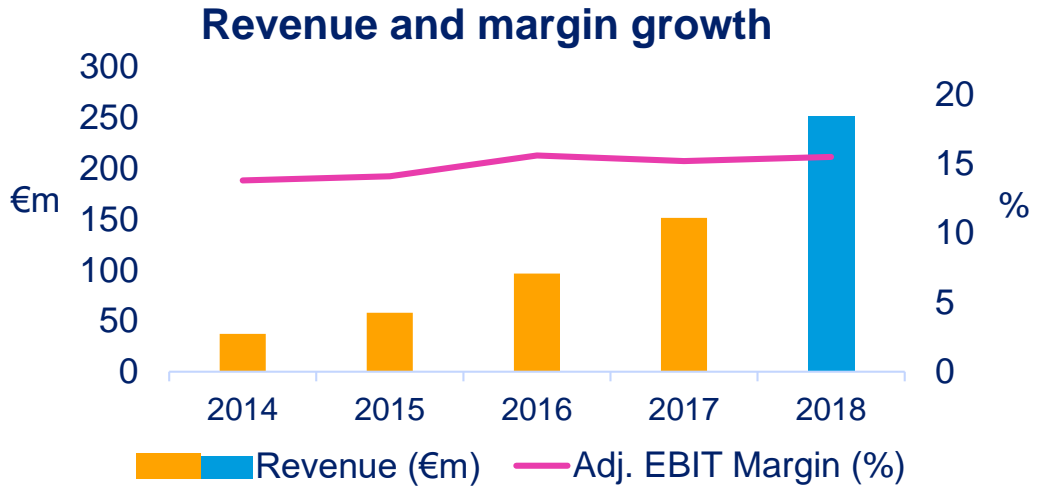
ROCE – 20.5% average



Delivering consistent and diversified growth

