

Keywords Studios

H1 2023 Results

September 2023

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Delivering in a challenging market, whilst building for the future

01

Produced a good performance in H1...

02

...whilst enhancing our platform through M&A and investment in technology ...

03

...and continuing to deliver against our strategy for long-term growth

Revenue

€384m

+19.4% growth

Organic Revenue growth

+10.4%

in line with guidance

Adj. Operating Profit

€59m

+5.2% growth

Adj. Operating Margin

15.4%

in line with guidance

After several extremely strong years of growth, the industry is pausing for breath in 2023

- Publishers actively looking at their cost base after several years of growth
- Reduced the number and scope of game launches and focusing on core IPs
- Industry awaiting clarity on the Microsoft / Activision deal
- Mobile market has been challenged due to privacy changes
- US entertainment strikes impacting adjacencies
- Create division more insulated from current market dynamics, but flowing through to Globalize and Engage divisions

+25%*

Games industry larger than pre-COVID

2x

Keywords more than doubled revenues in last 3 years

~18%

Average organic growth 2020-22

Longer-term trends are overwhelmingly positive as we maintain faster growth than the content creation market

01

High quality game engineers are a scarce resource and in high-demand

02

Trend to external service provision continues, with clients exploring opportunities to increase flexibility and reduce costs

03

Clients keen to collaborate on AI, with Keywords product offerings gaining traction

04

Focus on LiveOps and how to manage the increasing content and analytics demands to continue to engage players

05

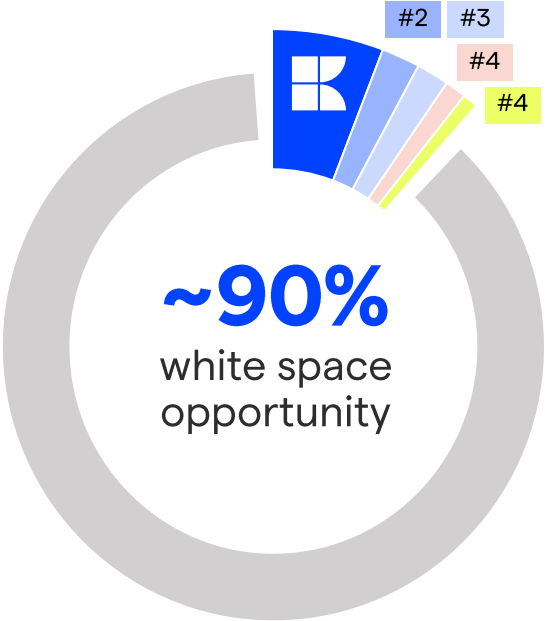
Player numbers still increasing, +3.3bn active gamers, hardware challenges easing and Steam engagement at record highs

Positioned to be the industry partner of record, investing for the long-term in talent & technology


Continuing to grow faster than the market, cementing our leadership position...

Clear market leader, 3x size of next competitor, and taking market share....

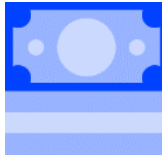
Market share versus competitors (%)



...in a large, growing and fragmented market*...

 **>6%**
market share, increased from ~5% in 2021


 **>\$13bn**
2023 forecast video game external services market...

 Expected to grow at **~9% CAGR** to **c.\$18bn** by 2027

...providing an unparalleled global view and access across the industry

 **24**
out of top 25 gaming companies are clients

 **10**
of top 10 mobile games companies are clients

 Studios based in **60** cities across **5** continents provides global scale

*Source: Market sizing conducted by IDG Consulting Inc.

...reinforcing our conviction on our strategic priorities...

And continuing to deliver against every aspect



Strategic Partnerships

- Continued to deepen key relationships at CXO level across Top 25 clients
- Recently completed several lighthouse agreements with AAA publishers for long-term testing and game dev't services



Technology

- Scaling AI product portfolio to enable more volume, whilst driving automation across service lines
- Innovation team launched new games accessibility product, and hired ex-AWS Head of Gaming AI/ML to drive AI Centre of Excellence



One Keywords

- Shared services function fully established and enhancing business partnering
- One Keywords team supported the transition of work out of Russia to create "Sperasoft 2.0"



Talent & Capabilities

- Global talent acquisition team accelerated growth in areas where talent is scarce (game dev't)
- Expanded the ambassador programme with Women in Games and held third Women's Summit in Asia







Adjacent Markets

- Strong growth in demand for LiveOps capabilities, spearheaded by Lively, our dedicated LiveOps studio
- Acquisition of DMM broadened reach into film and TV marketing; launched Big Farmer, a cinematics & virtual production studio

..and still growing footprint through targeted M&A

Four acquisitions year-to-date to grow the platform in line with our focus areas, for a total maximum consideration of €130m

- Core part of strategy to build out platform through M&A
- Methodical process to consolidate fragmented industry and augment our platform
- 60+ deals in 10 years provides track record of execution and value accretion
- Strong pipeline of opportunities across our key areas
- Focus on culture, quality and performance
- Disciplined deployment of capital at attractive valuations

