



Support | Deliver | Evolve

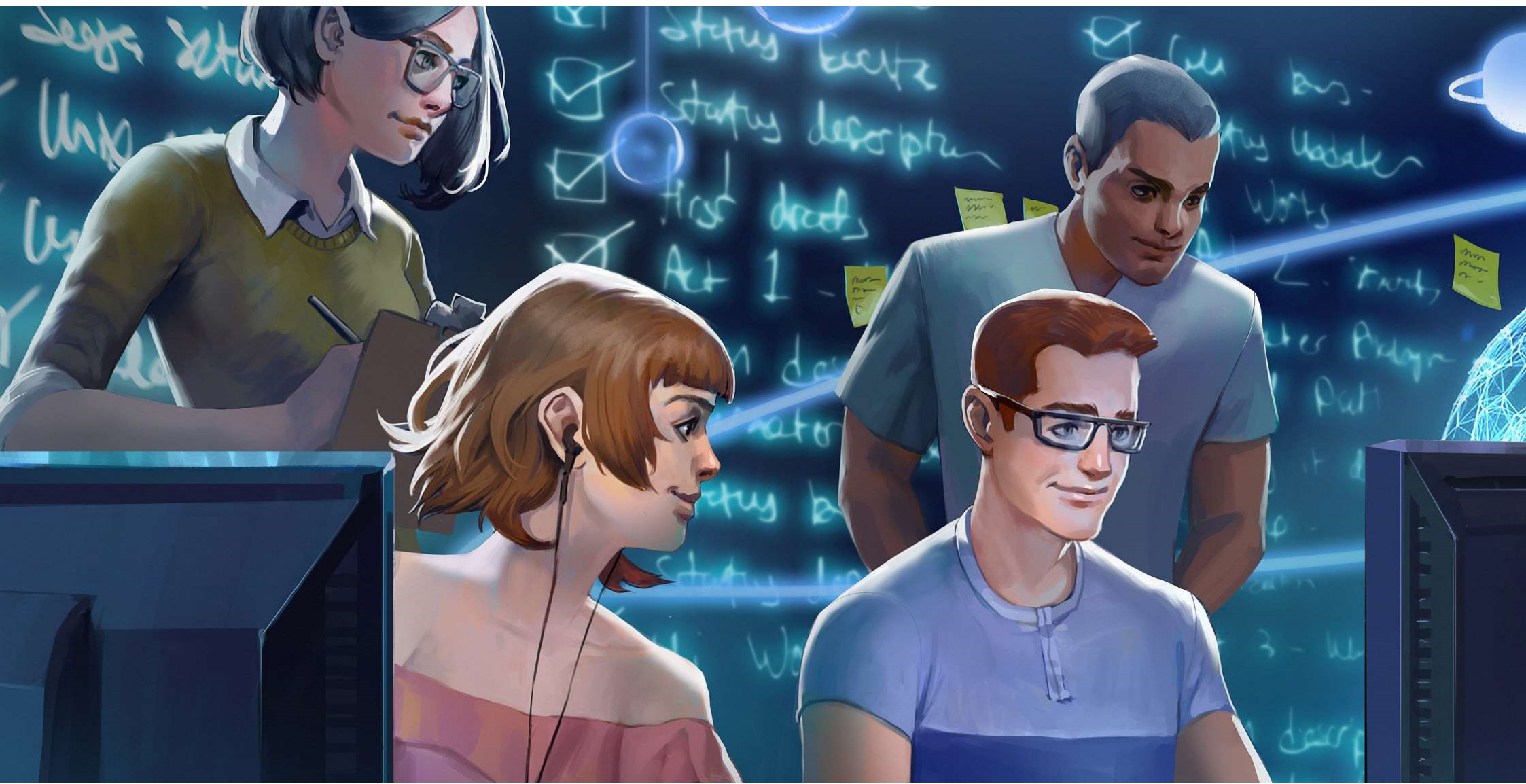
# **Synergistic Growth**

## Capital Markets Event

London Stock Exchange

Tuesday 14 November 2017

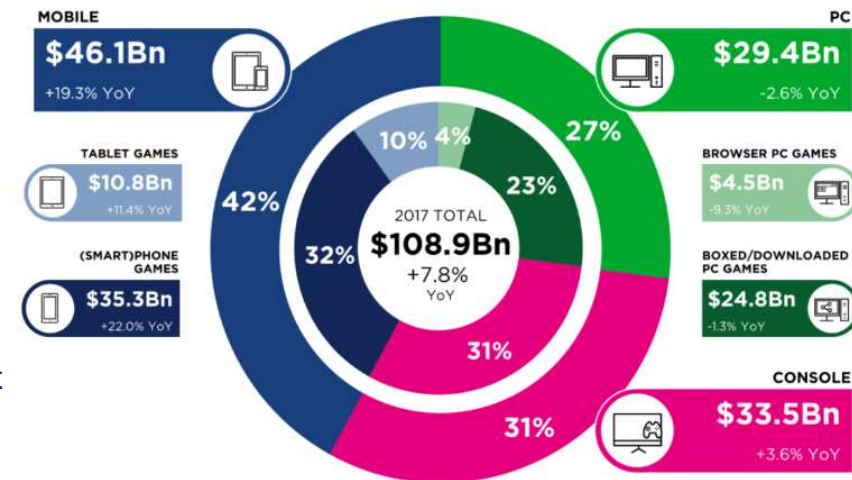




# Introduction

# KWS - Supporting a large unique global market

- Video games are a rapidly growing +\$100bn p.a. niche global market – Growing 6% to 8%
- Games increasingly more challenging and sophisticated to develop due to
  - Number of translated languages increasing (40-50 for some mobile games)
  - More powerful games platforms supporting larger, higher definition games
  - Move from products to long running services requires continuous new content
- Increased complexity, volume and speed of content generation has driven the trend towards outsourcing - most of it on a tactical basis to date
- Going forward there will be more strategic outsourcing as publishers need to focus on what makes their IP unique and vertically integrated models can be a distraction.
- We estimate the services market to be worth \$5bn in total with 50% of that outsourced today. In film and TV, 90%+ of production is outsourced.
- KWS now trusted and relied upon by several major clients due to unparalleled breadth and depth of industry leading service lines



Source: ©Newzoo | Q2 2017 Update | Global Games Market Report  
[newzoo.com/globalgamesreport](http://newzoo.com/globalgamesreport)

**Strategy is to become the “go to” provider of technical services to the video games industry**



## *Since IPO we have been building....*

**39** studios

Up from 5 studios

**7** service lines

Up from 4 at time of IPO

**24** acquisitions

Earnings enhancing

**€200m**

Pro forma revenue

**290%**

Adj EPS growth  
(FY 2013 – FY 2016)

