Full year 2019 results

16 April 2020

Support | Deliver | Evolve

"Keywords Studios
is becoming the 'go to'
provider for external
development services"

Keywords STUDIOS

Support | Deliver | Evolve

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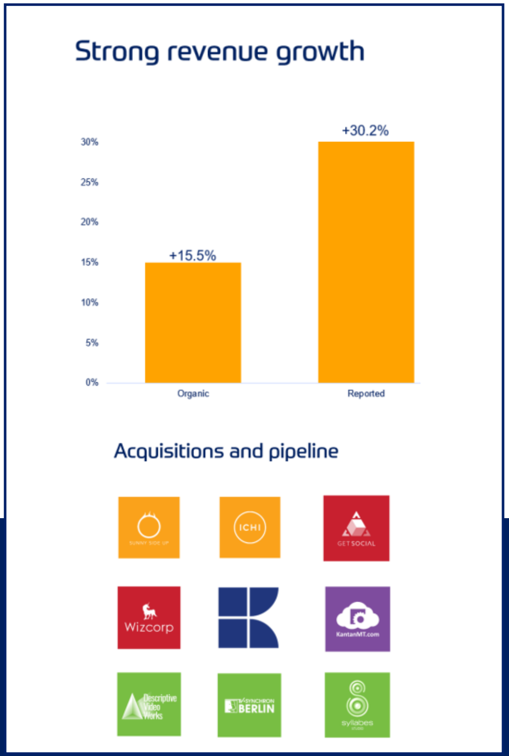
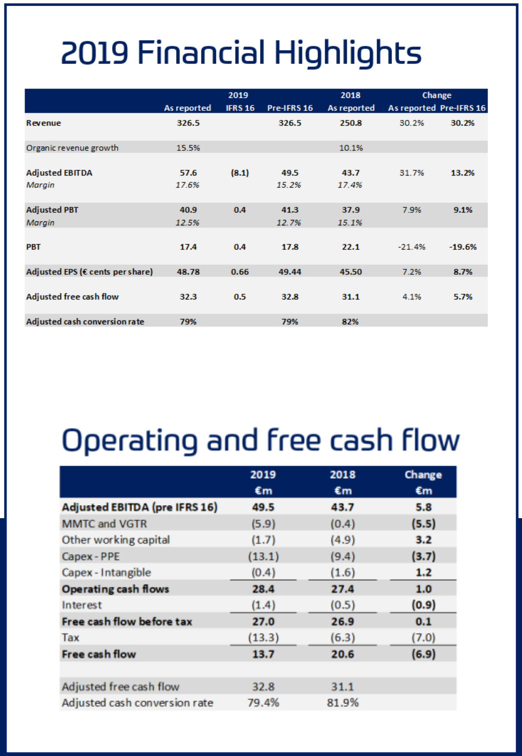
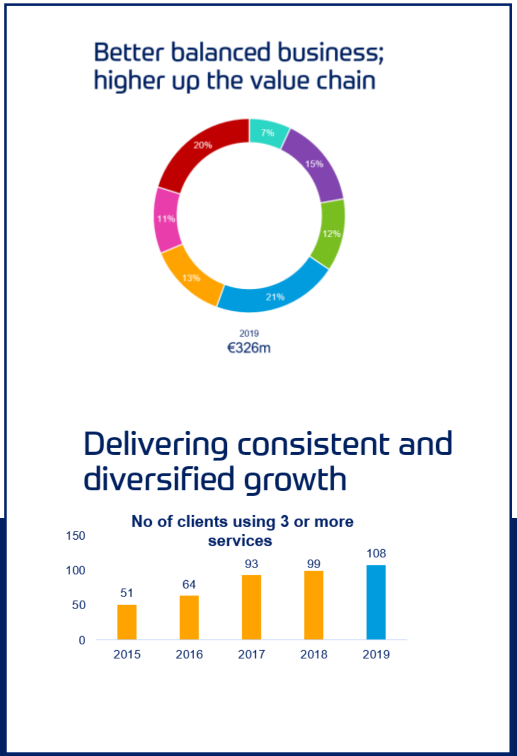
Today’s agenda



2019 highlights



Financial overview



Operational overview

Outlook

Keywords STUDIOS

COVID-19 update

Operational impact

- Over 5,500 employees now working from home
- China has returned to near full production
- Flexible business model has allowed us to continue our services to our clients
- More challenging for Testing and Audio
- Business continuity across all service lines

KEYWORDS STUDIOS

Customer demand

- Increased demand for our services
- However, near term, demand will likely outstrip our ability to fulfil
- Medium term, expect strong demand for services benefitting from pent up demand and with the launch of next generation games consoles

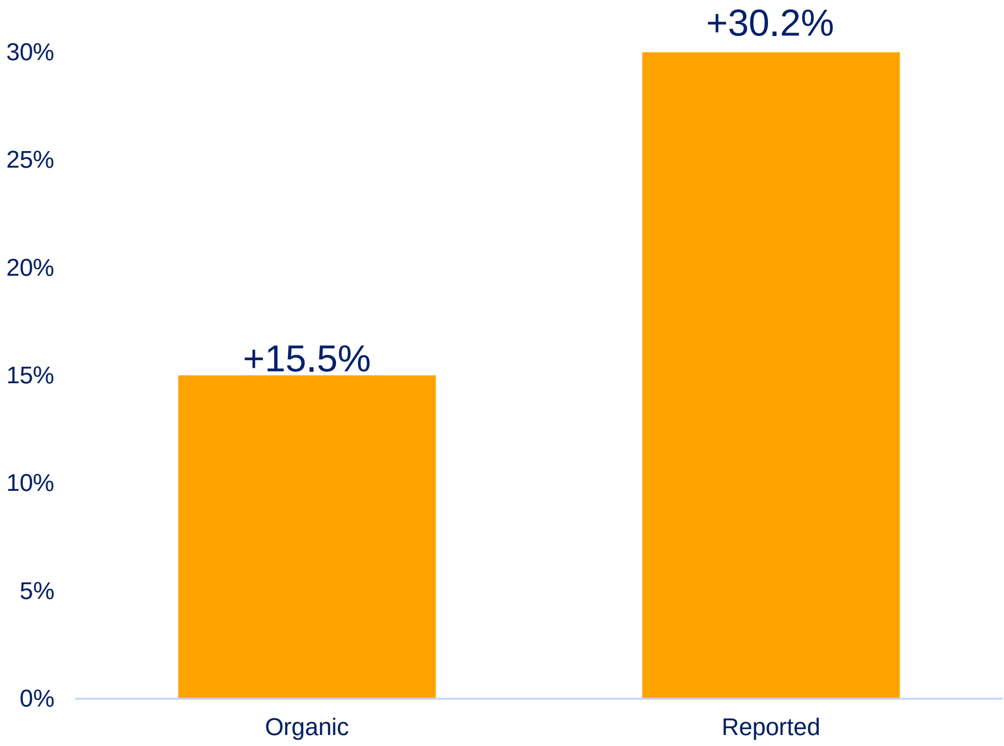
Strong balance sheet and liquidity

- Net debt as at 31 December 2019 was €17.9m, representing a net debt to Adjusted EBITDA of 0.4x (well within our covenant of 3 times)
- Good liquidity with a total of €82m in funds that can be used to fund short term working capital requirements
- In final stages of exercising the accordion under the Revolving Credit Facility (RCF) which would provide a further €30m of committed facilities