2023 Acquisitions	Focus Areas			
	Game Dev't	Marketing	Technology	Adj Markets
	✓			
	✓			
		✓	✓	✓
		✓		✓

02

Financial Review

Good performance in a tougher market

More challenging backdrop than recent years

- Strong revenue growth, both reported and organic
- Cost focus whilst maintaining capacity
- Profit margins in line with guidance
- Investing for the future, in technology and M&A
- Enhanced financial strength and liquidity

Key KPIs on track

Revenue

€384m

+19.4% growth

Organic Revenue Growth

+10.4%

in line with guidance

Adj. Operating Profit

€59m

+5.2% growth

Adj. Operating Margin

15.4%

in line with guidance

M&A Investment

~€130m

Max consideration across 4 high-quality transactions

Capex

~5%

of sales, with investment in the business H1 weighted

Net Cash / (Debt)

€(11)m

On track for ~80% FY cash conversion

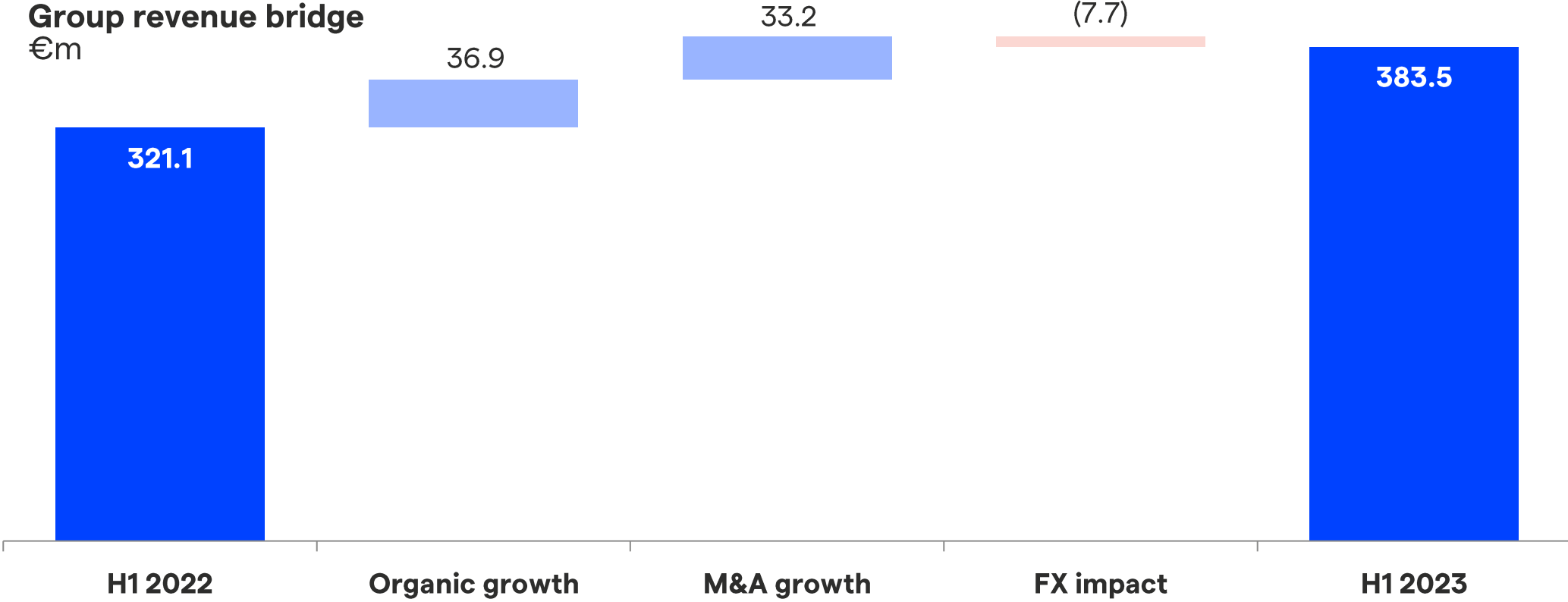
Balance sheet

~\$390m

of available liquidity (cash + RCF)

Revenue analysis

Revenue growth of 19.4% driven by a combination of organic and M&A, with a small FX headwind



Revenue growth breakdown

	H1 23 €m	H1 22 €m	% Change
Create	162.9	124.3	31.1%
Organic revenue growth			22.1%
Globalize	145.7	141.5	3.0%
Organic revenue growth			4.7%
Engage	74.9	55.3	35.4%
Organic revenue growth			-
Total	383.5	321.1	19.4%
Organic revenue growth			10.4%