**62%**

CAGR in revenue  
(FY 2012 – FY 2016)

*...a broad service delivery platform organically and through consolidation*



# Becoming the “Go to global services platform”

- Achieved a lot since IPO
  - Demonstrated we can grow organically while also making acquisitions and integrating them
  - Proven the synergies that exist through both operational benefits of scale and through cross selling
- The current market structure remains imbalanced and will not be fit for purpose in the mid term
  - Highly fragmented service providers vs a client base of major global players
- A clear opportunity to become the “go to global services platform”:
  - ❖ Focus on organic growth and consolidation to achieve breadth and depth of services and a full, balanced geographic spread
  - ❖ Continue to make 6 to 10 “add on” acquisitions per year plus 1 or 2 larger transactions and integrate them as appropriate
  - ❖ Drive synergies and cross selling opportunities across our extended footprint
  - ❖ Increasingly becoming a strategic partner to our clients







## Acquisition strategy



# Acquisition opportunities in a highly fragmented market

	Art	Engineering	Audio	Functional Testing	Localisation	Localisation Testing	Customer Support
Market Size*	\$1bn – 50% outsourced	\$1.5bn – 30% 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+	Few specialised

- 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 localisation
  - Most acquisition activity focussed on newer services like Engineering, Art and on building out Audio Services
  - Few acquisition opportunities in Customer Support
- Consolidation is underway – started by Keywords but others may follow
- We are seeing a strong pipeline of acquisitions across the services; mix of sizes and in various geographies

\*Keywords estimates



# Acquisition track record

Year	Art Creation	Software Engineering	Audio	Functional Testing	Localisation	Localisation 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	La Marque Rose Dune Sound Asrec	VMC	XLOC La Marque Rose Dune Sound Asrec	VMC	VMC	€79.7m

\* Includes all cash, deferred and equity portions of consideration





# Deal origination

## Own network

We have been in the market for 20 years

- Meet at tradeshow
- Visit studios when travelling
- Talk about who's who - reputation

## Client recommendation

Clients are often willing to facilitate introductions. They know we are buyers and most suppliers are sellers

- We share our strategic priorities
- Talk about where our gaps lie – expertise, geographies, scale

## Investor and analyst introductions

Analysts and investors share ideas and make introductions



# Approach to screening

## Cultural fit

This is our most important criterium

- Normally we don't even talk if there is a cultural misalignment
- We have acquired businesses with different cultures and successfully changed them

## Valuation

We don't overpay but are fair – we become colleagues the next day!

- Most targets have a fragility despite being very good suppliers eg client concentration and lack of visibility
- Valuations have averaged at 1 times revenue or 5 - 10 times EBITDA
- Clearly defined and standardised deal structure

## Financial performance

This is the least important criterium

- We know how to make money from the businesses we operate through operational excellence
- So a target that is not already performing well financially is an opportunity for us



# Audio in focus: Targeting acquisitions

**Strategy: to build the first “fully owned” network of audio studios in key territories where the video games industry is already well established**

- Enables Keywords to both offer local and specific audio solutions and support client’s larger multilingual audio needs, underpinned by investment in innovative tools and process engineering

## **Acquisition strategy:**

- Well established local audio entities with a good reputation that want to be part of a bigger, global operation
- Having been in the market for more than 20 years, we have established relationships with most of the key players and owners and have a good handle on their industry reputations
- We are becoming the reference buyers, and more and more frequently audio companies are now reaching out to us to see if there is any interest in having them as part of Keywords



# What makes Keywords an attractive acquirer?

Reputation  
as a serious  
and good  
buyer

Geographic  
reach

Financial  
Security

Diversity of  
service  
offering

Focus on  
games and  
strong client  
base

Welcoming  
and open  
culture

Gain market  
share



# Driving returns from acquisitions

**10%**

'Entry' ROI for most acquisitions

**15%**

ROI typically in 1 year

- Given growth and improved operational efficiency

**15-30%**

ROI in 2-3 years

- Babel - operational synergies
- Enzyme - growth + operational synergies
- Alchemic Dream - leveraging KW studios
- Lakshya - international growth & efficiency
- Liquid Violet - organic growth





# Summary

- A clear acquisition strategy
- Abundant opportunities that we are using our industry knowledge and screening processes to select from
- A strong track record of delivering returns from acquisitions to date

**Any questions?**





**Integration and driving synergies**



# Driving synergies from acquisitions

## Approach to integration, driving synergies and margins tailored to each business

- **Standalone studios (new territories, new service lines):**
  - Focus on business processes to optimise margins over time
  - Access to larger client base improves pipeline and increases utilisation
- **Studios with strong overlap (e.g. next to a Keywords hub/no new services added):**
  - Focus both on gross margins and on SG&A and opex costs, with immediate impacts
  - In the Montreal hub, Babel went from making losses to achieving 20%+ EBITDA in the second year
- **Acquired companies almost always grow revenues strongly under Keywords ownership**
  - Encouraged to grow, to be bold, to invest
  - Benefit from being part of well respected Group with known behaviour (easy to do business with, flexible, scalable, puts the interests of the project first, good and open communications, financially solid and transparent)



# Joining the Keywords family

## The First 60-100 Days

### Warming up the engine

#### Preliminary stages during due diligence

- Understand the chemistry of the company and what the real success factors have been
- Share our Integration Memorandum – a charter that governs our approach to integration
- Build an integration plan
  - Pre acquisition: build trust and develop a communication plan with top management
  - Post acquisition: internal communication to employees with integration plan

#### Post acquisition

- Share the Keywords vision and story with new team members
- Consolidate financial reporting
- Introduce group policies and blend with existing policies and local norms
- Showcase a wider scenario of opportunities for growth for the company and the employees
- Implement the plan: integration within service lines, with business development and within regional support

*In all but one case, the sellers have stayed to play a leadership role in the larger Keywords ecosystem  
...and we love that!*





# Bringing people together

- At each new acquisition, deployment of a unified acquisition communication package
- Linking people up as soon as possible (meetings and social activities)
- Different contexts for each company - there are different paths to join the Keywords culture

## The Keywords Rule of 9

1. We communicate openly
2. We focus on projects
3. We act as an extension of our clients
4. We empower our people
5. We are passionate about games
6. We love our clients
7. We have a “can do” attitude
8. We recognise the importance of flexibility
9. We learn at every opportunity