Dividend

- Board not recommending a final dividend at this time

Strong revenue growth



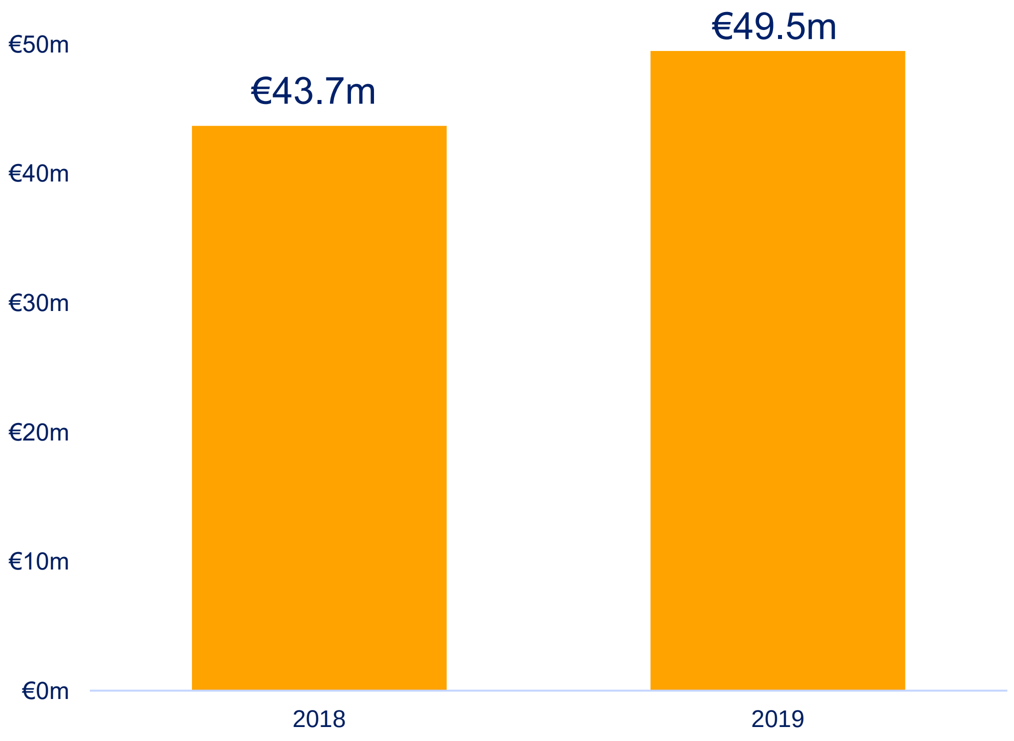
- Strong revenue growth (+30.2%) in 2019 to £326.5m in a relatively light year for video game releases
- 15.5% Organic Revenue growth (2018: 10.1%)
  - Driven by particularly strong progress in:

    Functional Testing (+37.0%)

    Game Development (+36.4%)
  - Signs of accelerated trends to outsource
  - Marketing, Audio and Localization held back by console transition
- Complemented by full year effect of 2018 acquisitions and a further 8 acquisitions during 2019

Keywords STUDIOS

EBITDA growth and investments



- 2019 Adjusted EBITDA (pre IFRS 16) was up 13% to €49.5m
- 2019 EBITDA held back by investments and underperforming fixed price contract
- Adjusted EBITDA margin of 15.2% (2018: 17.4%)

Definitions of the performance measures are provided in the Alternative performance measures chart in the Appendix

Keywords STUDIOS

Acquisitions and pipeline

- Completed 8 acquisitions in 2019 (44 since IPO)
  - Art creation: Sunny Side Up, Ichi
  - Game development: GetSocial, Wizcorp
  - Audio: Descriptive Video Works, TV+SYNCHRON, and Syllabes
  - Localization: AI - Kantan
- Strong pipeline with a primary focus on:
  - Game development
  - Marketing services

Keywords STUDIOS

Financial overview

Jon Hauck, CFO

Keywords STUDIOS

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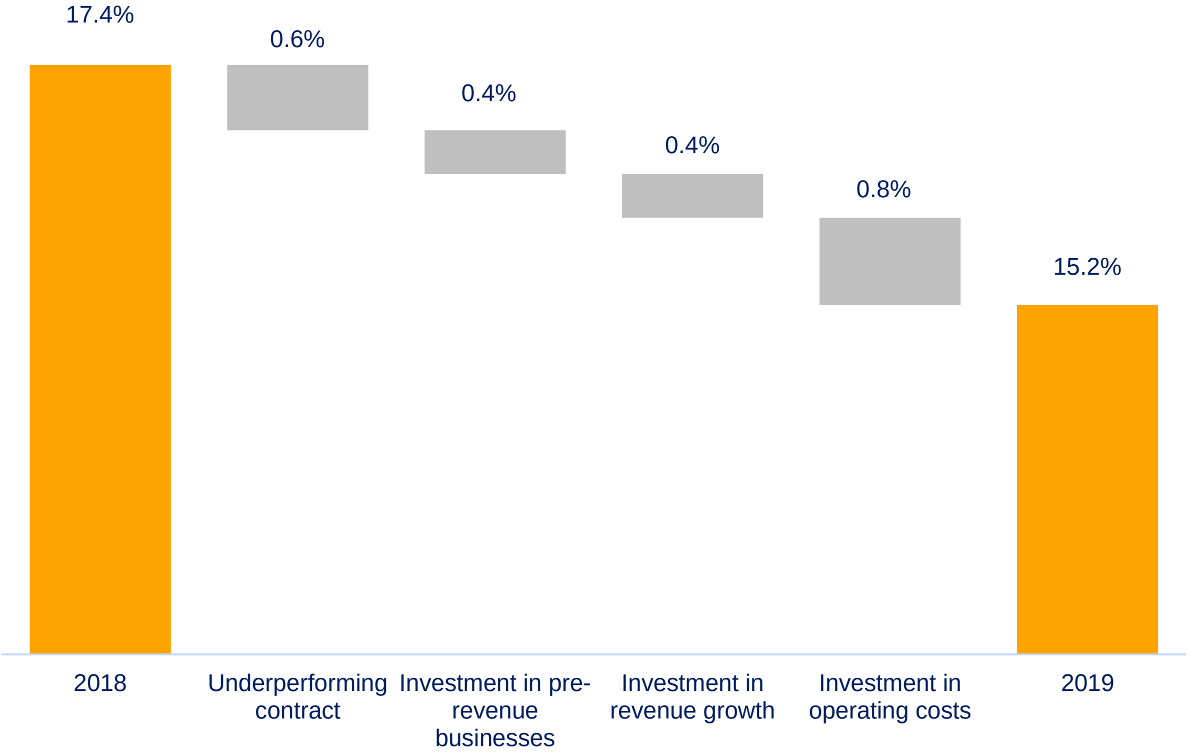
2019 Financial Highlights

