Half year results 2020

17 September 2020

Keywords STUDIOS

Support | Deliver | Evolve

Robust revenue growth driven by strong demand and a flexible, resilient business model

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COVID-19 update

H1 impact: resilient business model despite constraints under COVID-19

- January and February was in line with expectations
- Demand for most of our services has remained strong throughout the operational disruption
- From May the vast majority of our business has been operated in a work from home model
- Since June, some select studios have re-opened (most Audio studios and some Testing locations)

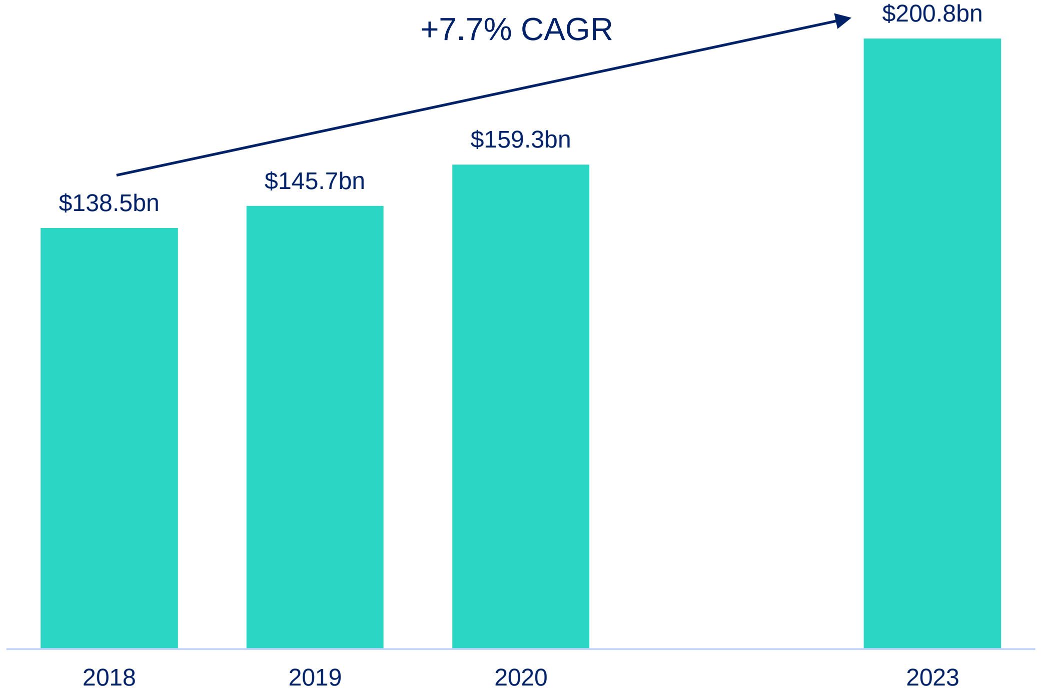
Outlook: Steadily improving operational performance under COVID-19

- Trading in July and August have been strong despite some continued disruption from COVID-19
- Constraints on recruitment should lessen as governments ease back on COVID-19 support for unemployed
- We are retaining a very flexible approach to where and how we work over the months ahead
- Continue to see good demand for services, as clients look for support during this challenging time and reappraise their production arrangements
- Dividend: Board remains committed to resuming its progressive dividend policy in 2021

Expect good revenue growth and incremental margin increases as our operational environment stabilises further and our structural drivers remain intact

Market growth drivers

- Fast growing games industry – c. 8% CAGR
- Content demand remains strong: Upcoming new console launches, streaming platform developments and increased game play
- 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



Source: Newzoo 2020 Global Games Market Report, May 2020

Half year highlights

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Robust H1 revenue growth

+ 13.3%

Reported growth in H1 2020
to €173.5m (H1 2019: €153.2m)

+ 8.0%

Organic Revenue growth (H1 2019: 17.3%)

Improved margin

+ 19.3%

Increase in H1 Adjusted EBITDA
to €30.8m (H1 2019: €25.8m)

17.8%

Adjusted EBITDA margin
increased by 0.9% pts (H1 2019: 16.9%)

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

Half year highlights

Acquisitions and pipeline

coconut lizard

A KEYWORDS STUDIO

A KEYWORDS STUDIO

HEAVY IRON STUDIOS

A KEYWORDS STUDIO

€110m

raised in May placing

3

Acquisitions since placing

- **Marketing services:**
  Maverick - consideration of up to £3.6m

- **Game development:**
  Coconut Lizard – consideration of up to £2m
  Heavy Iron – consideration of up to US$13.3m

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H1 Financial overview

Jon Hauck, CFO

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H1 Financial Highlights

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

	H1 2020 €m	H1 2019 €m	% change
Revenue	**173.5**	**153.2**	**13.3%**
Organic revenue growth	8.0%	17.3%	
Adjusted EBITDA	**30.8**	**25.8**	**19.3%**
Margin	17.8%	16.9%	
Adjusted PBT	**21.7**	**18.4**	**17.9%**
Margin	12.5%	12.0%	
PBT	**11.1**	**6.7**	**66.0%**
Adjusted EPS (€ cents per share)	**25.25**	**21.53**	**17.3%**
Adjusted free cash flow	**10.9**	**5.5**	**96.8%**
Adjusted cash conversion rate	**50.2%**	**30.0%**	