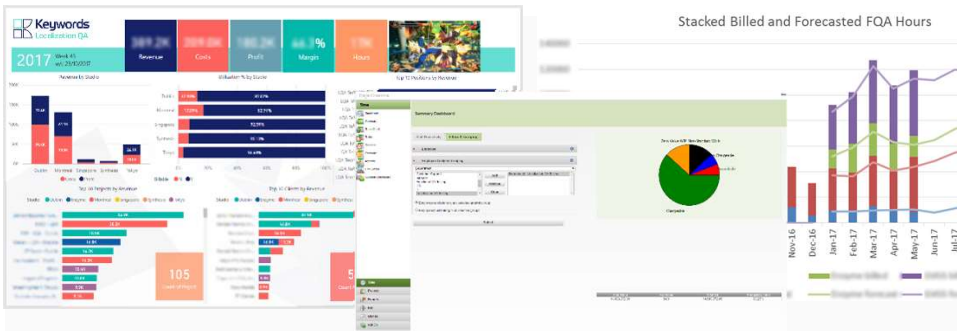




# Managing efficiency



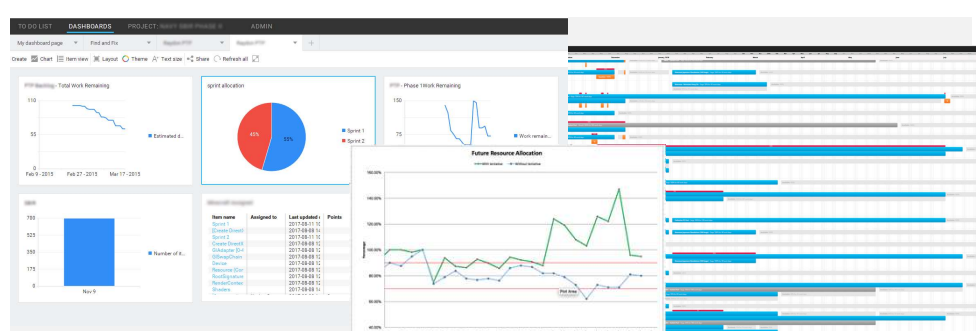
Art



Localisation & Functionality Testing, Player Support



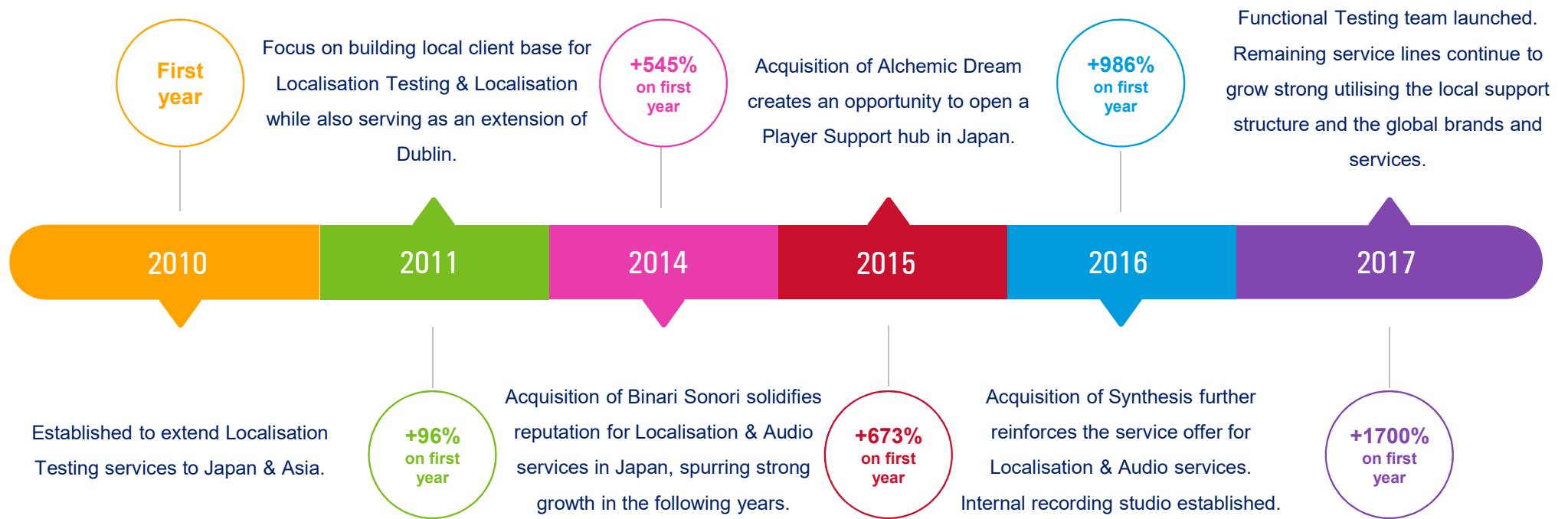
Localisation & Audio



Engineering

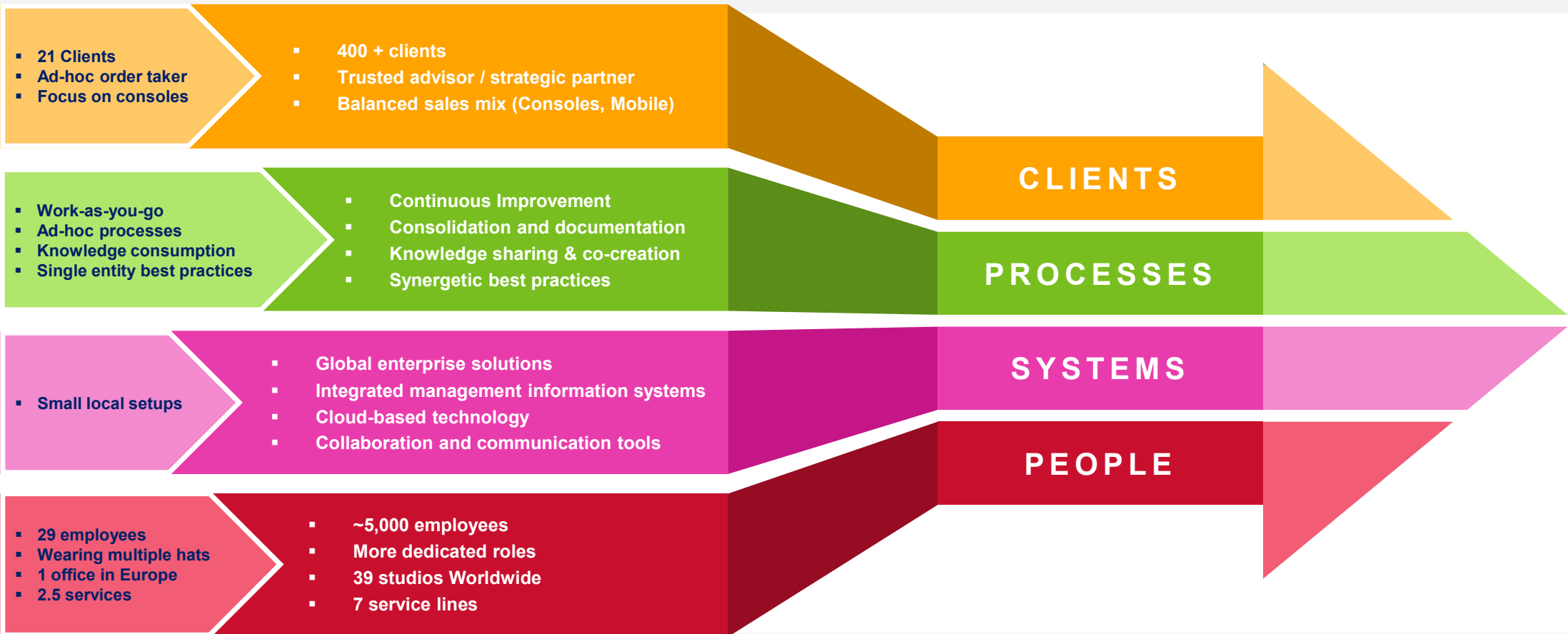


# Case Study: Tokyo



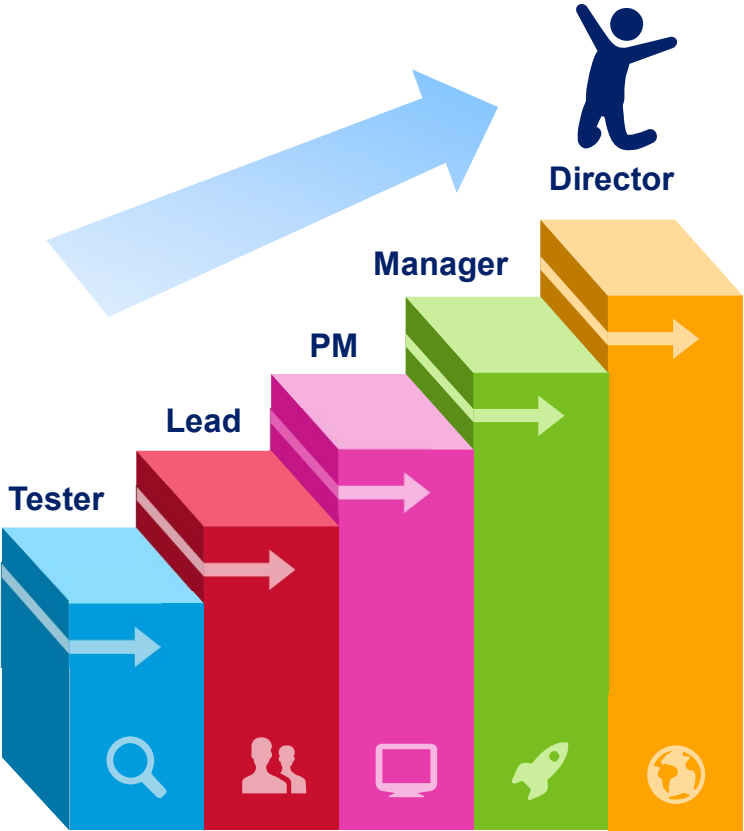
# Confessions of a Keywords “Lifer”

## How have things changed as we have grown?



# Confessions of a Keywords “Lifer”

## How does growth offer opportunities for our talent?



**Organisational Design**  
 Evolving organisational design offers new roles and responsibilities (e.g. business and operations support functions)