Definitions of the performance measures are provided in the Alternative performance measures chart in the Appendix

	2019			2018	Change	
	As reported	IFRS 16	Pre-IFRS 16	As reported	As reported	Pre-IFRS 16
Revenue	**326.5**		**326.5**	**250.8**	30.2%	**30.2%**
Organic revenue growth	15.5%			10.1%		
Adjusted EBITDA	**57.6**	**(8.1)**	**49.5**	**43.7**	31.7%	**13.2%**
Margin	*17.6%*		*15.2%*	*17.4%*		
Adjusted PBT	**40.9**	**0.4**	**41.3**	**37.9**	7.9%	**9.1%**
Margin	*12.5%*		*12.7%*	*15.1%*		
PBT	**17.4**	**0.4**	**17.8**	**22.1**	-21.4%	**-19.6%**
Adjusted EPS (€ cents per share)	**48.78**	**0.66**	**49.44**	**45.50**	7.2%	**8.7%**
Adjusted free cash flow	**32.3**	**0.5**	**32.8**	**31.1**	4.1%	**5.7%**
Adjusted cash conversion rate	**79%**		**79%**	**82%**		

Keywords STUDIOS

EBITDA margin bridge



2019 impacts

- Underperforming fixed price contract finalised at the end of 2019
- Investment in pre-revenue businesses
- Investment to support strong revenue growth – both short term demand and longer term expansion
- Investment in operating costs – improved technology, strengthened management and additional functional support

Outlook

- Underperforming contract finalised at the end of 2019
- Pre-revenue businesses continue to be evaluated
- Continue to invest in growth – expect to leverage post COVID-19
- Leverage of OPEX investments through 2021

Keywords STUDIOS

Operating and free cash flow

Definitions of the performance measures are provided in the Alternative performance measures chart in the Appendix

	2019 €m	2018 €m	Change €m
Adjusted EBITDA (pre IFRS 16)	**49.5**	**43.7**	**5.8**
MMTC and VGTR	(5.9)	(0.4)	**(5.5)**
Other working capital	(1.7)	(4.9)	**3.2**
Capex - PPE	(13.1)	(9.4)	**(3.7)**
Capex - Intangible	(0.4)	(1.6)	**1.2**
Operating cash flows	**28.4**	**27.4**	**1.0**
Interest	(1.4)	(0.5)	**(0.9)**
Free cash flow before tax	**27.0**	**26.9**	**0.1**
Tax	(13.3)	(6.3)	(7.0)
Free cash flow	**13.7**	**20.6**	**(6.9)**
Adjusted free cash flow	32.8	31.1	
Adjusted cash conversion rate	79.4%	81.9%	

- Increase in Adjusted EBITDA of €5.8m
- €6.9m reduction in free cash flow driven by:
  - €5.5m increase for MMTC/VGTR credits reflecting the strong growth in Canada and the UK
  - Capex spend expanded as we invested behind growth
  - Increase in tax payments of €7.0m reflecting settlement of pre-acquisition tax issue and phasing
  - €3m improvement in other working capital – debtor days improved to 44 days (2018: 47 days)
- Adjusted cash flow conversion rate of 79%, in line with previous years despite the growth in MMTC/VGTR

Keywords STUDIOS

Movement in net debt

Definitions of the performance measures are provided in the Alternative performance measures chart in the Appendix

	2019 €m	2018 €m	Change €m
Free cash flow	**13.7**	**20.6**	**(6.9)**
M&A - acquisition spend	(27.8)	(26.7)	**(1.1)**
M&A - acquisition and integration	(3.8)	(4.5)	**0.7**
Dividends paid	(1.2)	(1.1)	**(0.1)**
Other	0.8	0.2	**0.6**
Underlying increase in net debt	**(18.3)**	**(11.5)**	**(6.8)**
FX and other items	0.8	-	0.8
Increase in net debt	**(17.5)**	**(11.5)**	**(6.0)**
Opening net debt	(0.4)	11.1	
Closing net debt	**(17.9)**	**(0.4)**	

- Acquisition and integration cash spend of €31.6m:
  - €13.1m on current year acquisitions
  - €14.7m deferred consideration for prior year acquisitions
  - €3.8m acquisition and integration costs
- Underlying increase in net debt of €18.3m versus €11.5m in 2018
- Net debt at 31 December 2019 of €17.9m (2018: €0.4m)

Keywords STUDIOS

Balance sheet and liquidity

Resilient business model

- Cash generative business with an adjusted free cash flow conversion of circa 80%
- Strong continued robust demand for the Group's services
- Ability to operate almost all services in a work from home model whilst studios are temporarily closed
- Ability to flex the cost base in response to a reduction in production capacity
- The historical resilience of the broader video games industry in times of economic downturn

Strong balance sheet

- Recently renewed Revolving Credit Facility (RCF) of €100m expiring in 2022 with option to extend for 2 years
- In final stages of exercising the accordion under the RCF which would provide a further €30m of committed facilities
- Net debt €18m (2018: €0.4m)
- €82m of liquidity through cash and undrawn committed headroom on the facility
- Net debt to EBITDA ratio of 0.4x as at 31 December 2019 (bank covenant 3x) balance sheet capacity to:
    - provide short term support during COVID 19
    - longer term leverage for the strategic M&A programme

Keywords STUDIOS

Operational overview

Andrew Day, CEO

Keywords STUDIOS

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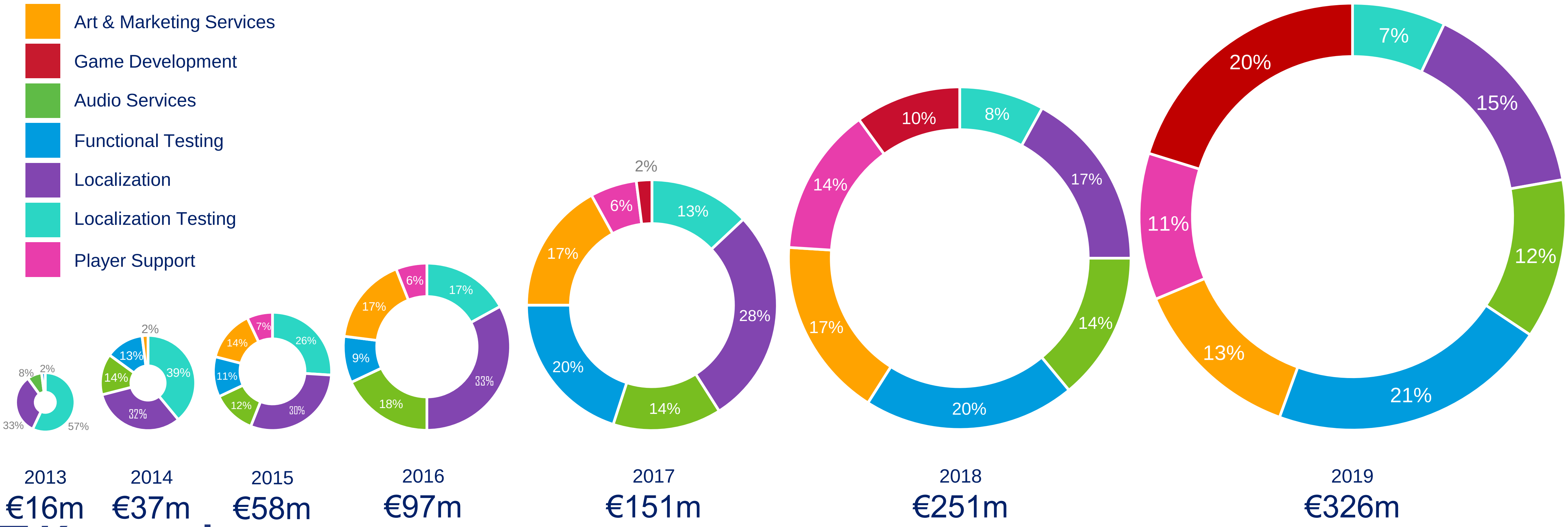
Better balanced business; higher up the value chain