- Reported revenue up 13.3%, Organic revenue up 8.0%
- Adjusted EBITDA up 19.3% with margin improving to 0.9% pts 17.8%
  - Margin improvement from leverage of prior year investments held back by revenue shortfalls
- Adjusted PBT up 17.9% with margin improving to 0.5% pts to 12.5%
- PBT increased by 66%, reflecting the increase in Adjusted PBT, COVID-19 government employment retention subsidies of €3.4m offset by a €1.9m non-cash impairment of intangible assets and an increase in the charge for share options schemes

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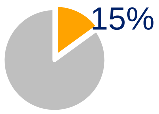
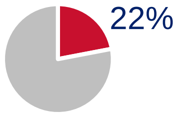
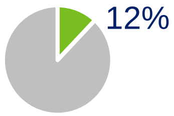
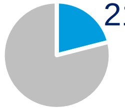
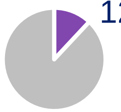
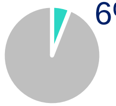
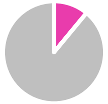
Service Line – H1 progress

	% of revenue	Total growth	Organic growth	H1 2020 progress
Keywords Art Services	 15%	18.5%	7.9%	• Good revenue performance despite some COVID-19 disruption • Early stages of the COVID-19 affected our five studios in China and some earlier stage Marketing services held back as marketing plans were reassessed
Keywords Game Development	 22%	30.7%	25.7%	• Our largest service line, Game Development delivered strong H1 performance • Growth supported by continued recruitment across all studios with additional new studios in Leamington Spa, Singapore and Austin also helping to meet the strong demand we are seeing for our services
Keywords Audio Services	 12%	12.6%	0.5%	• Audio impacted by studio closures reducing voice over recording capacity • Partially mitigated with remote recording and since June, most studios are now operational

Service Line – H1 progress

	% of revenue	Total growth	Organic growth	H1 2020 progress
Keywords Functionality QA	 21%	12.6%	10.7%	• Robust performance given the operational constraints created by the COVID-19 lockdown measures • While constrained at the beginning of the lockdown, in consultation with our clients, transitioned quickly to move the majority of project teams to remote working and are now using the studios for priority activities
Keywords Localization	 12%	(4.8%)	(7.4%)	• Growth held back by delays in the receipt of content as production schedules further upstream were disrupted by work from home transitions at some of our clients • Return to growth in July and August of H2
Keywords Localization QA	 6%	3.9%	1.9%	• Similar operational constraints as Functional Testing, compounded by some lack of native language resources as they returned to their home countries • Successfully transitioned the majority of project teams to remote working and now able to use our studios for priority activities
Keywords Player Support	 11%	8.2%	5.5%	• Returned to growth in H1, representing a good performance in the context of the COVID-19 disruption • Successfully transitioned teams around the world to remote working arrangements enabling Player Support to provide continuous support to its clients

Operating and free cash flow

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

	H1 2020 €m	H1 2019 €m	Change €m
Adjusted EBITDA	**30.8**	**25.8**	**5.0**
MMTC and VGTR	(4.3)	(7.0)	2.7
Working capital and other items	(6.6)	(5.8)	(0.8)
Capex	(4.9)	(5.4)	0.5
Payments of principal on lease liabilities	(3.9)	(3.2)	(0.7)
COVID -19 subsidy claims	3.4	-	3.4
Operating cash flows	**14.5**	**4.4**	**10.1**
Interest paid	(0.9)	(0.7)	(0.2)
Free cash flow before tax	**13.6**	**3.7**	**9.9**
Tax	(2.0)	(3.8)	1.8
Free cash flow	**11.6**	**(0.1)**	**11.7**
Adjusted free cash flow	10.9	5.5	
Adjusted cash conversion rate	50.2%	30.0%	

- €11.7m increase in free cash flow year on year driven by:
  - Increase in Adjusted EBITDA of €5.0m
  - €2.7m increase for MMTC/VGTR credits due to phasing of VGTR receipts and lower MMTC claims in Canada
  - Trade receivable days of 46 in line with the prior year
  - €0.5m reduction in capex despite higher revenue reflecting lower levels of expansionary capex and reduced equipment purchased during COVID-19 period
  - €3.4m receipt of COVID-19 overseas government employment retention subsidies in the period
  - €1.8m decrease in tax payments in the period largely due to a prior year tax settlement
- Improvement in the adjusted cash flow conversion rate to 50.2% (H1 2019: 30.0%) for the seasonally lighter first half