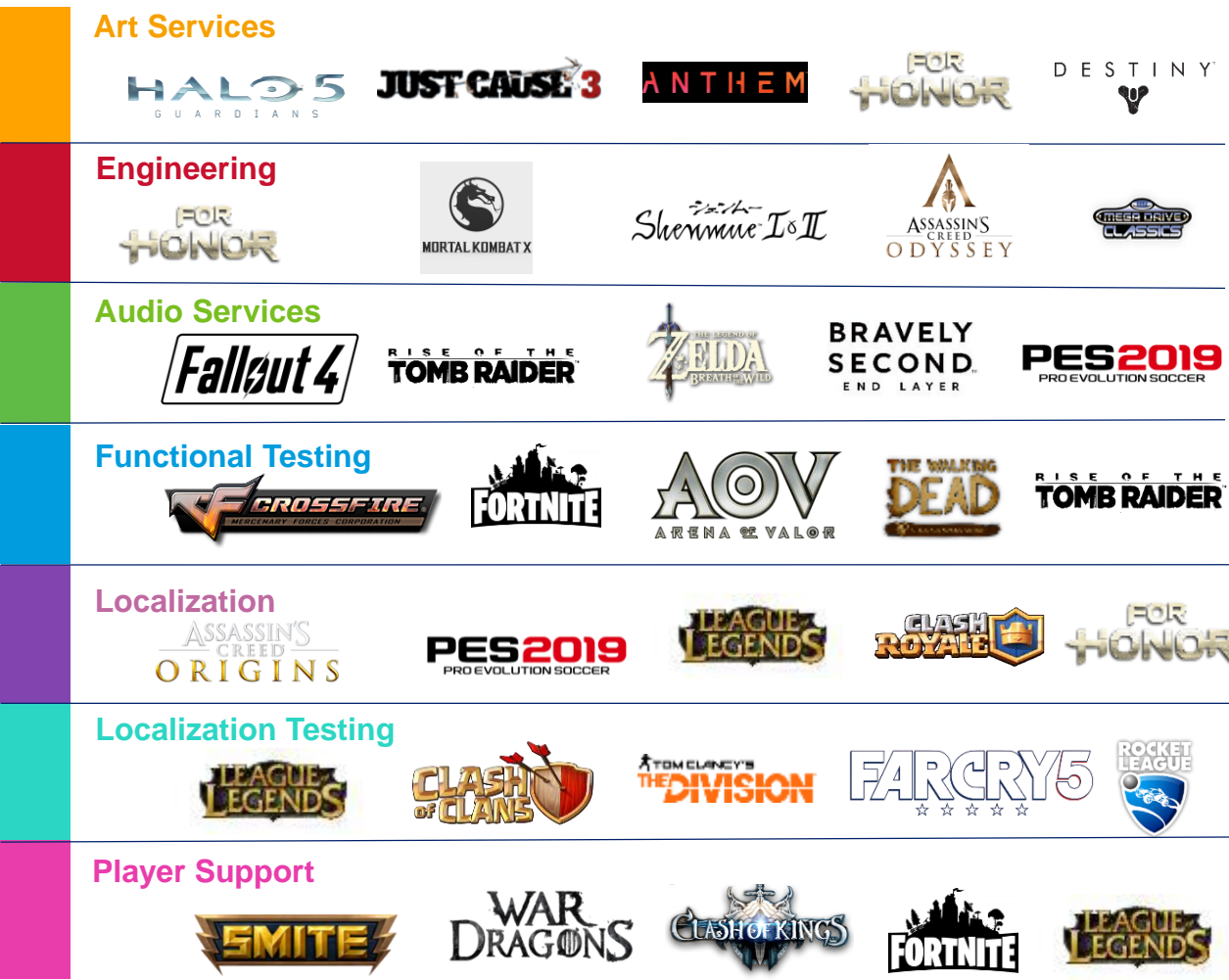
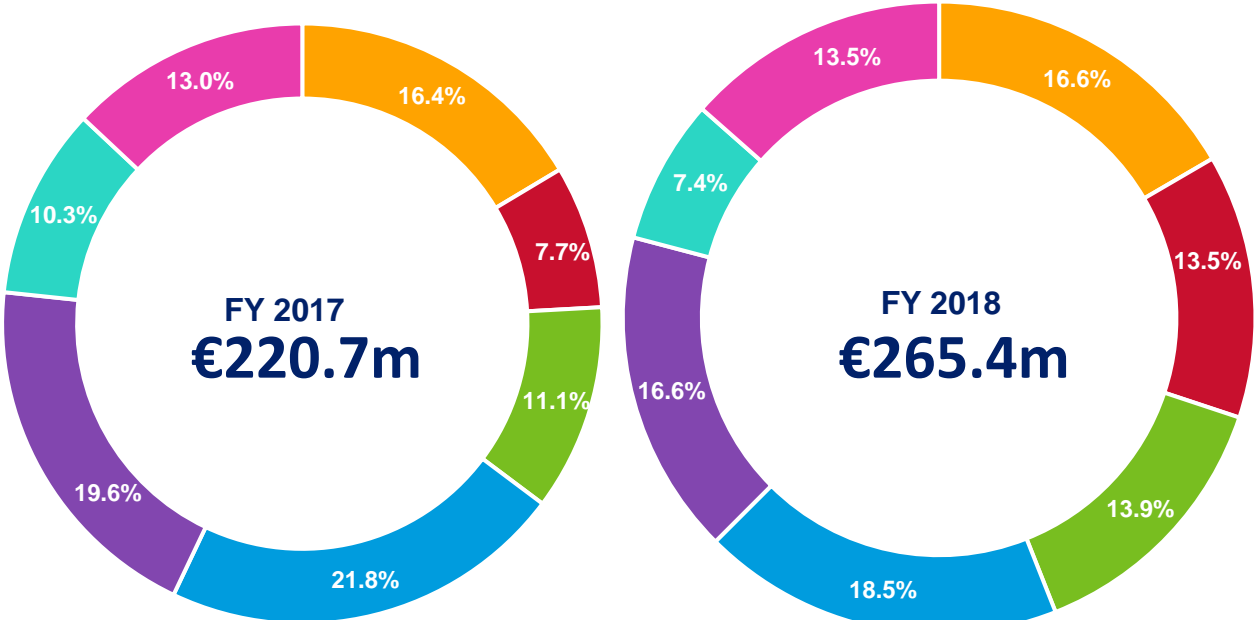