- Increasingly integrated with game development pipelines
- Increasing numbers of client specific, dedicated operations
- Highly attached to game titles & client service infrastructures
- Moving beyond game production budgets to marketing spend



Keywords STUDIOS

International scale and flexibility across markets is key

- Art & Marketing Services
- Game Development
- Audio Services
- Functional Testing
- Localization
- Localization Testing
- Player Support

An average of 7,424 people in 2019, working in over 50 languages, more than 50 studios, in 21 countries, on 4 continents

Keywords STUDIOS

Market leading position

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

* Newzoo, Top 25 Games Companies by Revenue, Q2 2019 and Sensor Tower, Top Apps Games publishers, Q2 2019

Google Microsoft WB Games T2 SEGA

mixi UBISOFT SUPERCELL NEXON BANDAI NAMCO Games King PERFECT WORLD

NCSOFT playrix Sony Interactive Entertainment Playtika KONAMI NetEase Games EA

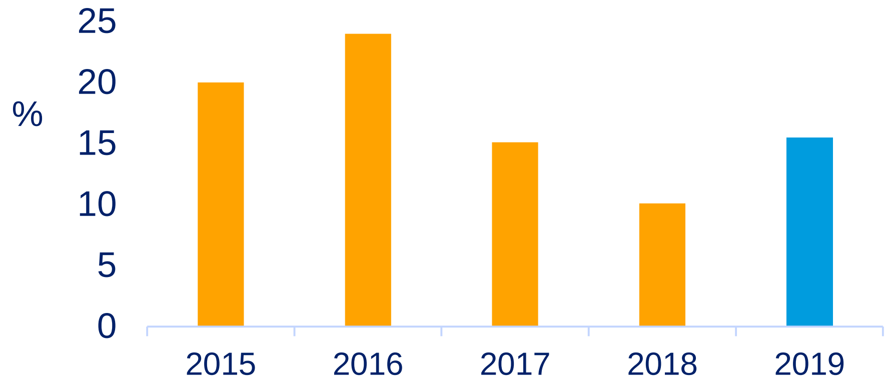
Nintendo ACTIVISION BLIZZARD SQUARE ENIX CAPCOM CyberAgent Tencent Games

Keywords STUDIOS

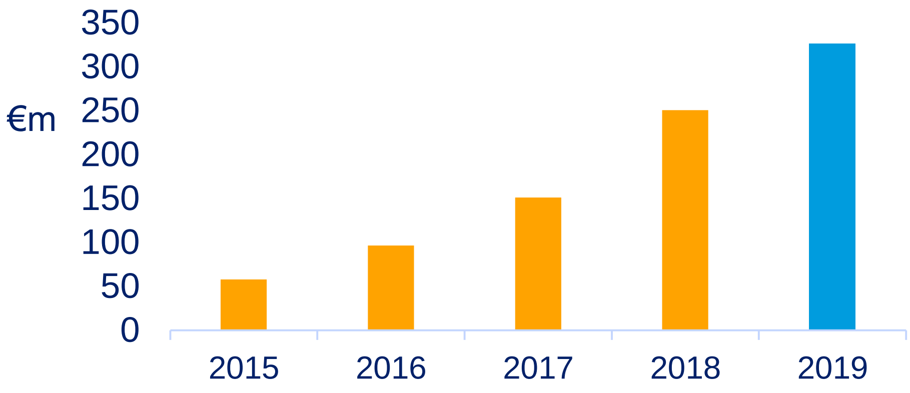
Strong growth across key metrics

Definitions of the performance measures are provided in the Alternative performance measures chart in the Appendix