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Movement in net cash / debt

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

	H1 2020 €m	H1 2019 €m	Change €m
Free cash flow	**11.6**	**(0.1)**	**11.7**
M&A - acquisition spend	(1.3)	(7.0)	(5.7)
M&A – acquisition and integration costs	(1.2)	(1.7)	0.5
Dividends paid	-	(0.8)	0.8
Shares issue for cash	110.7	0.6	110.1
Underlying increase / (decrease) in net cash / (debt)	**119.8**	**(9.0)**	**128.8**
FX and other items	(0.9)	0.4	(1.3)
Increase in net cash / (debt)	**118.9**	**(8.6)**	**127.5**
Opening net cash / (debt)	(17.9)	(0.4)	
Closing net cash / (debt)	**101.0**	**(9.0)**	

- Acquisition spend of €2.5m:
  - €1.3m on acquisitions in the first half following the resumption of M&A programme in May - further cash spend of c. €6m in H2 to date following Maverick and Heavy Iron acquisitions
  - €1.2m of integration costs including €0.4m consideration in respect of a prior year acquisition
- Net proceeds of €110.7m from equity placing used to pay down drawings on RCF and available to deploy on the value creating M&A programme
- Increase in net cash of €118.9m versus decrease of €8.6m in H1 2019
- Net cash at 30 June 2020 of €101.0m (H1 2019 net debt €9.0m)

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Balance sheet and liquidity

Resilient business model

- Cash generative business with an adjusted free cash flow conversion of 50% in H1 (H1 2019: 30%)
- Continued strong demand for the Group's services
- Ability to operate almost all services in a work from home model if 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

Robust balance sheet

- Recent placing provided net proceeds of ~€110m to deploy on M&A programme
- Revolving Credit Facility (RCF) of €100m expiring in 2022 with option to extend for 2 years
- €201m of liquidity through cash and undrawn committed headroom on the facility
- Balance sheet capacity to:
  - provide flexibility to execute acquisition strategy
  - support the business and customers through and beyond any COVID-19 disruption

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H1 Strategic overview

Andrew Day, CEO

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Strategy

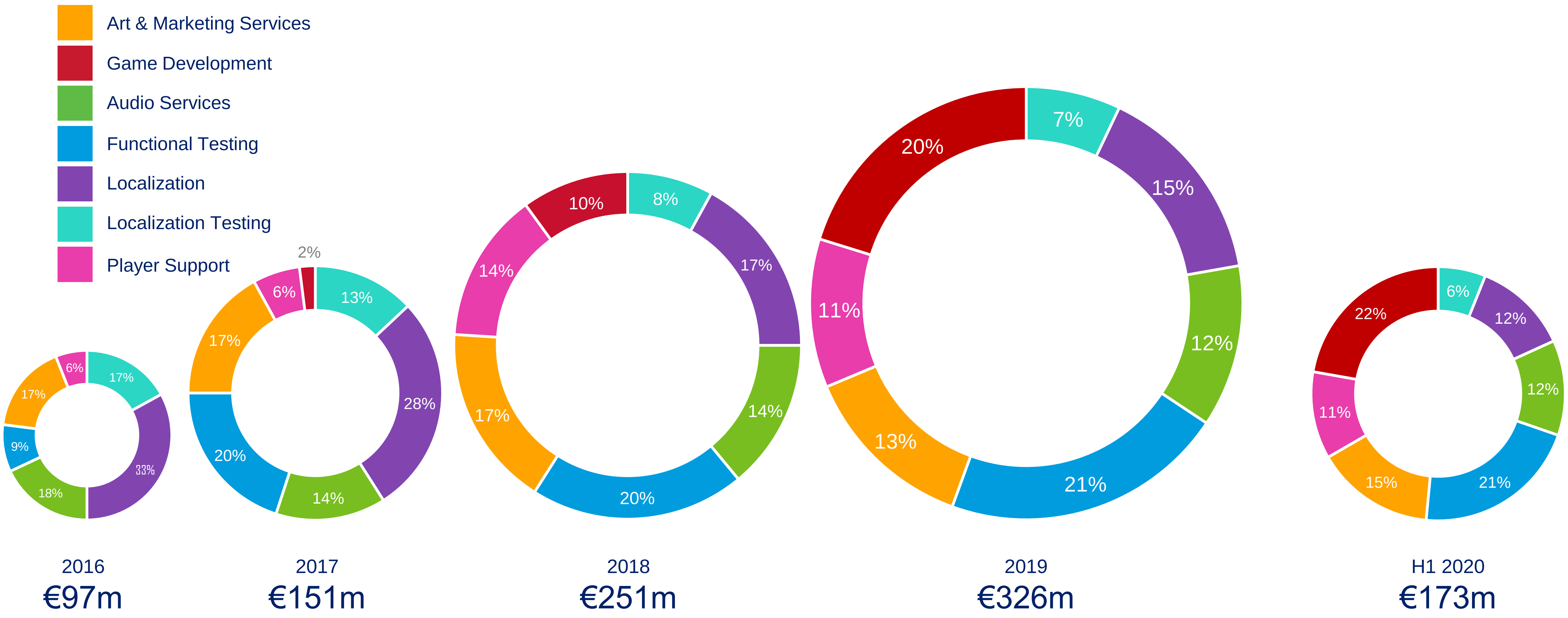
To become the 'go to' provider for technical and creative services to the video games industry