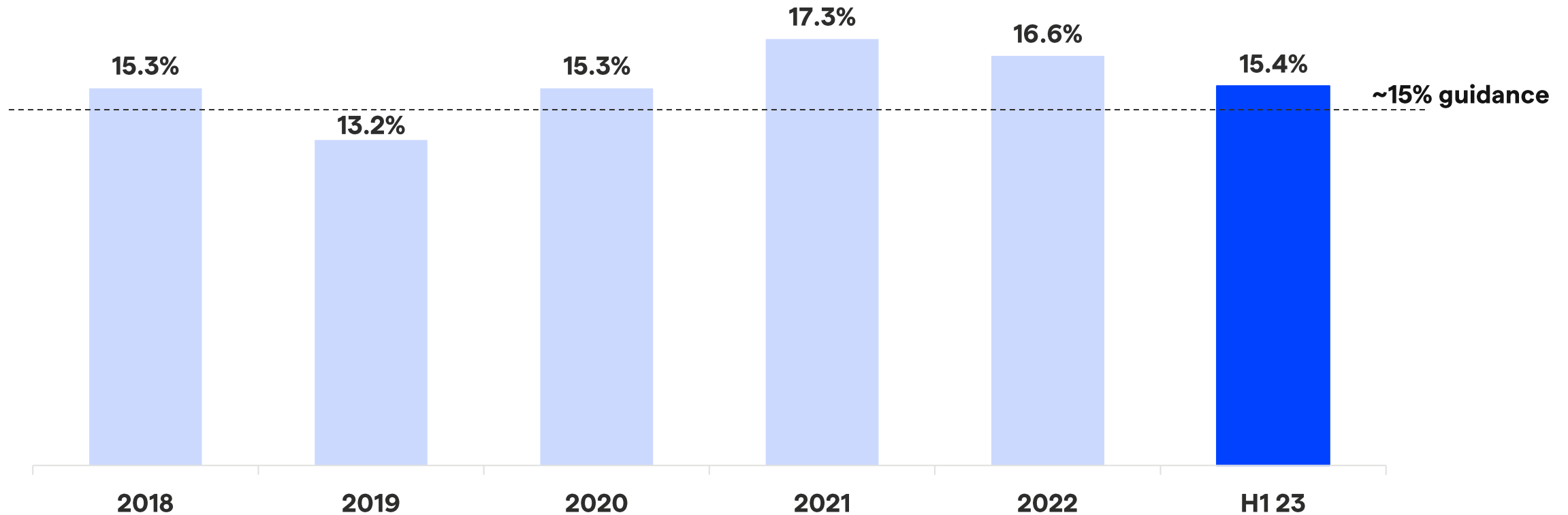
- Strong demand across both Art and Game Dev't
 - M&A activity supports both overall and organic growth
 - Structural scarcity of talent supports demand
-
- Industry backdrop impacts growth due to breadth of clients and titles, market forecast to fall this year
 - FQA performed well as scale key for clients
 - Localization tougher as clients reduced scope
-
- Growth driven by M&A as we build out platform
 - Mobile market meant clients had reduced support needs
 - Marketing seeing late notice project delays and macro impacts as easiest lever to pull

Operating margins in line with guidance and H2 22

Margins normalised having been elevated across 2021 and 2022 due to COVID cost benefits

Adjusted Operating margins

%



Summary Profit and Loss

	H1 23 €m	H1 22 €m	% change
Revenue	383.5	321.1	+ 19.4%
Organic Revenue Growth			+ 10.4%
Adjusted EBITDA	77.3	70.1	+ 10.3%
Margin	20.1%	21.8%	
EBITDA	60.5	61.0	(0.8%)
Adjusted operating profit	58.9	56.0	+ 5.2%
Margin	15.4%	17.5%	
Operating profit	29.3	39.5	(25.8%)
Adjusted EPS (€ cents per share)	55.60c	55.89c	(0.5%)
Interim Dividend per share	0.85p	0.77p	+ 10.4%

- Reported revenue up 19.4% with Organic Revenue up 10.4%
- Adjusted EBITDA of €77m, with Adjusted Operating Profit up 5.2%
- Adjusted Operating margins normalising as expected, as we continue to invest into the business
- Adjusted EPS flat, reflecting margin normalisation, increased interest costs and timing of M&A
- Interim dividend increased by 10% in line with progressive dividend policy

Operating and Free cash flow

	H1 23 €m	H1 22 €m	Change €m
Adjusted EBITDA	77.3	70.1	7.2
MMTC and VGTR	(16.6)	(10.4)	(6.2)
Working capital and other items	(20.9)	(12.7)	(8.2)
Capex – PPE	(18.8)	(10.0)	(8.8)
Capex - intangible assets	(1.3)	(0.2)	(1.1)
Payments of principal on lease liabilities	(6.8)	(5.5)	(1.3)
Operating cash flows	12.9	31.3	(18.4)
Net Interest paid	(2.2)	(0.8)	(1.4)
Free cash flow before tax	10.7	30.5	(19.8)
Tax	(7.9)	(6.2)	(1.7)
Free cash flow	2.8	24.3	(21.5)
Adjusted free cash flow before tax	18.5	31.7	(13.2)
Adjusted cash conversion rate	33.2%	57.9%	