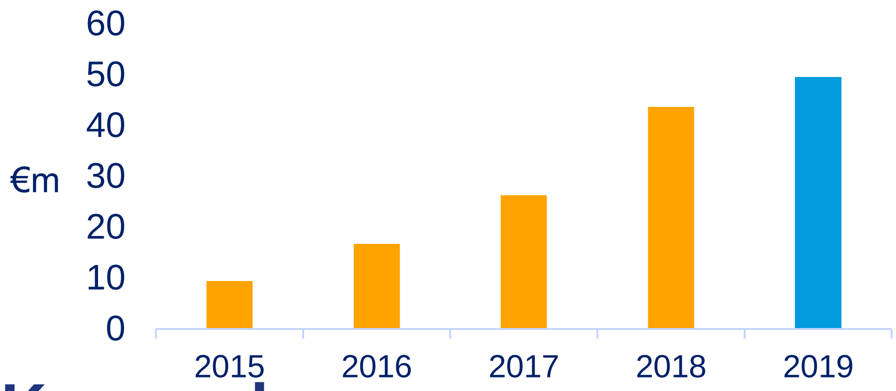
Organic Revenue growth 2015-2019



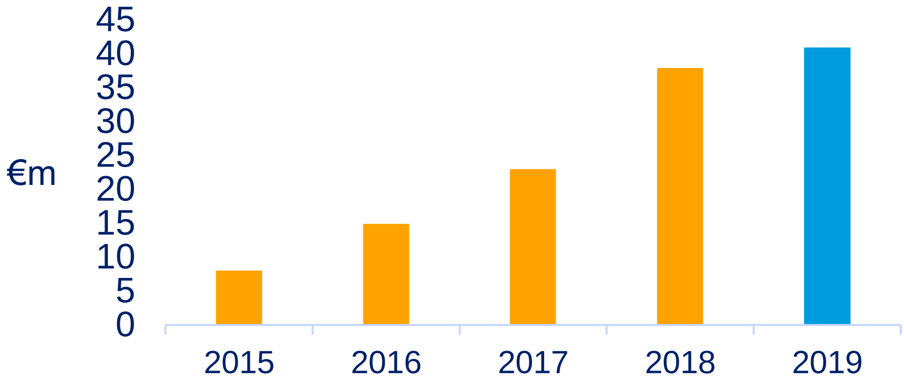
Revenue – 54% CAGR 2015-2019



Adjusted EBITDA (Pre-IFRS 16) – 52% CAGR 2015-2019



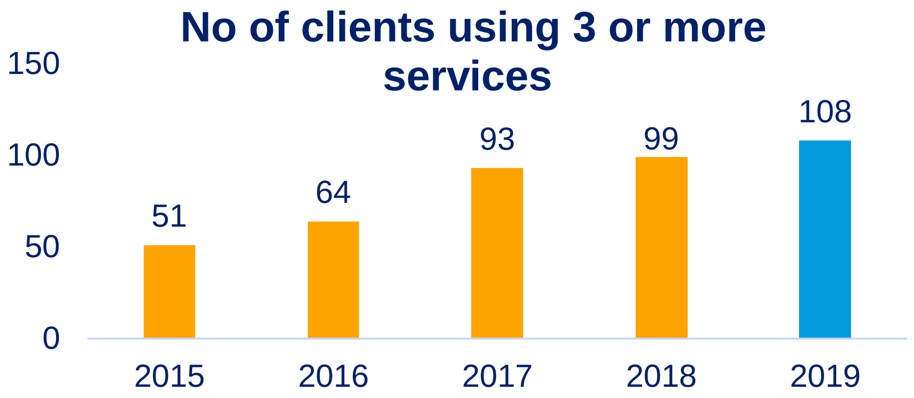
Adjusted PBT – 50% CAGR 2015-2019

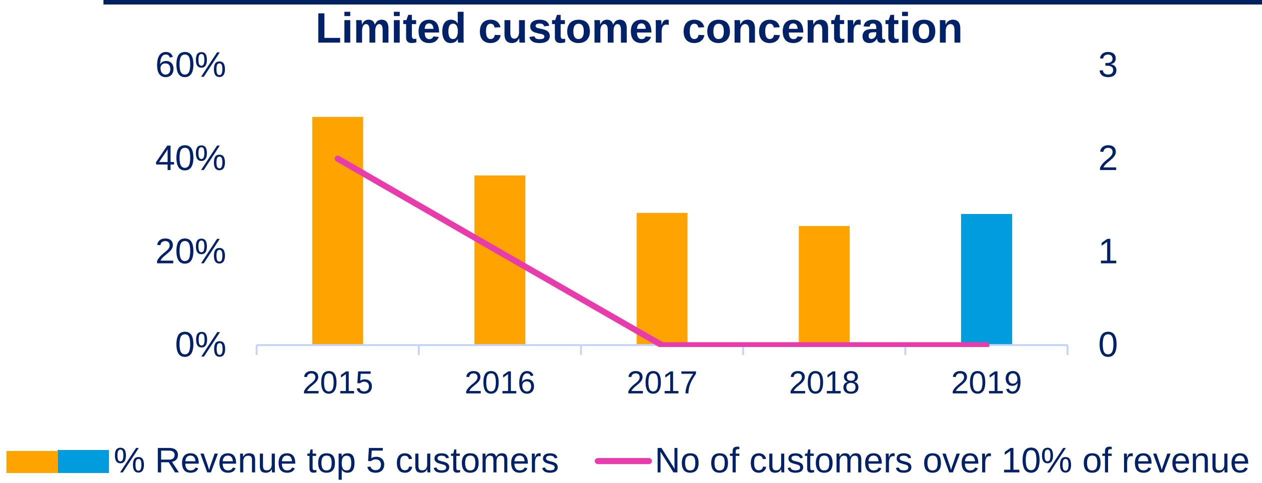


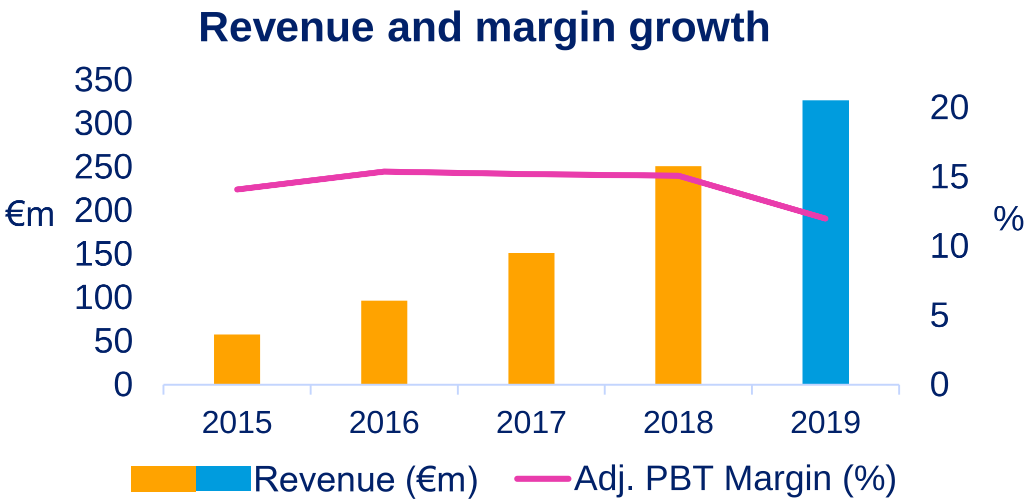
Keywords STUDIOS

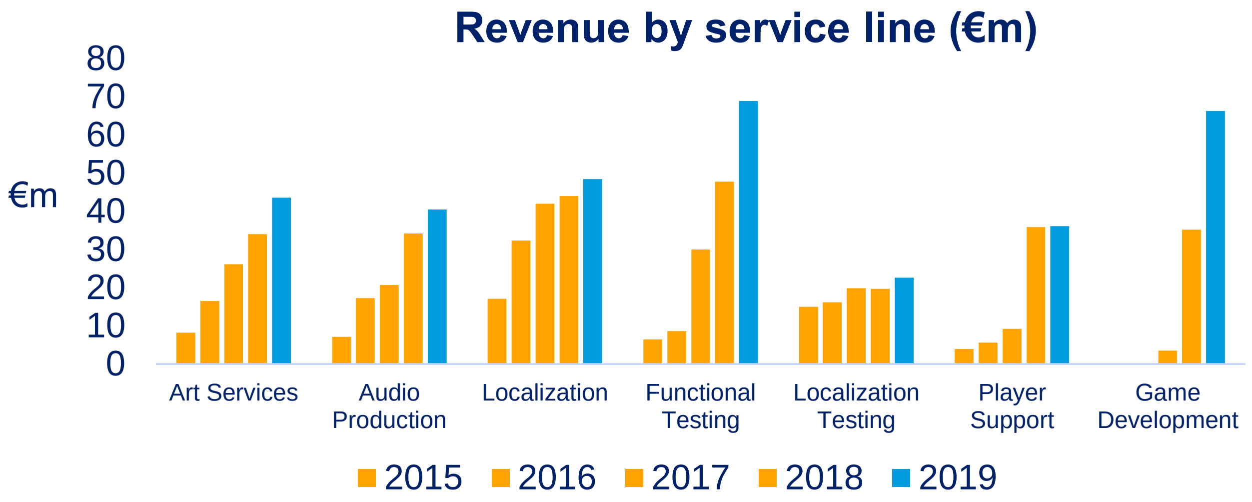
Delivering consistent and diversified growth