- a unique end-to-end global services platform in a highly fragmented market
- relationships with the top games companies who are increasingly outsourcing; in a more structured way
- unrivalled scale and flexible resource, in proximity to our clients
- attractive employer to talent pools around the world
- a resilient business, diversified by geography, service and client base
- a compelling platform for target acquisitions

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

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 8,002 people in H1 2020, working in over 50 languages, more than 60 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.*

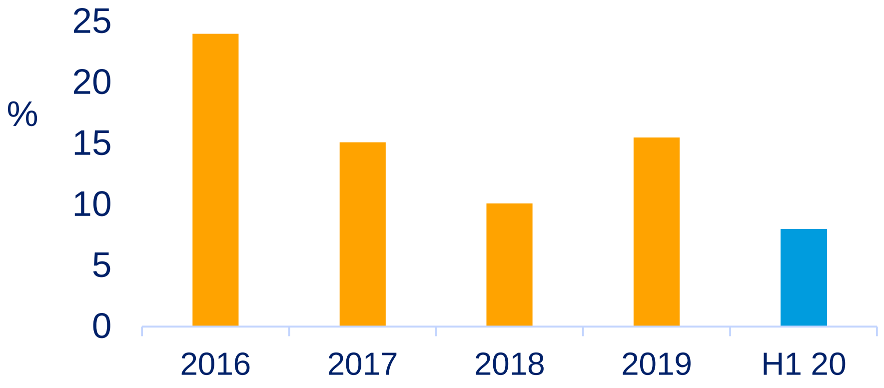
* Newzoo, Top 25 Games Companies by Revenue, Q4 2019 and Sensor Tower, Top Apps Games publishers, Q2 2019

Strong growth across key metrics

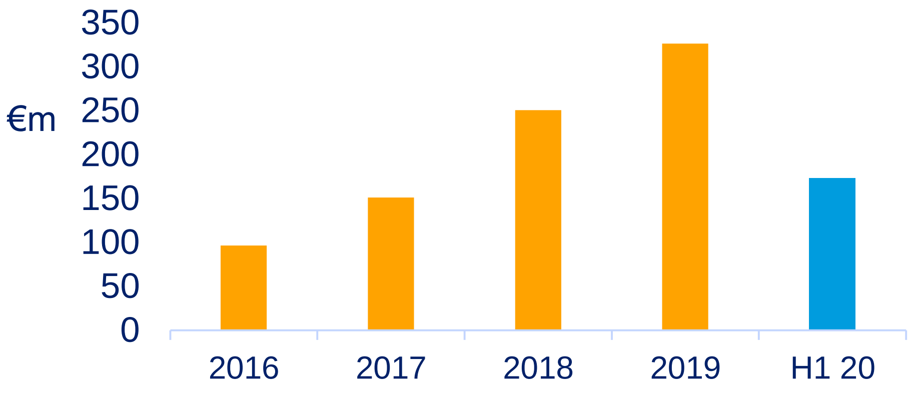
Definitions of the performance measures are provided in the Alternative performance measures chart in the Appendix