■ % Revenue top 5 customers — No of customers over 10% of revenue



Better balanced business; higher up the value chain

Proforma Revenue





Financial overview

David Broderick

Income statement

- Revenue up 66% to €250.8m
- Gross margins up to 38.2% (2017: 36.4%)
- Adjusted operating costs at 20.7% of revenue (2017: 19.0%), as we invested in expansion and strengthening management
- Adjusted profit before tax increased 65% to €37.9m excluding costs – further detail on slide 30:
- Effective tax rate reduced to 19.0% (2017: 20.5%)
- Adjusted EPS up 53% to 47.75c

€'000s	2018	2017	Δ%
Revenue	250,805	151,430	+66%
Direct costs	(154,997)	(96,345)	
Gross Profit	95,808	55,085	+74%
% margin	38.2%	36.4%	
Other administrative expenses	(56,892)	(31,170)	
Operating profit	38,916	23,915	+63%
Net finance cost	(1,005)	(872)	
Adjusted Profit before Tax	37,911	23,043	+65%
Items excluded from Adjusted PBT	(15,817)	(11,049)	
Profit before Tax	22,094	11,944	+85%
Tax expense	(7,191)	(4,731)	
Net income	14,903	7,263	+105%
Adjusted Basic EPS (c)	47.75	31.18	+53%
Basic EPS (c)	23.16	12.37	+87%
Diluted EPS (c)	22.24	11.87	+87%



Balance sheet

- Net debt of €0.4m (2017: net cash €11.1m) after:
 - €24.9m net cash consideration for acquisitions (including deferred)
 - €4.5m of acquisition costs and integration expenses (2017: €3.0m).
- Accrued MMTC* grant & VGTR** credits claims of €10.8m
 - €11.9m MMTC payments received in the year
- €9.4m capital expenditure (2017: €3.8m) included:
 - Continued investment in software and computer equipment primarily for Testing, Art and Engineering (€6.2m)
 - Investment in new and expanded facilities particularly in Manila, Montreal, Tokyo, London and Dublin (€3.2m)

*MMTC – ‘Multimedia Tax Credits’ are employment grants provided in Quebec Province

**VGTR – ‘Video Game Tax Relief’ in the UK

€'000s	2018	2017
		Re-stated
Non-current assets		
Property, plant & equipment	15,002	10,111
Goodwill	154,202	108,062
Intangible assets	25,884	23,548
Investment in Associate	160	-
Deferred tax assets	2,967	1,206
	198,215	142,927
Current Assets		
Trade receivables	37,019	27,743
Other receivables	23,459	22,335
Cash & cash equivalents	39,871	30,374
	100,349	80,182
Current Liabilities		
Trade payables	7,142	7,310
Other payables	41,153	22,179
Loans and borrowings	40,071	18,943
Corporation Tax Liability	6,665	3,245
	95,031	51,677
Non-Current Liabilities		
Other payables	1,062	1,233
Employee Defined Benefit	1,378	1,055
Loans and borrowings	230	337
Deferred tax liabilities	8,488	7,795
	11,158	10,420
Net Assets	192,375	161,012



Cashflow

- Net cash from operating activities of €32.2m (2017: €16.7m)
- MMTCs & VGTR credits of €10.8m accrued in the period
- 2018 final dividend of 1.08p (2017: 0.98p) in line with progressive dividend policy, with a cash cost of €0.8m in H1 2019