Definitions of the performance measures are provided in the Alternative performance measures chart in the Appendix









Keywords STUDIOS

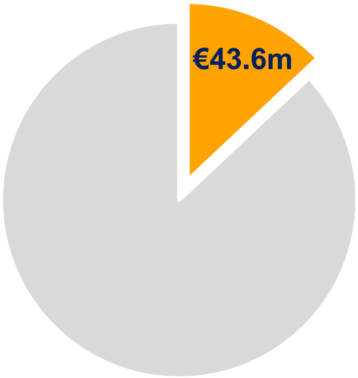
Service line update

Keywords Art Services

2019 highlights

- Revenue +28.2% year on year; +6.7% Organic Revenue growth
- Full year of 2018 acquisitions (Fire Without Smoke, TrailerFarm)
- Partial contributions from 2019's (Sunny Side Up, Ichi)
- Marketing services held back by console transition

15 locations globally, 1,194 employees*, 13.3% of revenue



COVID-19 update and mitigation measures

- Five Chinese art studios shut down following Lunar New Year, some work from home implemented
- Subsequently reopened with rigorous social distancing and back to full production since the end of February
- All our Art and Marketing studios, apart from those in China, have now migrated to work from home operations

Medium term outlook

- $1bn+ Art services market of which 50% is currently outsourced to a highly fragmented base of over 100 service providers
- Marketing services market also very large and highly fragmented
- Expect to continue to add to our marketing services activities with acquisitions and report it separately when it achieves scale

Keywords STUDIOS

* Average number of operational staff in 2019

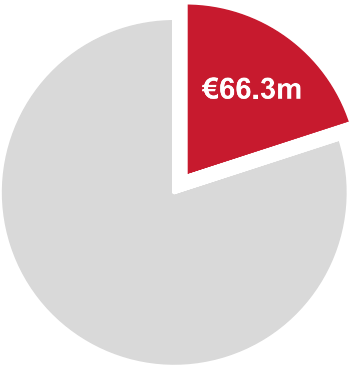
Keywords Game Development

Service line update

2019 highlights

- Revenue +88.4%; +36.4% Organic Revenue growth
- Now the second largest service line for Keywords
- Driven by strong demand
- Full year of 2018 acquisitions (Snowed In, Studio Gobo, Electric Square)
- Partial contribution from Wizcorp acquisition in 2019
- Concluded underperforming contract in December 2019

12 locations globally, 792 employees*, 20.3% of revenue



2019: €326.5m

COVID-19 update and mitigation measures

- All Game Development studios are working from home
- Rate of recruitment is expected to slow given the lockdowns in place globally
- Demand for game development services remains high

Medium term outlook

- $3bn+ Game Development market with just 20% currently outsourced, to a highly fragmented base of over 50 service providers
- Recently exited an underperforming contract and opened three new studios in the UK, Singapore and Texas
- Well placed to meet continued high demand for our services

Keywords STUDIOS

* Average number of operational staff in 2019

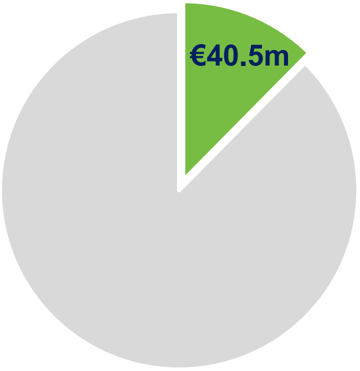
Keywords Audio Services

Service line update

2019 highlights

- Revenue +18.4% year on year; 2.3% Organic Revenue growth
- Full year of 2018 acquisitions of Cord, Laced, Blindlight, Maximal
- 2019 acquisitions of Descriptive Video Works, TV+SYNCHRON, Syllabes
- Held back by light year for console game launches
- Studios in London and Los Angeles became Netflix preferred supplier

13 locations globally, 220 employees*, 12.4% of revenue



2019: €326.5m

COVID-19 update and mitigation measures

- Short-term disruption due to closure of most recording studio facilities
- Initiating remote recording capabilities to allow limited voice-over recording from actors’ homes
- Expect reduced recording capability in the short-term to be partially offset by higher studio utilisation levels post-shutdown

Medium term outlook

- c.$150m Audio localisation market (excludes original language recording, music and sound effects and design)
- c.90% outsourced to a highly fragmented market of over 50 service providers
- We expect to continue to grow market share and make further acquisitions
- Expect to benefit from stronger H2 for AAA game releases, coinciding with new console launches from Microsoft and Sony
- Remote voice over recording model developed for COVID-19 may provide opportunity for further development

Keywords STUDIOS

* Average number of operational staff in 2019

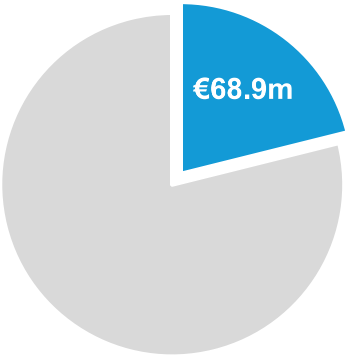
Keywords Functionality QA

Service line update

2019 highlights

- Grew by 44.1% year on year; 37.0% Organic Revenue growth
- Steep ramp up in staff introduced some inefficiencies
- Established as the ‘go to’ in North America, with benefit of scale brought through VMC acquisition
- Almost doubled the average number of production staff
- New operations in Mexico City, Katowice and Tokyo

8 locations globally, 2,316 employees*, 21.1% of revenue



2019: €326.5m

COVID-19 update and mitigation measures

- Security requirements for game testing makes moving to a work from home model more difficult than other services
- Have moved 1,500 people to work from home arrangements and continue to migrate more test teams on client-by-client basis
- Some delays to certain projects and, where appropriate, staff have been moved to furlough arrangements

Medium term outlook

- Functional Testing market valued at over $800m with just c.40% of services currently outsourced
- Market is less fragmented with c.10 service providers.
- We are a leading player with scale and flexibility
- Expect it to grow as it benefits from structural outsourcing trends and increased operational leverage

Keywords STUDIOS

* Average number of operational staff in 2019

Service line update

Keywords Localization

2019 highlights

- Revenue + 10.2% year on year; 7.5% Organically
- Grew despite annualised effect of former customer insolvencies
- Benefitted from trend towards continuous content generation
- Held back by console transition
- Added AI and machine learning technology with Kantan acquisition

17 locations globally, 381 employees*, 14.9% of revenue

2019: €326.5m

COVID-19 update and mitigation measures

- Now being managed entirely on a work from home basis
- No material impact on delivery capability expected
- Demand remains good and signs of possible increases due to high degree of content provision while world experiences lockdown conditions

Medium term outlook

- c.$200m Localization market of which c.85% currently outsourced to highly fragmented base of over 50 providers
- Expect to build on leading market position
- Differentiated by:
    - ability to deliver simultaneous multi-jurisdictional projects vs many single language competitors
    - proprietary software (Xloc and Kantan)
    - market-leading expertise built over 20 years