* Adjusted EBITDA Pre-IFRS 16

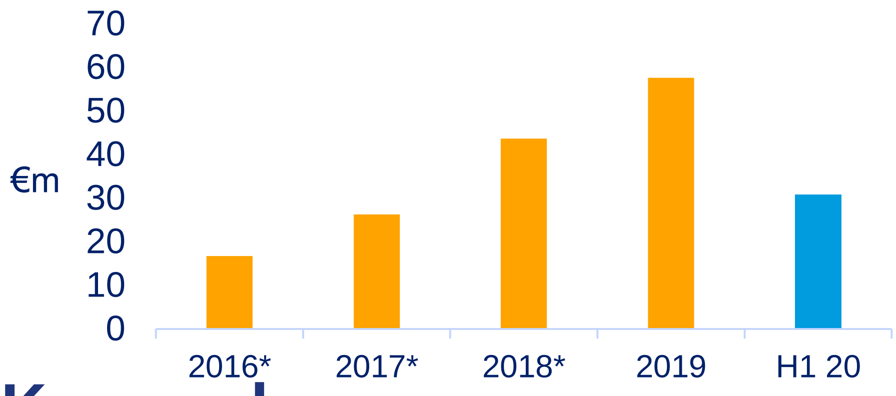
Organic Revenue growth 2016 - H1 2020



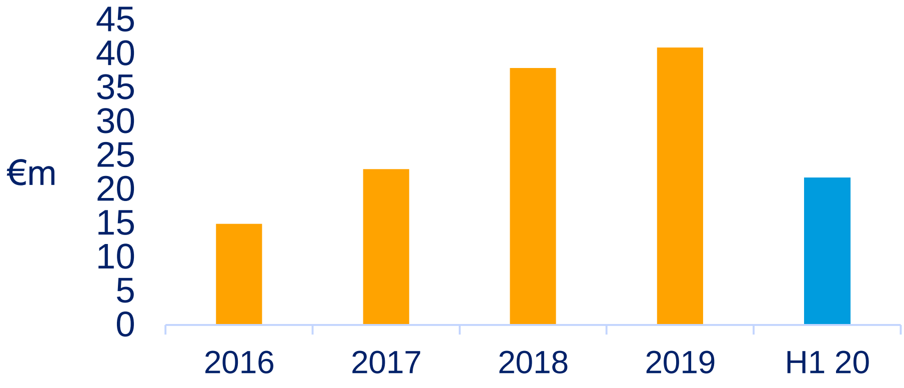
Revenue – 50% CAGR 2016-2019



Adjusted EBITDA – 44% CAGR 2016-2019*



Adjusted PBT – 40% CAGR 2016-2019