	2018	2017
Debtor Days	47	40
Work completion to cash collection days	55	48

€'000s	2018	2017
Profit after tax	14,903	7,263
Net Income/expenses not affecting operating cash flows	29,033	17,838
Net changes in operating assets / liabilities	(5,452)	(2,989)
Income taxes paid	(6,304)	(5,454)
Net cash from operating activities	32,180	16,658
Acquisition of subsidiaries	(24,889)	(86,776)
Settlement of deferred liabilities on acquisitions	(1,603)	(298)
Acquisition of fixed assets	(9,440)	(3,803)
Acquisition of Associate	(226)	-
Investment in IP	(1,559)	-
Acquisition & Integration Cash Outlay	(4,530)	(3,016)
Interest Received	-	26
Net cash used in investing activities	(42,287)	(93,857)
Loan to finance acquisitions	31,850	10,250
Repayment of loans	(10,835)	(23)
Shares Issued	174	82,936
Dividends paid	(1,080)	(867)
EBT Share Purchase	-	(563)
Interest paid	(502)	(279)
Net cash provided by (used in) financing activities	19,607	91,454
Increase /(Decrease) in cash	9,500	14,245
Exchange gain/(loss) on cash and cash equivalents	(3)	(891)
Opening cash	30,374	17,020
Closing cash	39,871	30,374



Minimal impact from IFRS 16 lease accounting

Balance Sheet

Increase in Assets +€22.8m

Increase in Liabilities +€22.8m

Profit and Loss Account

Increase in Adjusted Operating Profit +€0.2m

Increase in Adjusted EBITDA +€7.1m

Increase in Net Interest Charges +€0.6m

Decrease in Adjusted Profit Before Tax -€0.4m

- **Adjustment to 2019 financials with no historic restatement**
- **No cash impact**
- **Applied the modified retrospective approach**



2019 guidance

- Strong organic and acquisitive growth expected
- Continued benefit from 2018 capacity investments
- Full contribution from 2018 acquisitions
- Increased depreciation charge
- Robust gross and adjusted operating margin levels to be maintained
- Interest expense to rise as we utilise our bank facility for acquisition growth
- Slight reduction in effective tax rate expected again
- High cash conversion rates expected to continue
- IFRS 16 lease accounting - EBITDA increase but minor impact on PBT in the early years





Strategic Overview

Andrew Day

Continuing to deliver on our strategy

Our strategy is to build the world's leading technical and creative platform for the video games industry



Organic growth and cross-selling



Growing market share



Selective acquisitions



Expanding geographic reach






Extending our range of services



Gradually introducing technology



Service line progress

	2018 progress	Focus in 2019
 11.9% like for like growth	<ul style="list-style-type: none">• 59% growth to €41.7m due to effect of 2017 and 2018 acquisitions• Three marketing services businesses acquired during the year currently also reside within Art• “One China” initiative going well across 5 locations	<ul style="list-style-type: none">• Further organic growth complemented by one or two acquisitions• Marketing services businesses may become a separate service line if more are acquired• Sperasoft Art will fall under Engineering
 23.3% like for like growth	<ul style="list-style-type: none">• Continued growth through acquisition• Demand for our services continues to exceed capacity• Invested in UK talent to service global demand	<ul style="list-style-type: none">• All 6 studios actively recruiting to meet demand• Another strong year of organic growth and an active acquisition pipeline• Aim to add further critical mass and geographic reach to our game development and broader engineering services
 9.8% like for like growth	<ul style="list-style-type: none">• Grew to €34.2m including the full effect of acquisitions• Growth bolstered by addition of new disciplines - music management services, sound design and voice production services• Hollywood production services increasing value added	<ul style="list-style-type: none">• Anticipate similar organic growth in 2019• Complementated by acquisitions in key locations• Scope to add further capabilities



Service line progress

2018 progress

Focus in 2019



6.4% like for like growth

- Very strong year despite challenges of integrating VMC
- Underlying growth of 26.5% (stripping out VMC).
- Functional QA now the largest service line representing 18.5% of the total on a pro forma basis
- Established as the 'go to' in North America

- Expect strong continued growth in 2019
- Continued consolidation of market leadership in N. America
- Organic expansion opportunities in Katowice, Poland and Volgograd, Russia