**Level Up**  
 Stronger focus on career mapping and talent retention initiatives



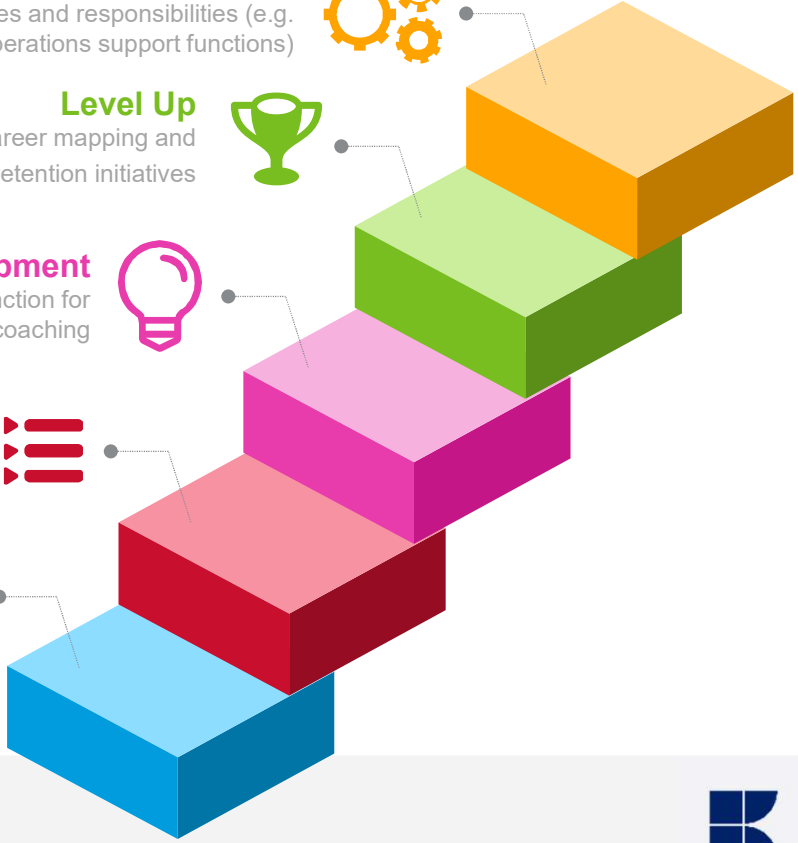
**Learning & Development**  
 Enhancing our Learning & Development function for our talent through training, mentoring and coaching



**Services Portfolio**  
 Expanding services portfolio allows for careers in new areas



**Internal Growth**  
 Internal talent takes priority



# Summary

- Approach tailored to each business
- Strong emphasis on the integration plan ahead of acquisition
- Clear 100 day plan delivered by teams who have already bought into the process
- Consistently demonstrated that the Keywords culture supports rapid and meaningful synergies