Keywords STUDIOS

* Average number of operational staff in 2019

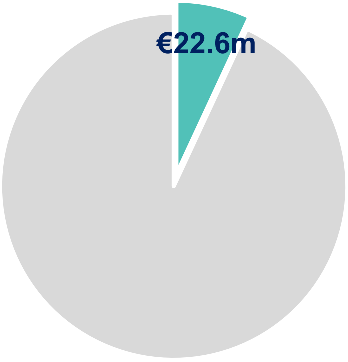
Keywords Localization QA

Service line update

2019 highlights

- Grew by 14.7% year on year; 11.2% Organic Revenue growth
- Now just 6.8% of pro forma Group revenues
- Established new Localization Testing facilities in Katowice and Ottawa

8 locations globally, 532 employees*, 6.9% of revenue



2019: €326.5m

COVID-19 update and mitigation measures

- Security requirements for game testing makes moving to a work from home model more difficult than other services
- Continuing to migrate test teams on a client-by-client basis to a work from home model
- Some delays to projects and some staff have been moved to furlough arrangements

Medium term outlook

- c.$150m Localization Testing market of which 70% is currently outsourced
- Less fragmented market with c.10 service providers
- We are the market-leader with scale, breadth of languages and agility being critical to customers
- Expect to benefit from stronger H2 for AAA game releases, alongside expanded operations in Katowice, Poland and Ottawa, Canada

Keywords STUDIOS

* Average number of operational staff in 2019

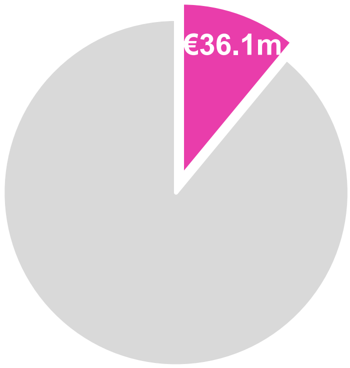
Keywords
Player Support

Service line update

2019 highlights

- As previously communicated, 2019 was a year of consolidation following an exceptional period of growth
- Revenue grew by 0.6%; (4.7%) Organic Revenue growth
- Marginal growth on strong comparatives, having grown more than threefold in 2018
- Invested in management talent, expanded facilities in Manila and newer locations in Katowice and Mexico City

11 locations globally, 1,343 employees*, 11.1% of revenue



2019: €326.5m

COVID-19 update and mitigation measures

- All activity now being conducted on work from home basis, following agreement with clients
- Increased video game playing since isolation measures has led to increased demand for support

Medium term outlook

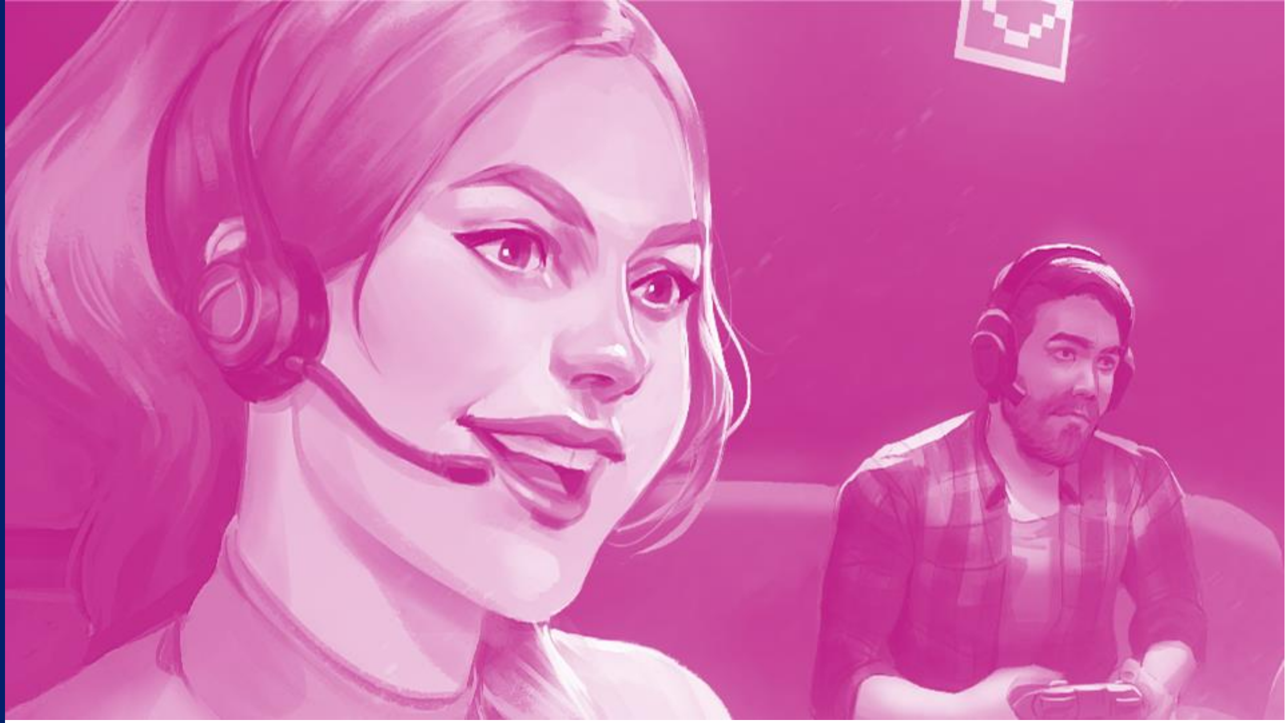
- c$1.2bn Player Support market of which c.50% is currently outsourced
- Market dominated by large, generalist customer support providers
- Aim to differentiate from these general providers through:
    - specialist video games expertise
    - extending our services to cover more gamer engagement ‘touch points’
    - developing technological tools

Keywords
STUDIOS

* Average number of operational staff in 2019

Outlook

Andrew Day, CEO



Keywords STUDIOS

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Structural factors that power our growth

Market drivers

- Fast growing games industry – c. 8% CAGR
- Trend towards outsourcing as the industry deals with an increasingly complex environment
- Supply chains are becoming more structured as the industry gradually matures
- Scale begets scale in an otherwise highly fragmented market
- Fragmented industry provides opportunities for selective consolidation

Internal drivers

- Unique end-to-end global service platform
- Service lines that deliver strong organic growth
- Relationship with all the top games companies
- Close proximity to our clients around the globe
- Access to talent pools around the world
- Selective acquisitions to further support this growth

Increasing barriers to entry as a result of reputation for quality, expertise, scale, global reach and full range of services

Keywords STUDIOS

Medium term outlook

- Good start to 2020 now impacted by short-term disruption from COVID-19

Beyond COVID-19

- We expect increased demand driven by:
  - underlying video games growth, new generation consoles and development of streaming platforms and VR/AR
  - client base in a strong position, as beneficiaries of the ‘stay at home’ requirements
  - greater shift to outsourcing, as clients seek to enhance the resilience of their production operations

- Investments have positioned us as the provider of choice for many of our services, which should enable us to continue to deliver high levels of growth in the medium term
- Expect margins to increase incrementally towards historic norms as we leverage investments over a growing revenue base in 2021
- Balance sheet strength to emerge from short-term uncertainty to take a leading market share organically and via acquisitions
- Acquisitions pipeline remains strong and we anticipate that the current crisis may give rise to further acquisition opportunities which, as the market leader, we will be well placed to execute on
- Well positioned for growth and to further enhance shareholder value

Keywords STUDIOS

Q&A

Andrew Day

Jon Hauck

Alternative performance measures

The Group reports certain Alternative performance measures (APMs) to present the financial performance of the business which are not GAAP measures as defined by International Financial Reporting Standards (IFRS). Management believes these measures provide valuable additional information for the users of the financial information to understand the underlying trading performance of the business. In particular, adjusted profit measures are used to provide the users of the accounts a clear understanding of the underlying profitability of the business over time. Full definitions and explanations of these measures and a reconciliation to the most directly referenceable IFRS line item are provided in the Group's Full Year Results announcement.