3.5% like for like growth

- Impacted by the "Fortnite effect" more than any of our other service lines
- XLOC content management system continues to gain customers and is increasingly integrated with downstream production tools

- Continue to establish machine translation
- Aiming to return to double digit organic growth



10.6% like for like decline

- Now representing only 7.4% of pro forma Group revenues
- 2018 softer than hoped for in part due to certain projects slipping
- Flat in absolute terms, declined on a like for like basis

- Started 2019 well
- Changes to be made during the year to re-energise it and return it to growth
- Exploring Katowice, Poland studio



30.8% like for like growth

- Fastest growing service line in 2018 despite being held back by attrition at VMC
- 94.1% like for like growth excluding VMC
- Opened new facility Katowice, Poland

- Extraordinary 2018 growth will be consolidated in 2019
- Aim to differentiate video games specific services from other large providers in the wider customer support market



Acquisition opportunities in a highly fragmented market

	Art	Engineering	Audio	Functional Testing	Localization	Localization Testing	Customer Support
Market Size*	\$1bn – 50% outsourced	\$3.0bn – 20% outsourced	\$150m – 90%+ of voiced audio is outsourced	\$800m – 70% in sourced in the west. Mostly outsourced in Japan.	\$200m – 85% outsourced	\$150m – c.70% outsourced	\$1.2bn – 40% outsourced
Number of Suppliers	100+	50+ specialist	50+	10+	50+ including large MLVs	10+	Non specialist call centre operators

- Competitors offer one or two service lines with limited geographical reach
- Global clients require services differentiated by cost, flexibility, time zone, scalability and languages offered
- Focus on carefully selected, earnings accretive businesses which extend services, market penetration or client base:
 - Continuing to review acquisitions in our established businesses of testing and localization
 - Most acquisition activity focussed on newer services like Engineering/Game Development services, Marketing services and on building out Audio Services
- Consolidation is underway – started by Keywords but others may follow
- We have a strong pipeline of acquisition prospects across the services; mix of sizes and in various geographies



Integration progress

1. VMC

Integration examples

- Integration completed during 2018
- Cost reductions made:
 - 4 facilities consolidated into 1 in Seattle
 - Management and sales overhead significantly reduced
 - Internalised previously outsourced costs
- VMC's Localization, Functional QA, Localization QA and Player Support activities fully integrated with Keywords - deploying the same systems, organisation design and standardised pricing
- Centre for accounting and finance moved from Seattle and housed under the existing team in Montreal
- All units trading under the Keywords brand
- Operating as a Keywords business with similar margins



Integration progress

2. Art Service Line

Integration examples

- 5 Art production studios and 3 marketing services businesses acquired between late 2014 and early 2018
- Art production studios are working well together with client projects run from concept art through to art production
- Art production managed centrally by one studio in China but production distributed across 5 studios in China – “One China”
- Projects being led from Portland and Seattle studios with majority of production in China or India

Integration to come

- Ongoing integration activities include the rollout of a single operating system
- Establishment of a marketing services line once critical mass is reached.