**Any questions?**



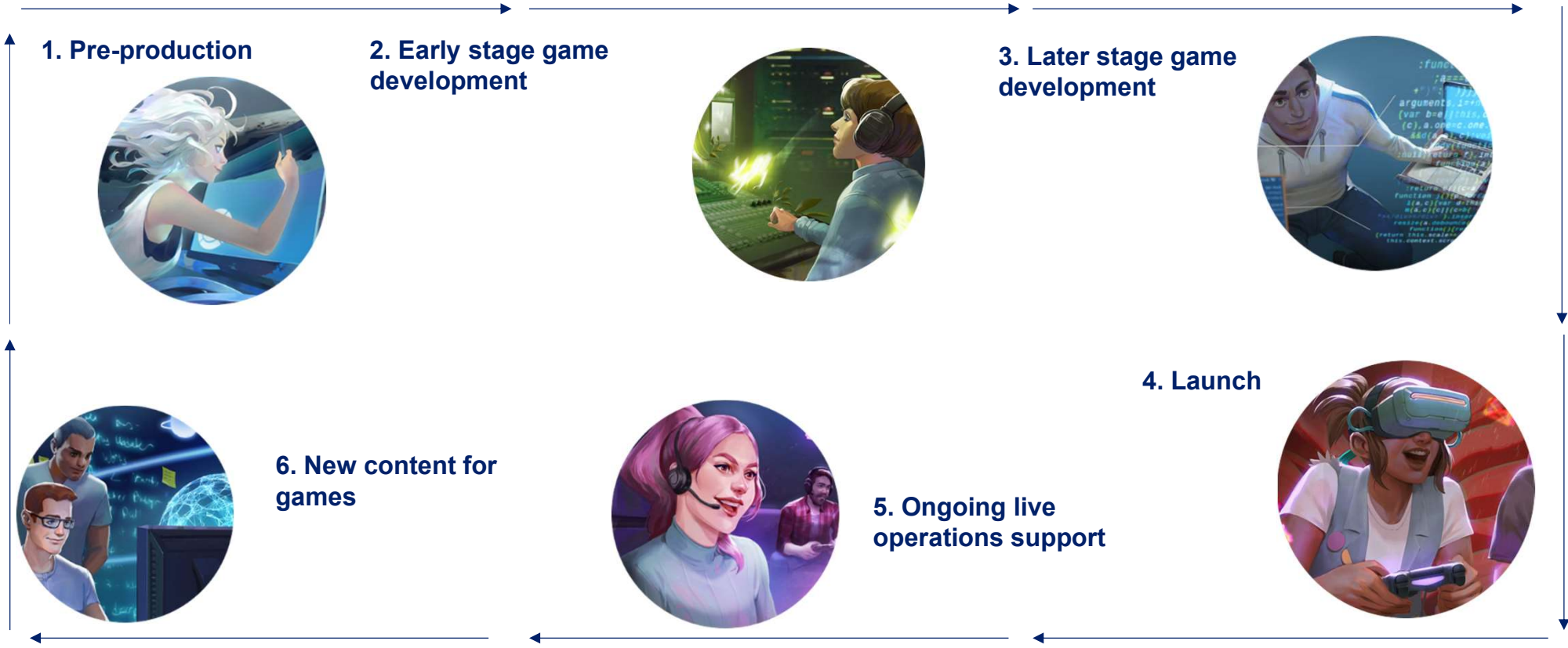




**Capturing Cross Selling Opportunities**



# Games development lifecycle: Cross selling opportunities



# Management structure & cross selling

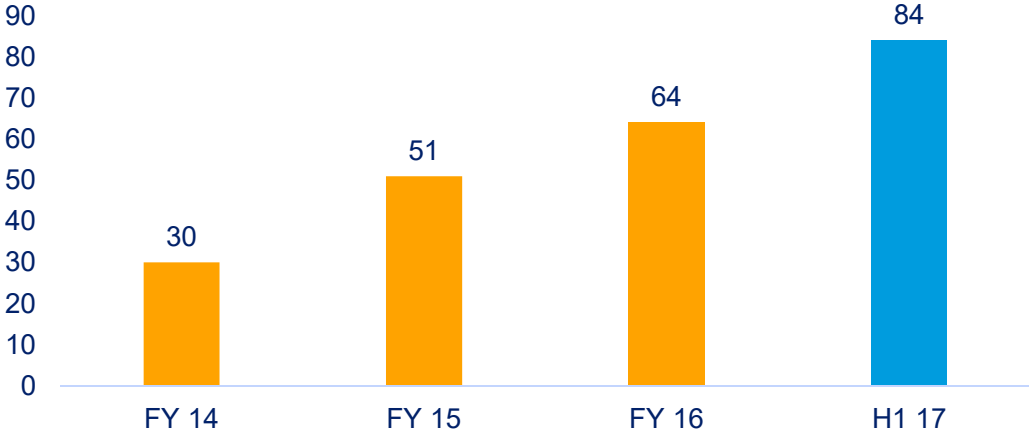


- Service lines run on a global basis, supported by regional management teams
- Unified global sales team facilitates cross selling
- Leveraging relationships and master services agreements to grow the number of services to existing clients
- All combine to extend the number of cross selling opportunities
- Continued investment in the team and key functions supports further growth

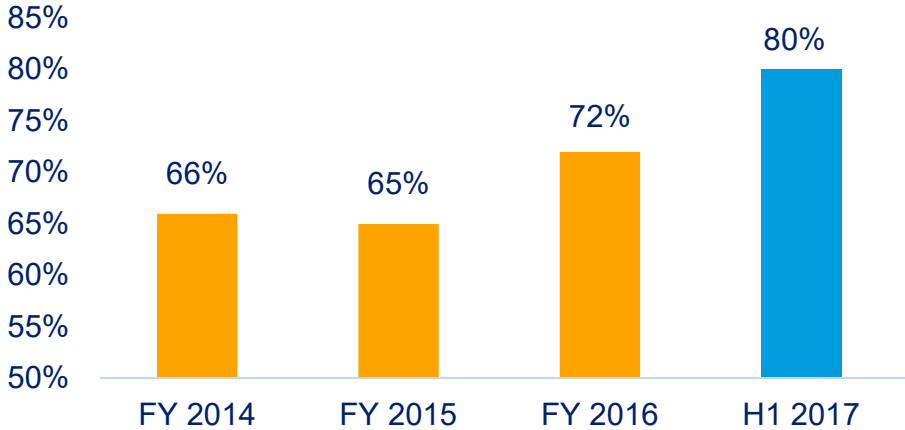


# Cross selling metrics

Clients using more than 3 services



Portion of revenue for clients using 3 or more services





# Cross selling XLOC increases our integration with our clients

## Technology solution added to translation services

### A closer, comprehensive approach

- Provide tools and a framework for consulting on localisation asset management
- Integrates with existing translation and localisation services

### Benefits

- Unique set of integrated services
- Opportunity to fund further developments of the technology
- As a well-renowned tool in the industry, enhances Keywords Studios' credibility further





# Case study: Leading mobile game developer/publisher

## The road to providing multiple services

Growing with the client and looking for cross-selling opportunities

**2014:**

Started providing translation services – 1 game, 11 languages

Revenue: c.€1m

**2016:**

Localising 3 games, now to 32 languages. Added Art Services.