- MMTC and VGTR increased to €16.6m, as historic VGTR payments of £7.5m expected to be received in H1, were received in early H2
- Working capital outflow of €20.9m, due to the growth in the business and increased debtor days (normalised by July)
- Capex of €20.1m was H1 weighted, primarily due to opportunistic purchase of long-term software licences (€5m) and investment in new sites required to exit Russia
- Adjusted cash conversion rate of 33.2%, lower than H1 22, primarily due to the working capital moves
- Cash conversion would have been ~49% if VGTR had been received on time
- Expect strong cash flow in H2 and FY adjusted cash conversion of ~80%

Financial strength and liquidity

Strong financial position gives flexibility to invest in long-term growth and strategy

Low net debt

€11m
net debt

- Good cash generation
- Re-investing into growth (organic and M&A)

Low Leverage

0.1x^{*}
net leverage

- Strong balance sheet
- Progressive interim dividend of 0.85p demonstrating discipline

Excellent liquidity

~\$390m
available liquidity

- Extended size and maturity of RCF in July 23
- \$400m facility supported by 7 global lenders

Guidance

Expect underlying full year organic revenue growth to remain broadly similar to H1 23 (exc. impact of US strikes) benefitting from a stronger Q4

Adjusted Effective Tax rate is expected to be in line with the 2022 rate of ~22%

Monitoring US entertainment strikes, potential to impact organic revenue growth by 2-2.5% if they persist; still mindful of FX volatility

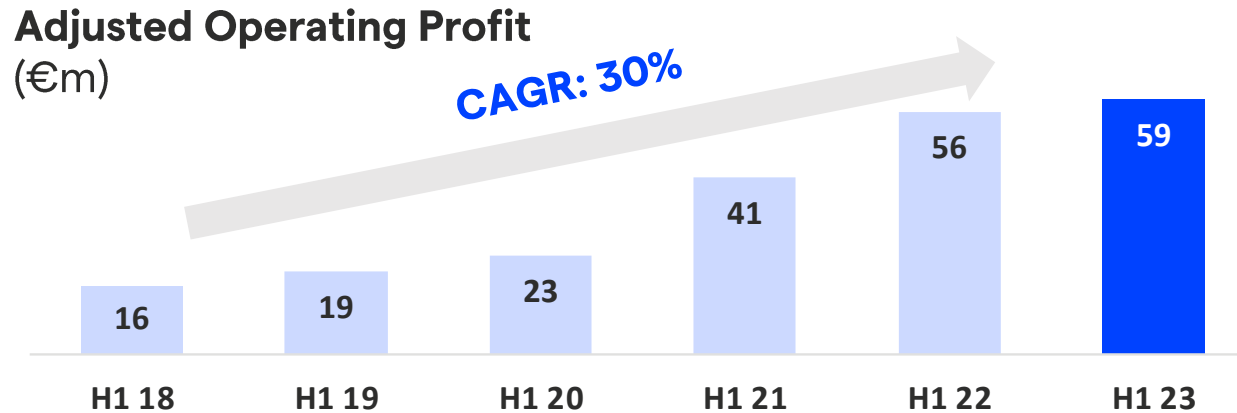
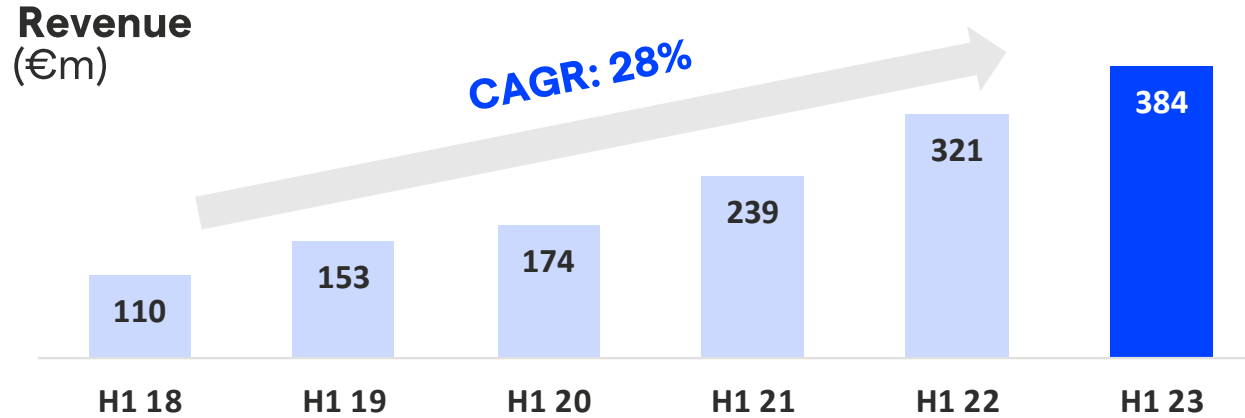
Adjusted cash conversion rate still expected to be at least 80%

Adjusted operating profit margins expected to remain above 15% in 2023, with cost control largely mitigating the impact of the strikes

Capex at a higher level than in 2022 relative to revenue, reflecting expansionary capex and FX