Organic revenue at constant exchange rates is calculated by adjusting the prior year revenues, adding pre-acquisition revenues for the corresponding period of ownership, and applying the 2018 foreign exchange rates in both years

EBITDA comprises Operating profit, adjusted for amortisation of intangible assets €7.3m (2018: €6.9m) and depreciation €7.3m (2018: €5.3m), while deducting the share of profit from associates €nil (2018 €0.1m) and bank charges €0.6m (2018: €0.5m). **Adjusted EBITDA** is also before costs of acquisition and integration €4.3m (2018: €5.3m), share option expense €9.8m (2018: €4.1m) and non-controlling interests €0.1m (2018: €nil)

Adjusted profit before tax comprises, Profit before tax adjusted for costs of acquisition and integration €4.3m (2018: €5.3m), share option expense €9.8m (2018: €4.1m), amortisation of intangible assets €7.3m (2018: €6.9m), non-controlling interest €0.1m (2018: €nil), foreign exchange (gain) / loss €1.7m (2018: gain of €0.8m) and unwinding of discounted liabilities on deferred consideration €0.3m (2018: €0.3m)

Adjusted earnings per share, being the adjusted profit after tax divided by the non-diluted weighted average number of equity shares as reported. The adjusted profit after tax comprises the adjusted profit before tax, adjusted for tax expense €7.5m (2018: €7.2m) and deducting the tax arising on the bridging items to the adjusted profit before tax €1.7m (2018: €1.4m as restated to take into account the tax impact)

Adjusted free cash flow is a measure of cash flow adjusting for capital expenditure that is supporting growth in future periods (as measured by capital expenditure in excess of maintenance capital expenditure). This is represented by free cash flow before tax, plus capital expenditure in excess of depreciation. The **Adjusted cash conversion rate** has been calculated, as the adjusted free cash flow expressed as a percentage of the adjusted profit before tax.

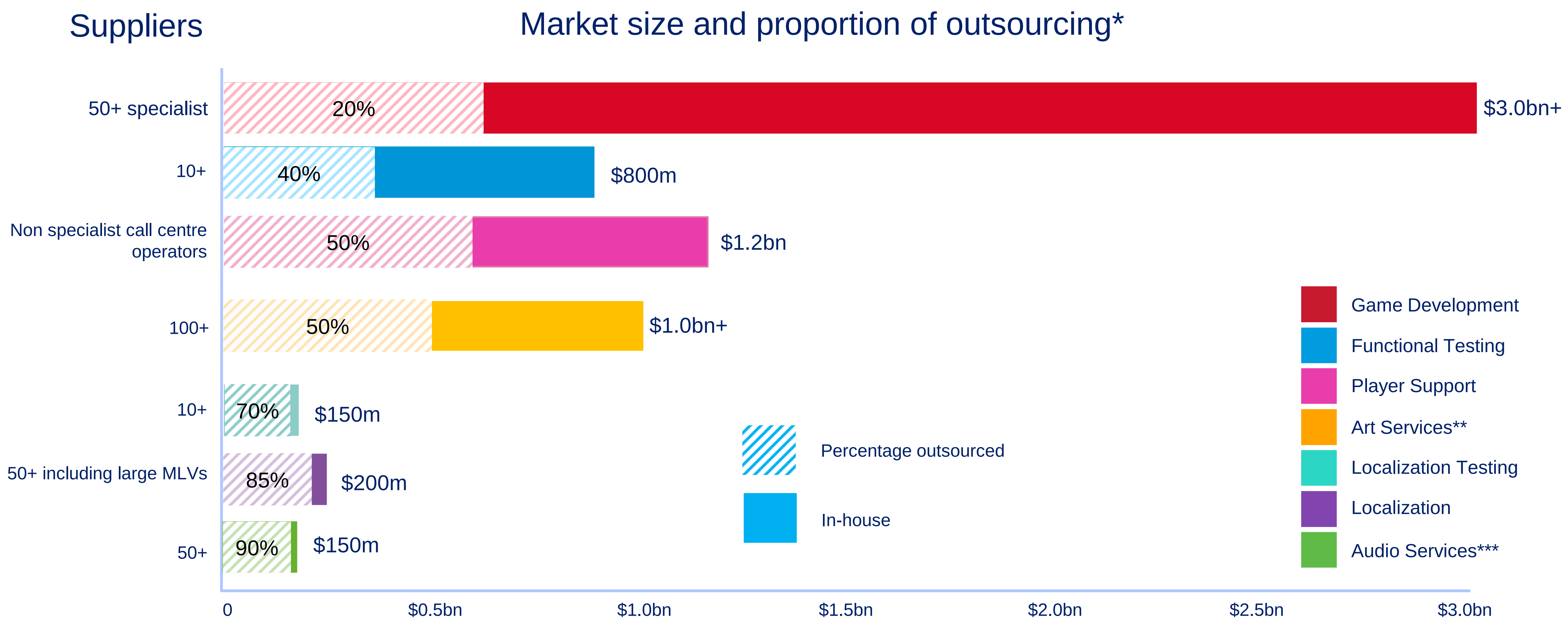
Barriers to entry

- **Scale** - Large clients need large suppliers
- **Global presence** – proximity to talent and clients, multiple time zones
- **Knowledge and expertise** – Breadth and depth of capability
- **Technology** - Regular investment, security
- **Scalable model** – flexibility to meet clients needs
- **Acquisition track record** – disciplined, build out the platform, cultural fit, integration
- **Financial strength** – performance, stability and resilience
- **Reputation for quality** – culture of delivery

Keywords STUDIOS

The structural market opportunity

* Based on management's estimates
** Art Services only, does not include Marketing Services
*** Audio localization only



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Acquisition history

* Includes all cash, deferred and equity portions of consideration

** 45% subsidiary interest

Year	Art Services	Game Development	Audio	Functional Testing	Localization	Localization Testing	Player 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 Ichi Worldwide	GetSocial Wizcorp	Descriptive Video Works TV+SYNCHRON Syllabes	AppSecTest**	Kantan			**€22.5m**

Keywords STUDIOS