Revenue c.€5.0m

**2017:**

Added Xloc, Localisation Testing, Player Support and Functionality Testing

Revenue c.€11m

**Overall:**

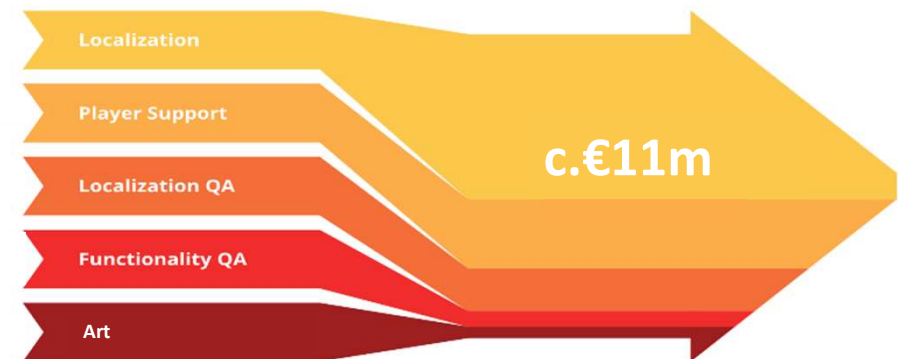
Grew from:

- 1 to 3 games
- 11 to 34 languages

## Shift from vendor to trusted partner

### Focus on providing solutions

- Created dedicated internal teams in Europe and Asia to manage translation flow with 200 external linguists
- Provided dedicated hardware and IT backbone for Player Support services to ensure security and connectivity
- Sent a Client Success Specialist at client office



# Case Study: A leading online games developer/publisher

## A leading online game company

### Cross-selling opportunities in a live environment

**2015:**  
Started providing Art services – basic gaming assets  
Revenue: \$100,000

**2016:**  
Increased Art services and added 3 additional Service Lines (FQA, LQA, LOC)  
Revenue: \$700,000

**2017:**  
Added Player Support to the other 4 service lines to total 5 services  
Revenue \$1.1m

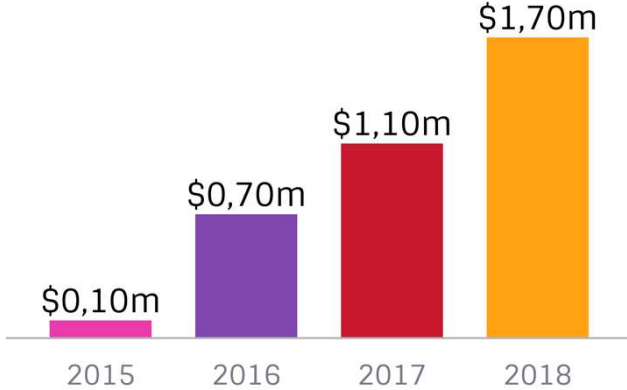
**Overall:**

- Grew from 1 to 5 service lines
- Expect to grow further in 2018

## Shift from vendor to trusted partner

### Focus on providing solutions

- Created integrated Functional Testing team working from 3 global locations
- Added community management, customer support, fraud detection to protect the game economy



# Case study: A multi-platform game developer

Extended our relationship organically and by acquisition to become a strategic partner:

**2009:**  
Localisation testing originally provided for Europe

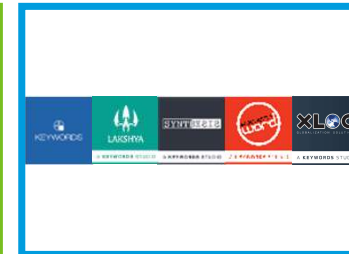
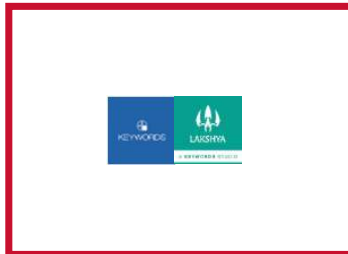
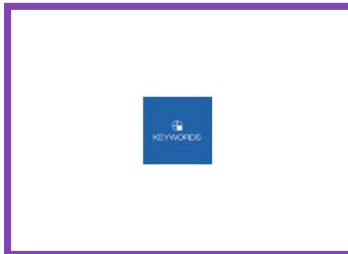
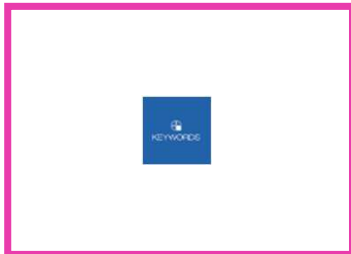
**2013:**  
Added Localisation in new languages