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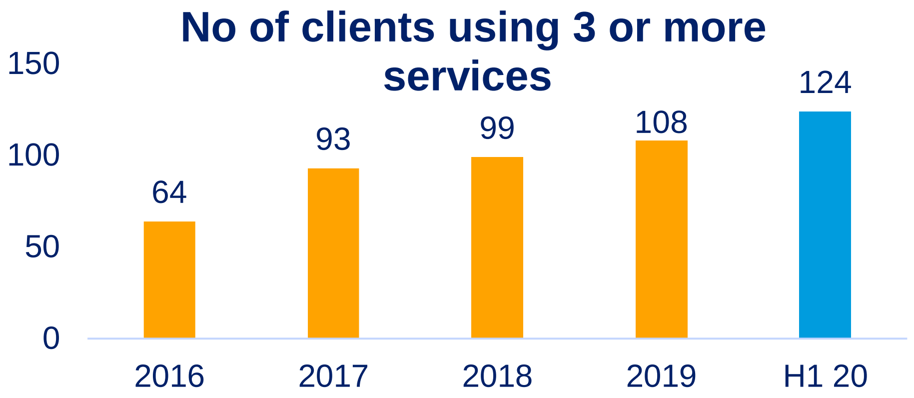
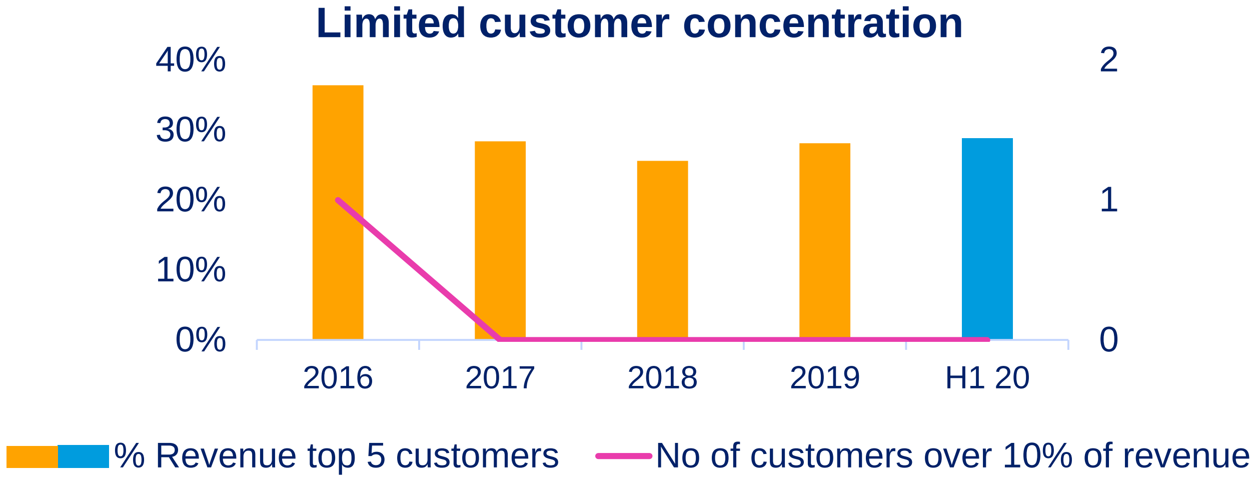
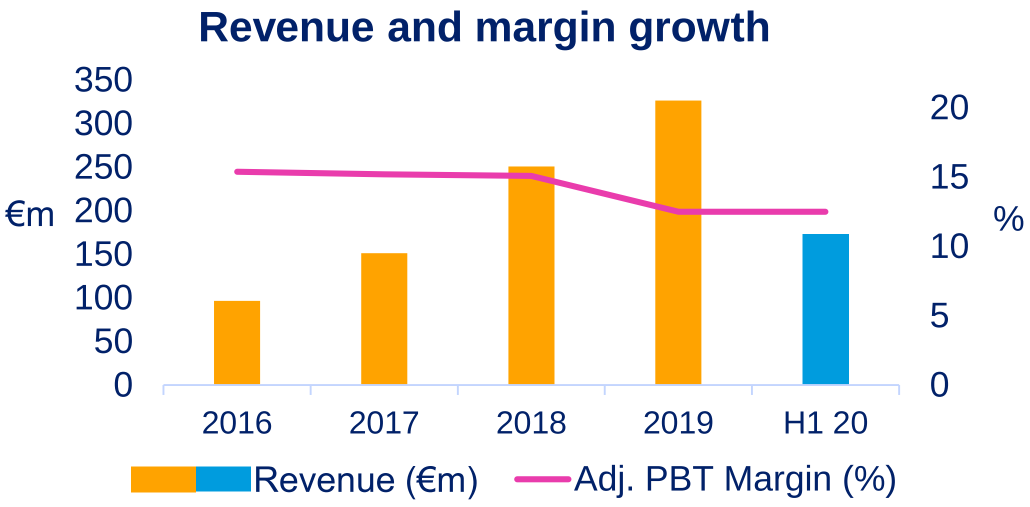
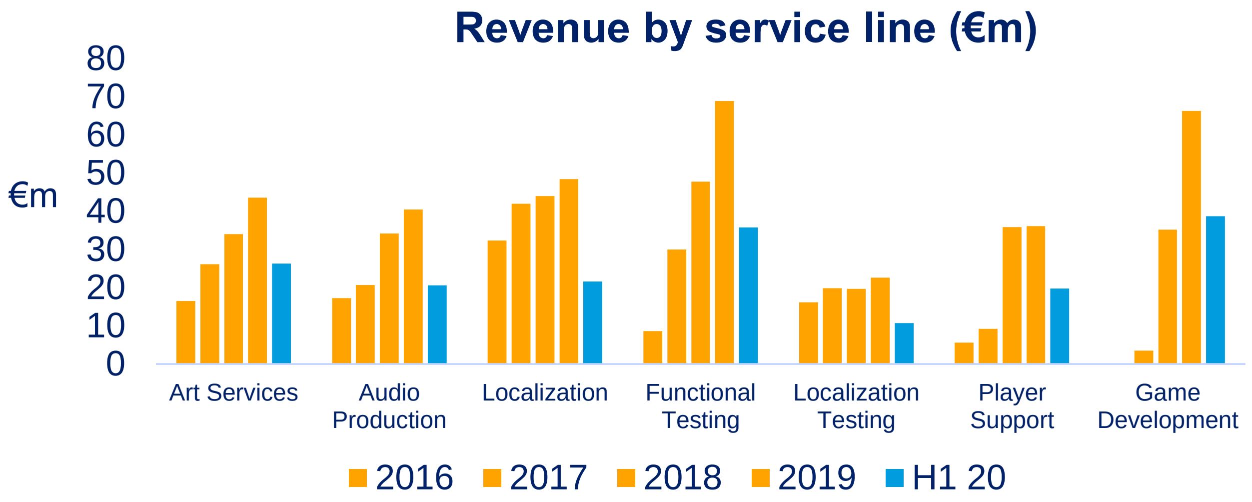
Delivering consistent and diversified growth