Strong track record of growth

With multiple drivers for continued, compounding growth



- Attractive, growing, and resilient market, long runway for secular growth
- Leading scale player in a fragmented industry
- De-risked model – no IP
- Strong balance sheet, minimal leverage
- Profit momentum supplemented by accretive acquisitions

03

Focus on Technology and AI

We are uniquely placed to win from AI and determined to lead with our clients

Creating Internal Efficiencies

- Creating a common tech platform across Globalize
- Using AI tools in non-production settings

Building AI Product Platform

- Over 200 dedicated product engineers creating holistic tech solutions for clients
- Driving automation across post-production services

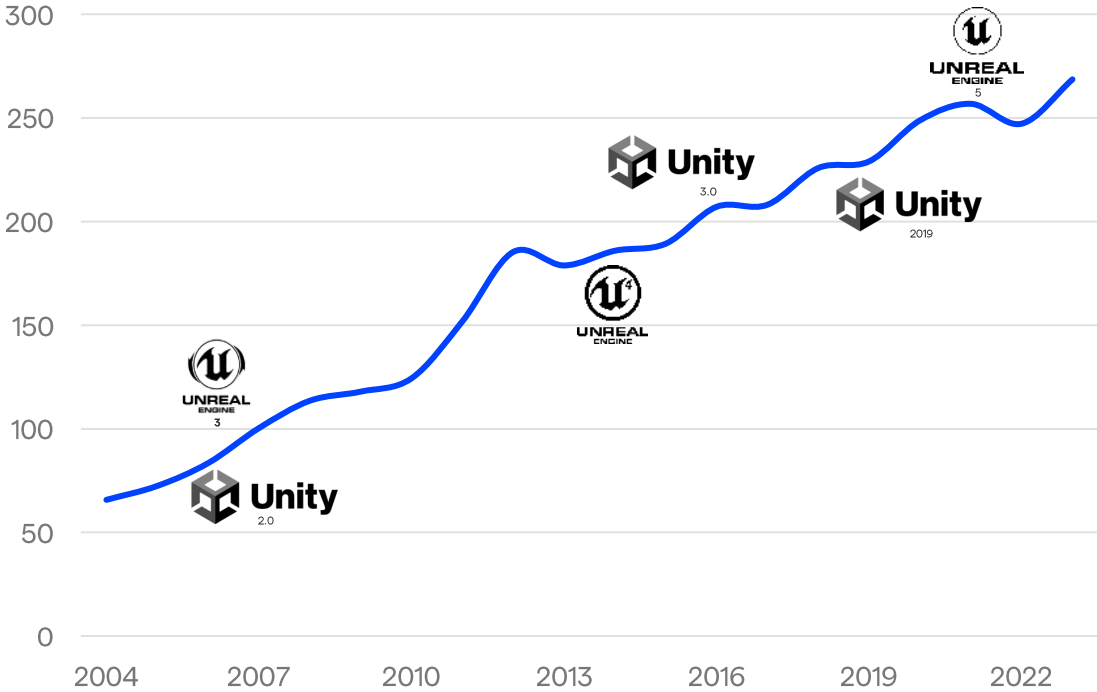
Innovating for the future

- Labs @ Keywords and AI Centre of Excellence to lead on tools and industry partnerships