**2014:**  
Added Americas Localisation and Art through Lakshya

**2015:**  
Established as Asian suppliers

**2016:**  
Synthesis acquisition adds Audio & Localisation

**2017:**  
Entered Strategic Partnership to provide end to end services



*Increased sales by 600% over the period*

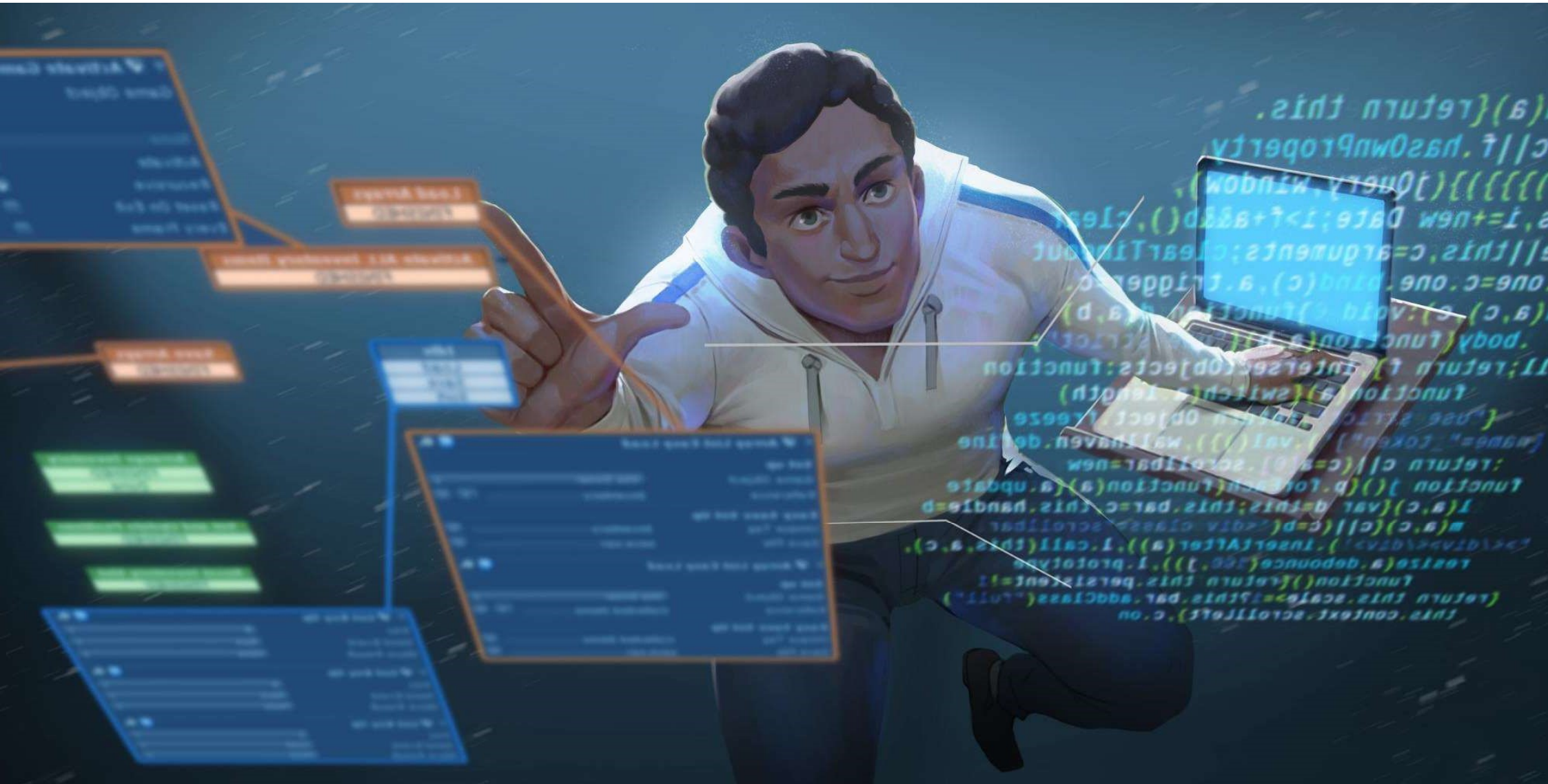


# Summary

- Continuous nature of game development lends itself well to cross selling
- We have a strong and clear management structure which encourages a culture of pursuing more and more cross selling opportunities
- Approach is clearly achieving results and we are constantly working on cross-selling opportunities

**Any questions?**





## Strategic Partnerships



# The times they are a changin´

## Packaged Goods

Strong local power: National, Regional

Local sales

One studio development

Games business model: Fire & forget

Innovation: Content or hardware driven

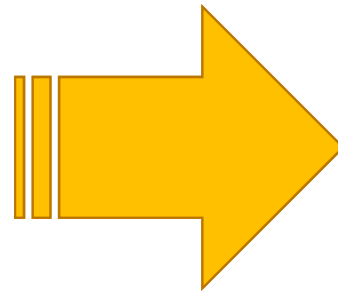
Lower margins

Innovation: Driven by dev not services

Immature industry

Multiple vendors

Tactical outsourcing



## Digital Distribution

Central power

Central sales

Distributed development partners

Games business model: Software as a service

Innovation: Automation, predictive analytics

Higher margins

Innovation: Partnership dev and services

Mature Players emerging in the industry

One stop shop

Strategic outsourcing



# The evolution of strategic outsourcing

## Dedicated teams

- Specialist teams working solely on one client / project
- Operate within existing Keywords offices
- Look and feel like client offices, but using Keywords' platforms and expertise
- Operating on this basis for 4 clients

## Spin off production centres

- Transferring client's team and offices to Keywords
- Building on existing talent and infrastructure to create broader service delivery hub
- Outsourcing agreements in place with two clients
- Clients focusing internal talent on core strengths. Competitive pressures are accelerating the process

## Strategic Partnership Model

- Deep partnerships, integrated in technology, processes, talent
- Common innovation roadmap, involving multiple services
- Custom made solutions, adaptive approach, regional or global solutions, large scale
- Keywords unique talent, technology, knowledge and scale
- Happening NOW
- Supplier client interdependency





# Keywords Studios: Raising the bar

## The Four Pillars of Our Platform

### Scale

- Multi-studio, multidisciplinary
- Across countries, continents, time zones
- With the client, close to the client or on the other side of the world

### End to End

- All services, always on, concept to sunset
- Relationship less transactional, more consultancy
- One Stop Shop (or menu of services, global or local)

### Innovation

- Multiyear roadmaps and investments
- Pipelines integrated into customers technology
- Accelerated learning: we see everything
- Proprietary technology

### Risk Management

- Size, redundancy, transparency
- Financial and talent muscle
- Compliant infrastructure

Multi-studio end to end outsourcing of game art from concept to live services for Japan client

Multi-studio end to end outsourcing of game art from concept to live services for Japan client

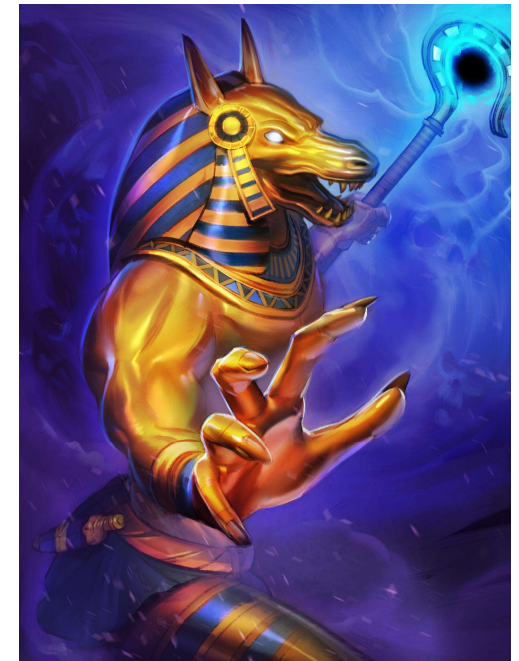
Regional testing centre, a combination of analytics & testing disciplines for major AAA

Regional testing centre, a combination of analytics & testing disciplines for major AAA



# Scale – End to End

- **Bandwidth on demand – Multiple locations combining multiple services**
  - **14 studios + 2 support offices**
    - UK, North America, India, China, Japan, Singapore
    - Worldwide time zone client communications and service delivery
  - **1,200 Team Members**
    - Artists, art directors, project managers and support team members
    - Diverse, from multiple cultural backgrounds, able to work on all game genres and styles
- **Deep partnerships with clients**
  - Design and concept cooperation from pitch to sunset
  - Complete skill set: design, production, technical and final delivery
- **Leadership and expert advisor position**



# Innovation – Risk Management

## Innovation partnership business case

- Discussing with four AAA clients long term multiyear innovation partnerships
- Areas of interest are player insights, data science, predictive analytics and AI, pipeline automation
- Innovation partnerships are high added value, high margin, create opportunities for new services and cross selling existing ones, are predictable in revenue and generate long term loyalty
- Further differentiates Keywords
- Player Research + Testing + VMC

### 01 Manual & Community QA

#### Concept validation

Community testing adds a Player layer to the standard testing, offering previously inaccessible player demographics insights, early in the development cycle or even concept proof stage.