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





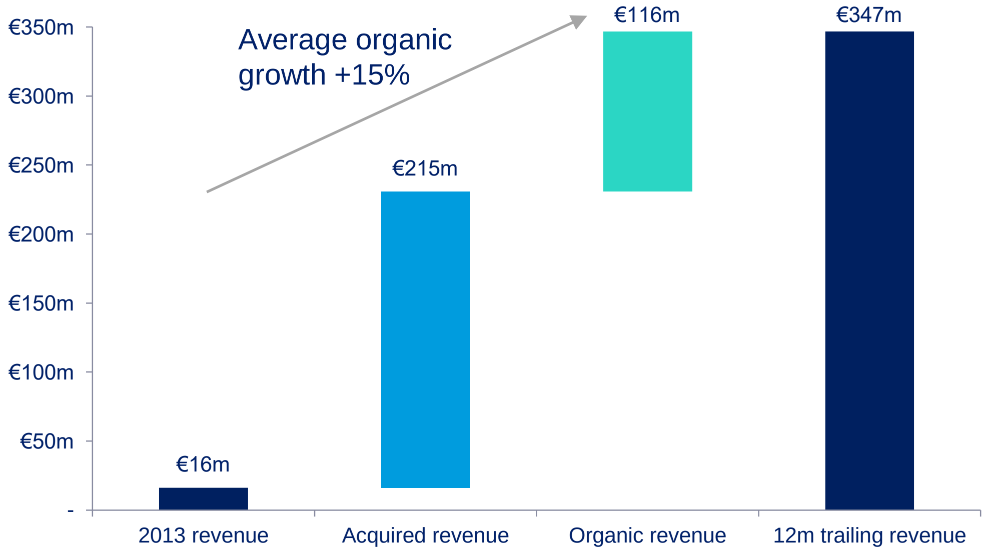




Service Line – Outlook

	% of revenue	Total growth	Organic growth	Outlook
Keywords Art Services	15%	18.5%	7.9%	Demand for all our services in this area has been building and we expect to maintain good levels of activity through to the end of the year complemented by acquisitions
Keywords Game Development	22%	30.7%	25.7%	COVID-19 is resulting in some delays in getting new projects started which may hold it back the very strong growth seen in H1, albeit underlying trend is extremely positive
Keywords Audio Services	12%	12.6%	0.5%	Normalised COVID-19 measures should see Audio benefit from a better H2 for AAA game releases / new console launches
Keywords Functionality QA	21%	12.6%	10.7%	Seeing increased demand and beginning to see an easing in recruitment constraints. Expect to scale quickly into peak months, albeit against strong comparatives
Keywords Localization	12%	(4.8%)	(7.4%)	H2 performance improving with content volumes picking up. Expect to return to organic growth in H2, with Localization’s flexible production model able to respond quickly
Keywords Localization QA	6%	3.9%	1.9%	Expect strong demand from a stronger H2 for AAA game releases / new console launches. Ability to meet this demand should continue to improve through H2
Keywords Player Support	11%	8.2%	5.5%	Expect Player Support to trade strongly through H2 as focussed business development activities have started to produce interesting new business prospects

Acquiring for growth



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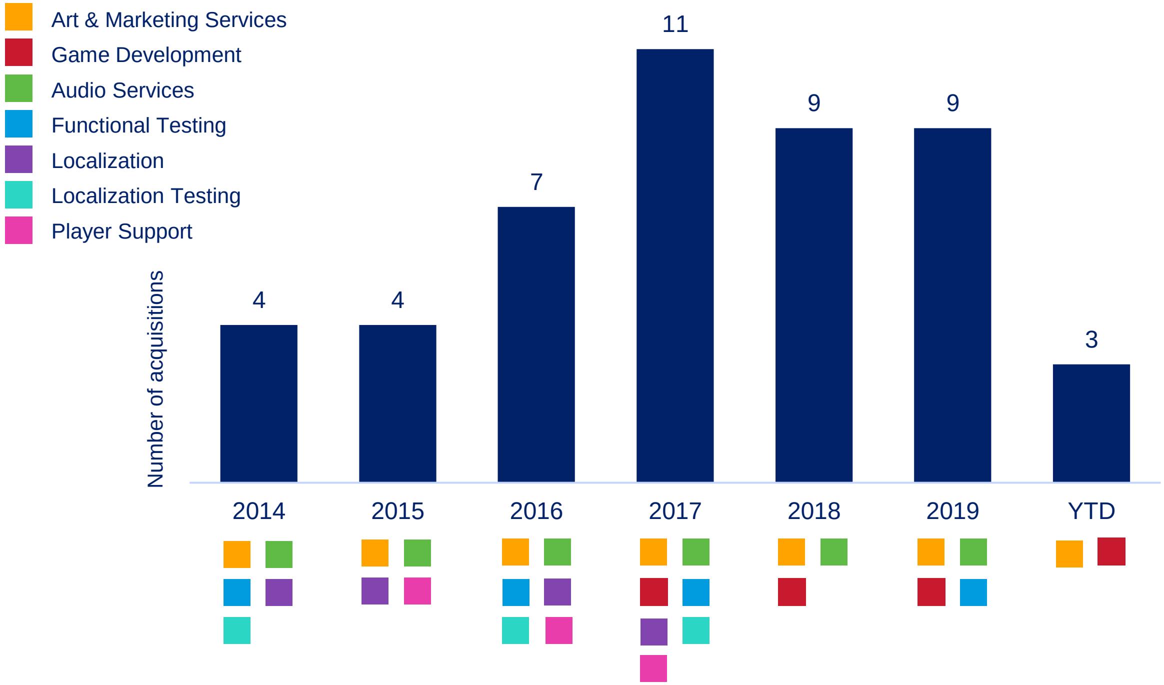
Value creating acquisitions since IPO