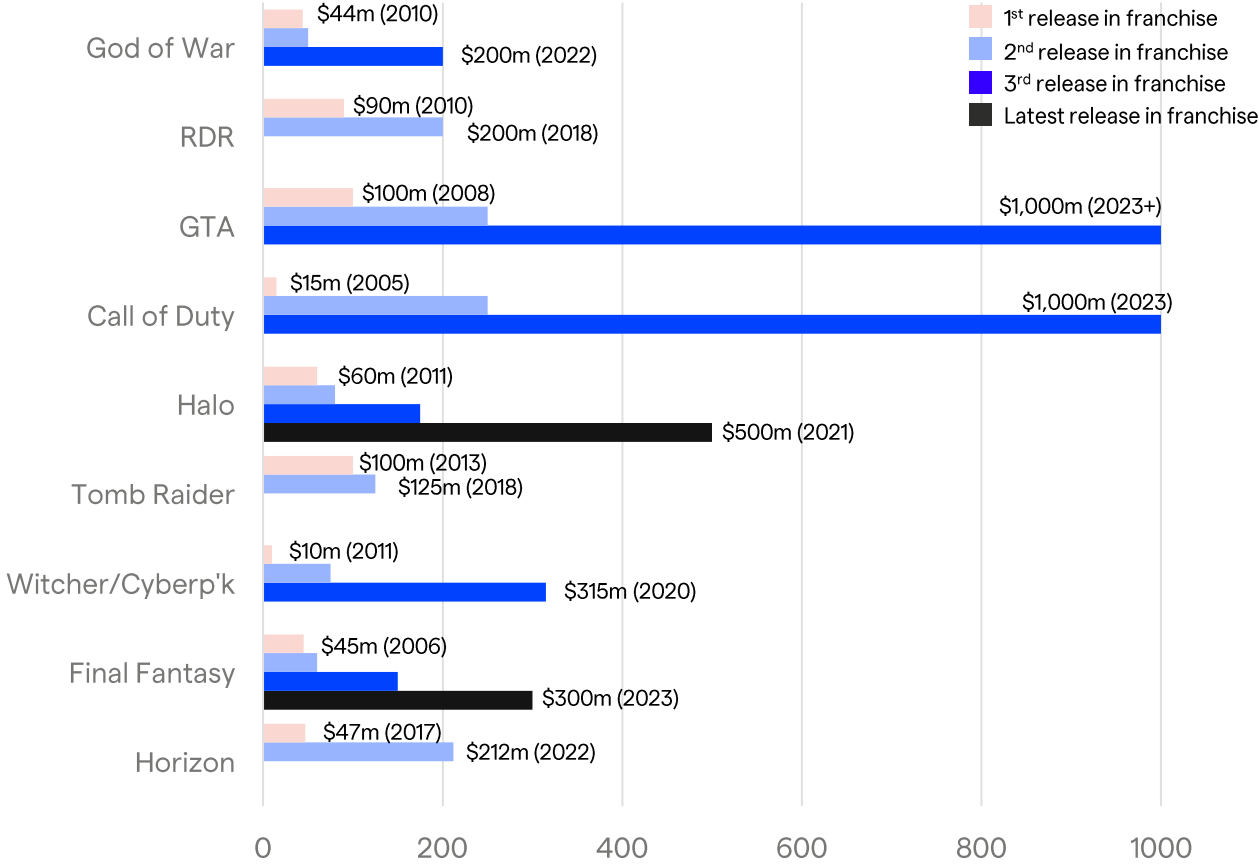
- Strong client partnerships, broadest industry viewpoint, with tech in our DNA
- Track record of unlocking new technologies through our 4,000 technologists in Create
- Continually mapping landscape for opportunities and potential key relationships to enhance workflows for our clients and our teams
- Opportunity to invest and expand our competitive moat in a fragmented industry
- Approach is grounded in ensuring the safe and responsible use of AI, whilst always respecting our clients wishes

Evolution of tech in gaming has historically increased jobs in the industry and meant more is possible in games...

People employed in US video gaming industry ('000s)¹



Growth in AAA budgets over time²



¹ Source: IbisWorld
² Jefferies (Business Insider, Critical Hit Gaming, Digital Spy, Motley Fool, Game Designing, Game Dev Reports, GameFAQS, GamesIndustry.biz, Gamers Nexus, GGRecon, Games Spot, Game World Observer, Jefferies, LA Times, Push Square, The Icon, Tech Times, USA Today)

...with savings from AI expected to be re-invested into content generation to satisfy player expectations

*"It will allow us to actually **do more things** as we think about being creators, our ability to use AI to augment our incredible teams and **create even more entertainment for an audience that has an insatiable appetite for what we're doing**"*

*"It will **enable us to do things that we haven't been able to do** for a long time"*

*"I would love to be able to start up 10,000 instances of a game in the cloud, [...], deploy an **AI bot to spend all night testing that game**, then in the morning we get a report. Because that would be transformational"*

*"Teams are leveraging years-long R&D efforts [...] to harness the power of this technology to have a **positive impact on creativity, workflows, and players' experience**"*



























Keywords' services will be needed to support the expected increase in content demands:

- Bigger, more immersive games expected
- Increasing prevalence of LiveOps style games requires more content and faster turnaround times to keep players engaged
- Increasing demand from subscription services for new content (Microsoft Game Pass etc)