Integration progress

3. Audio Service Line

Integration examples

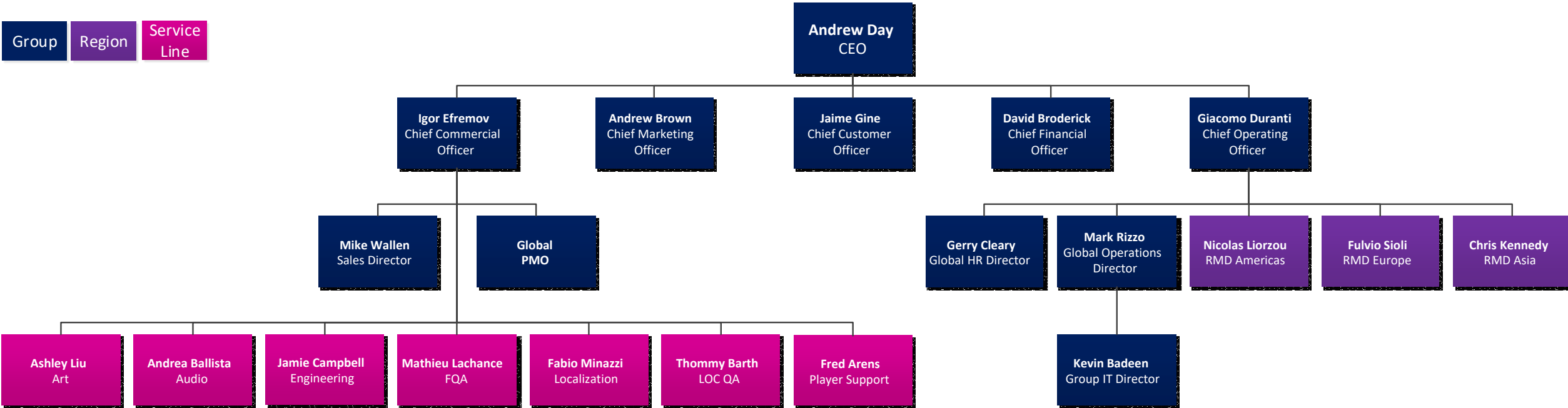
- Most acquired audio studios have their own developed productivity tools
 - Best of breed tools have been selected, further developed and are being deployed across all voice studios to consistently manage pre-production, casting, audio mastering and audio testing tasks to best in class standards.
- We are working on client proposals under which the Audio Service Line takes responsibility for all audio production on a title – sound design, sound effects, music management, and voice over

Integration to come

- Having established a small group to lead our exploratory steps into subtitling and dubbing for film and TV we are working across our studios to prepare them for productions of this sort.



Managing growth



- New management structure and appointments to strengthen business and support growth
- Investment in newly created positions
 - Chief Commercial Officer
 - Chief Marketing Officer
 - Global Operations Director
 - Engineering Service Line Director



Outlook – Andrew Day



Outlook

- Encouraging start to 2019; first quarter in line with our expectation
- Expect to make good progress in 2019 as we continue to execute on our strategy
 - Further organic growth
 - Capitalising on the synergies from previous acquisitions and driving operational efficiencies
 - Leveraging client relationships
 - Integrated sales and marketing
 - Sharing talent and production facilities
 - Continuing progress with cross selling
 - Cloud based gaming engagements are already very encouraging
- Healthy pipeline of acquisition opportunities



A strengthened services platform from which to grow



Investment summary

Access to a large, high growth market

Key drivers:

Market growth; continuous & higher definition content; outsourcing trend; streaming of games

Strong track record of growth, both organically and through acquisition

Significant opportunity to continue to grow our, service capabilities, geographical penetration and client relationships

Culture, business model and management structure that supports growth



Appendix



Income Statement – Items excluded from Adjusted PBT

€'k	2018	2017
Cost of Acquisition & Integration	5,607	3,016
Share option expense	4,129	1,426
Amortisation of intangible assets	6,872	3,038
Foreign exchange (gain)/losses	<u>(791)</u>	<u>3,569</u>
	<u>15,817</u>	<u>11,049</u>