€201m

in cash and undrawn RCF



Strong pipeline from which we are selecting highest quality opportunities

Particular focus on **Marketing services and Game Development**

Strategic priorities

Building our platform

Organic growth

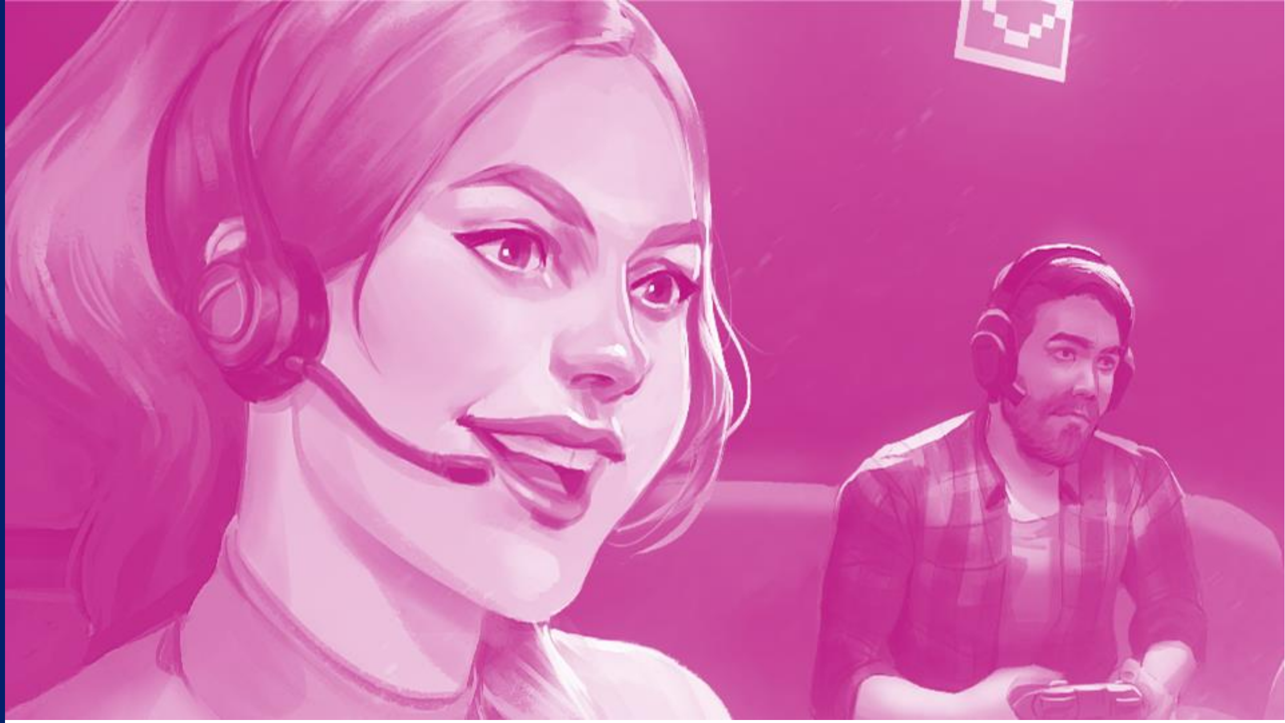
- Continue to expand our end-to-end global services platform
- Enhancing our service lines through further investment in capacity, capabilities and geographies
- Leveraging our platform in a cost-efficient manner
- Addressing more of our clients' outsourcing needs with increased specialism, proximity and flexibility

Focused M&A

- Particular focus on Marketing Services and Game Development to establish them as go to providers
- More selective acquisitions to enhance and extend other service lines
- Healthy M&A pipeline of high quality opportunities

Outlook

Andrew Day, CEO



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Outlook

Positive start to H2	Trading in the second half has been good with continued growth across all service lines, despite ongoing headwinds from the disruption caused by COVID-19, trading against stronger comparators and possibility of continued USD weakness
Maintain remote working model in most locations	Maintain effective remote working model in the majority of locations for the rest of the year, with a focus on certain priority activities taking place in studios
Margins to increase incrementally	Expect to continue to drive incremental margin increases in the second half and beyond towards historic norms by the end of 2021
Well positioned in a growth market	Well placed as a diversified provider of scale to deliver on the opportunity presented by the strong underlying and structural market drivers
Well-funded to deliver our acquisition and growth strategy	Well-funded to deliver on our value accretive acquisition strategy and we are actively engaging with selected targets from an expanded pipeline of opportunities

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Q&A

Andrew Day

Jon Hauck

Keywords STUDIOS

Alternative performance measures

The Group reports a number of 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). The Directors believe 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. For full definitions and explanations of these measures and a reconciliation to the most directly referenceable IFRS line item, please refer to the APMs section at end of the Group's Half 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 prior year foreign exchange rates to both years.

EBITDA comprises Operating profit as reported in the Consolidated statement of comprehensive income, adjusted for amortisation of intangible assets, depreciation, and deducting bank charges. **Adjusted EBITDA** comprises EBITDA, adjusted for share option expense, costs of acquisition and integration and non-controlling interest. In order to present the measure consistently year-on-year, the impact of COVID-19 government subsidies claimed is also excluded. Both EBITDA and Adjusted EBITDA include the impact of IFRS 16 in the current and prior year periods.

Adjusted profit before tax comprises Profit before taxation as reported in the Consolidated statement of comprehensive income, adjusted for costs including share option expense, costs of acquisitions and integration, amortisation of intangible assets, non-controlling interest, foreign exchange gains and losses, and unwinding of discounted liabilities. In order to present the measure consistently year-on-year, the impact of COVID-19 government subsidies claimed is also excluded.

Adjusted earnings per share comprises the adjusted profit after tax divided by the non-diluted weighted average number of shares as reported. The adjusted profit after tax comprises the adjusted profit before tax, less the Tax expense as reported in the Consolidated statement of comprehensive income, adjusted for the tax impact of the adjusting items in arriving at adjusted profit before tax.

Adjusted cash conversion rate is the adjusted free cash flow as a percentage of the adjusted profit before tax.

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). In order to present the measure consistently year-on-year, the impact of COVID-19 government subsidies claimed is also excluded.

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

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Acquisition history

* Includes all cash, deferred and equity portions of consideration
** 48% 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**
2020	Maverick	Coconut Lizard Heavy iron						**c. €17.6m**

Keywords
STUDIOS