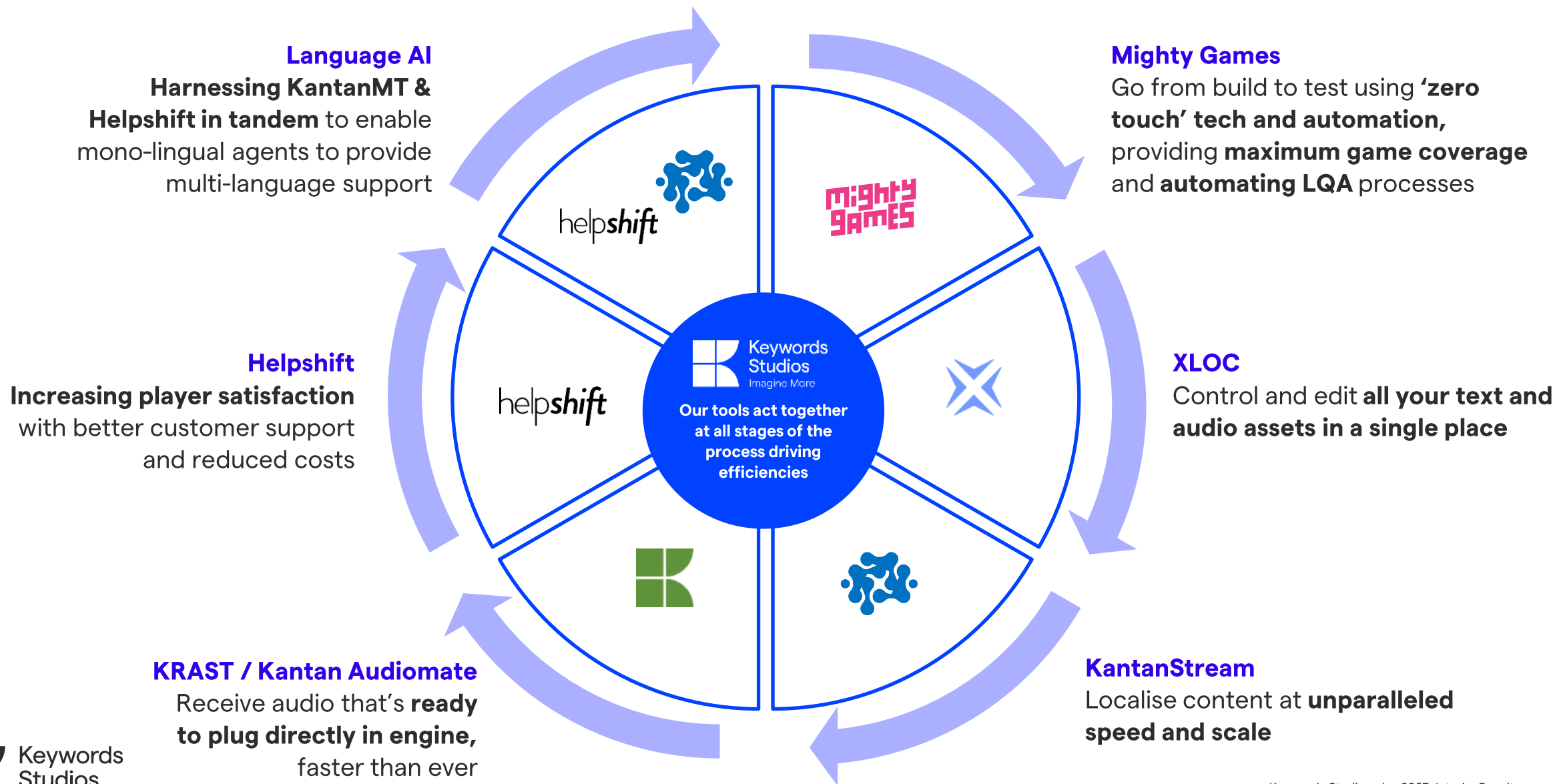
Technology already underpins our entire service offering*

	We Create		We Globalize		We Engage	
	Pre-production	Early-stage Development	Mid-stage Development	Later-stage Development	Launch & Ongoing Live Operations	New Content for Games
Our Services	Game Development					
	Art Services					
			Audio Services			
			Functional Testing			
			Localization (Text & Audio)			
			Localization Testing			
			Marketing Services			
			Player Engagement			

Underpinning Technologies*

KWS Products & Partners	 	    	     
	     	 	  

We are building an integrated product platform...



...with tangible results already...

KantanStream in action

Accessing new volumes

30 million words localized in one-year during pioneering partnership to automate continuous text localization with over **3,000 projects a week**

15 titles at launch, extended to **28** titles

~30 hours average total turnaround time vs **+5** days

Helpshift & Language AI in action

Providing a holistic offering

Reduced cost to serve to enable a major mobile client to **reduce overall player support costs by ~20%** by increasing automation efficiency and enabling use of mono-lingual agents to provide multi-lingual support

29% of tickets resolved with full automation

7% improvement in non-English CSAT scores from **79% → 86%**

Solutions being adopted by other AAA clients and being developed to support their needs

...and accelerating scaling of key offerings

Acquired Mighty Test & Build in Aug 2022, an automated game testing platform; by leveraging our platform we've scaled the business, enhanced offering and seeing traction with major clients



on acquisition:



4

developers

Game engine capability:

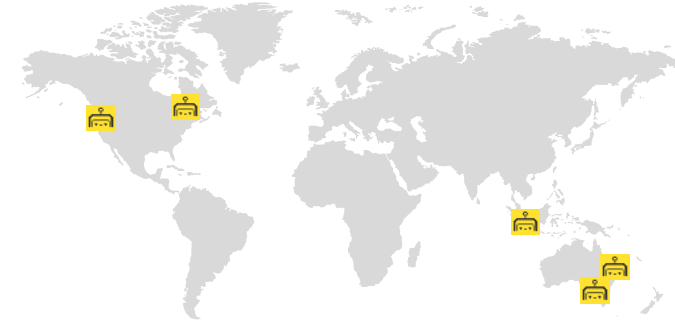


Clients:

Indie / Mobile



12 months on:



40

developers

Game engine capability:



& any custom engines

Clients:

Indie / Mobile
AAA PC
AAA Mobile*
AAA Console*

Continuing to drive forward and gaining momentum

- Backdrop moving fast...**so are we**, and **we have broadest industry view**
- Perfectly placed due to **deep relationship with partners**
- Client traction and adoption **accelerating** as power of offering becoming apparent
- Combining the **best people** with the **best technology** creates the **best results for our clients**

Building the industry leading technology platform for our clients

04

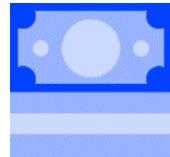
Outlook

Keywords snapshot

Industry leader, with a global reach, increasingly seen as the partner of record for the leading players in the market across the game development cycle



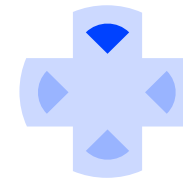
Clear market leader across content development cycle...