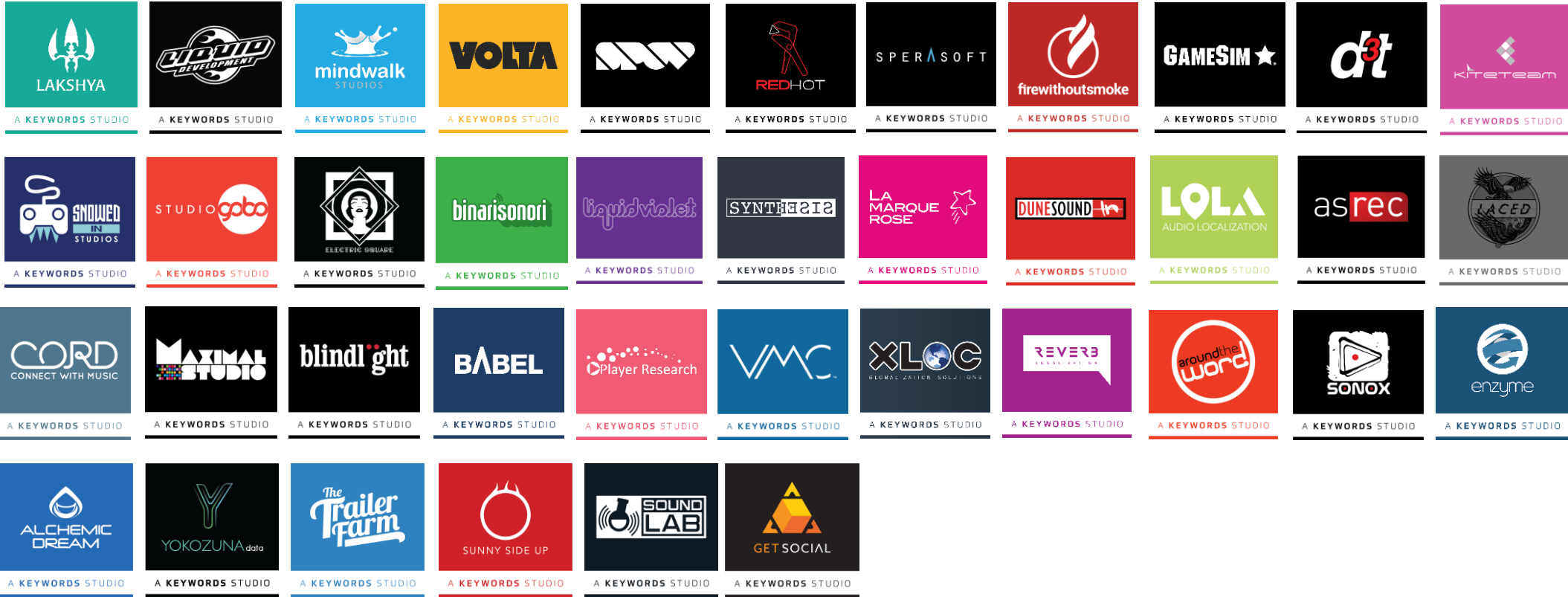


Acquisition History

Year	Art Services	Software Engineering	Audio	Functional Testing	Localization	Localization Testing	Customer Support	Total Cost*
2014	Lakshya Digital		Liquid Violet Binari Sonori	Babel Media	Babel Media Binari Sonori	Babel Media		€19.0m
2015	Liquid Development		Reverb Kite Team		Reverb Kite Team		Alchemic Dream	€10.9m
2016	Mindwalk Volta		Synthesis Sonox	Enzyme Player Research	Synthesis Sonox	Synthesis Enzyme	Ankama	€32.6m
2017	SPOV RedHot	GameSim d3t Sperasoft	La Marque Rose Dune Sound AsRec	VMC	VMC XLOC Around the Word La Marque Rose Dune Sound AsRec LOLA	VMC	VMC	€101.4m
2018	Fire Without Smoke Trailer Farm	Snowed In Studio Gobo Electric Square Yokozuna Data	Maximal Cord Laced Blindlight					€61.7m
2019	Sunny Side Up	GetSocial						€4.0m



Keywords Studios



Major Shareholders*

Shareholder	Shares	% Holding
P.E.Q Holdings Limited	4,000,736	6.3
Octopus Investment Partners	3,650,758	5.7
Andrew Day	3,296,573	5.2
Oberweiss Asset Management	2,944,000	4.6
Canaccord Genuity Wealth	2,820,855	4.4
T Rowe Price Global Investments	2,788,693	4.4
Franklin Templeton	2,695,000	4.2
Kames	2,247,262	3.5

** Based on available disclosures to company as at the 31st December 2018*