### 02 UX Data validation

#### Defect analysis

UX data validation and categorisation uses and brings information from testing, telemetry, crowd sourcing and other sources to the next level, by understanding the qualitative insights the data offers, as well as the quantitative ones.

### 03 Pattern recognition

#### Defect prevention

Using data science, with a high enough volume of data, patterns are identified that define player trends that emerge from the testing/UX model. In turn this will accelerate the capability of identifying successful designs, predicting player behavior, and identifying quality hot spots, increasing resource efficiency.



# VMC Acquisition – Accelerating strategic partnerships

- **Additional scale & end to end services**
  - Strong West Coast presence
  - Synergies in clients
  - Reputation and world class track record
  - Additional size allows and strong US presence unlocks access to additional clients
- **Accelerating innovation**
  - GBTN accelerates our Player Network deployment
  - Embedded Technical Services allows us to partner with our clients at a different level on analytics, player support and technical testing services
- **Risk management**
  - More redundancy and better US presence
  - High technical skillset
  - Mature processes



# Summary

- The business model change provides drivers for accelerated increases in outsourcing
- Keywords already leads the field in outsourced services for the games industry
- Keywords scale, talent, diversity of services, reputation and global services platform positions our company as the ideal partner for strategic partnership models
- The VMC acquisition and our continued progress in engineering services provide additional scale, relationships, reputation, talent and tools that will accelerate the move to strategic outsourcing

**Any questions?**







**Closing remarks**



# Becoming the “Go to global services platform”

- Achieved a lot since IPO
  - Demonstrated we can grow organically while also making acquisitions and integrating them
  - Proven the synergies that exist through both operational benefits of scale and through cross selling
- The current market structure remains imbalanced and will not be fit for purpose in the mid term
  - Highly fragmented services market
- A clear opportunity to become the “go to global services platform”





# Investment summary

**Access to a large, high growth market**

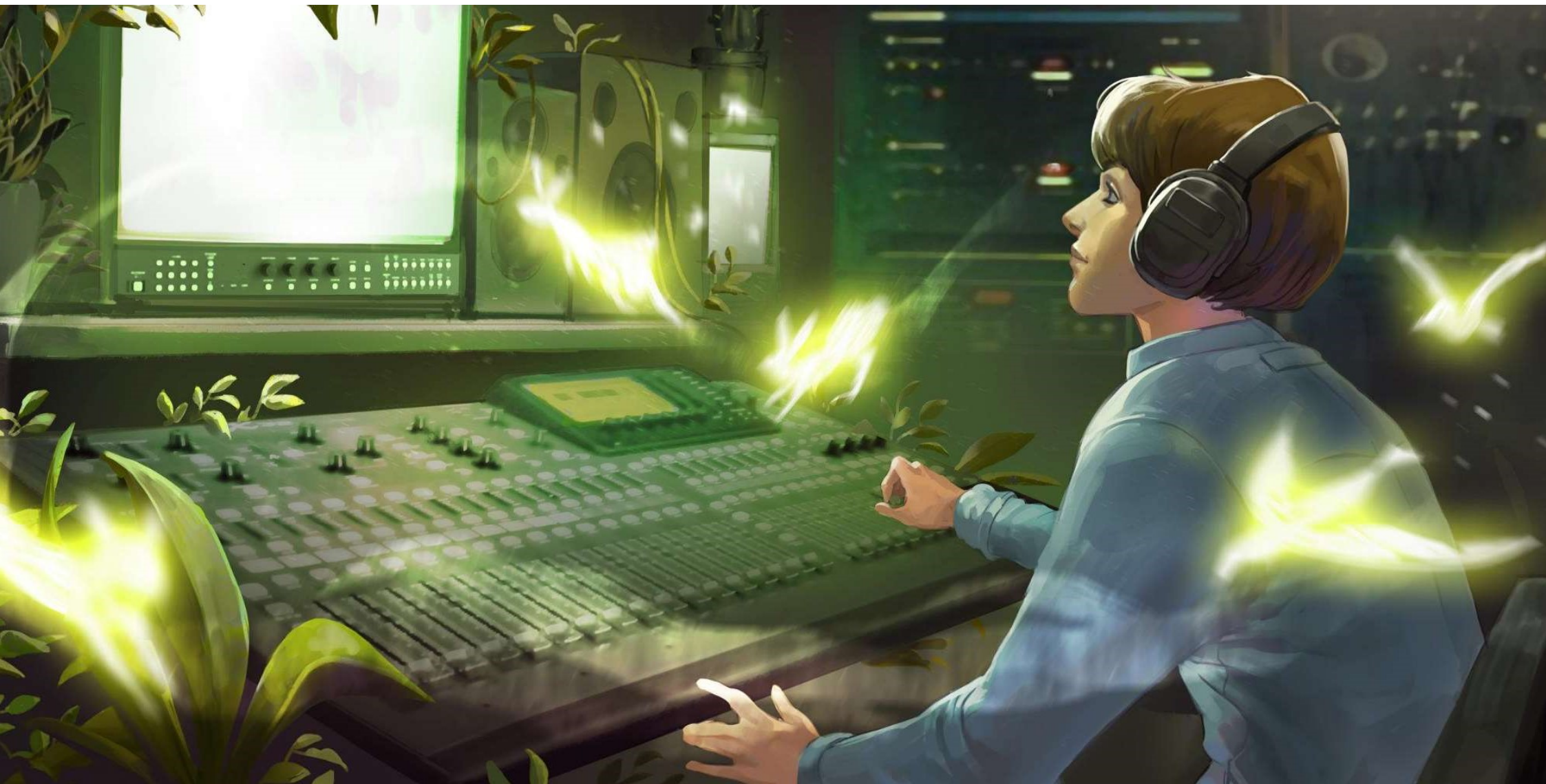
**Key drivers:**  
Market growth; continuous & higher definition content; outsourcing trend

**Strong track record of growth, both organically and through acquisition**

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

**Business model and management structure that supports growth**





**Please join us for drinks and canapes**