...in a large and growing addressable market



Strong customer relationships and recurring revenues



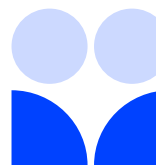
Working with customers across all platforms, without IP risk



Built leading tech product suite providing



International scale brings solutions to global clients



Diverse and skilled workforce providing sought-after expertise



Track record of organic and inorganic growth since IPO

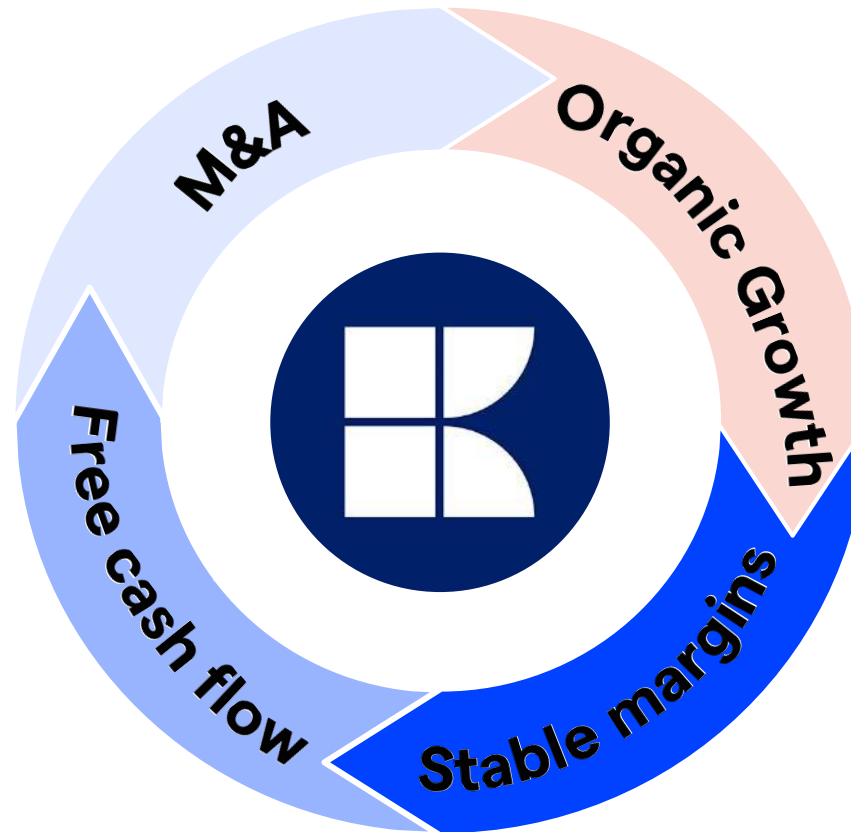
We are a critical enabler of a massive and growing ecosystem

A compounding growth business

Our medium-term growth model, with a long track record of value creation

~€100m
Acquisition spend per year

80%+
Cash conversion



10%+

Organic Growth

- High level of repeat business from trusted partner relationships
- Preferred supplier relationships
- 30-40% evergreen revenue
- Embedded into customer systems, tools and workflows

~15%

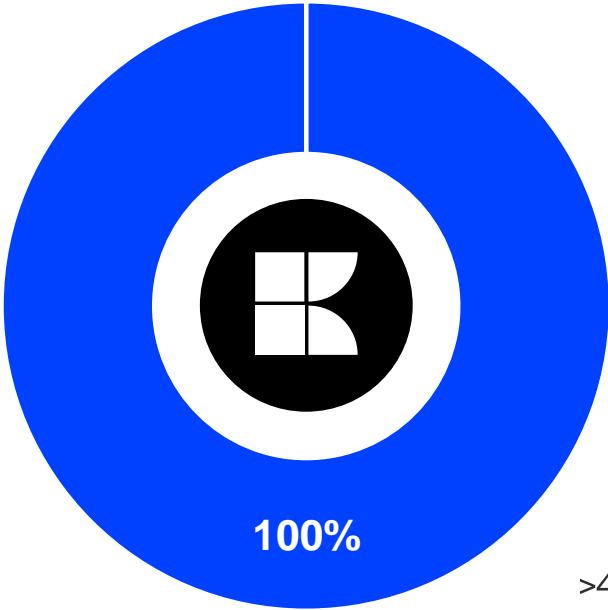
Adjusted Operating margin

Firmly on track to becoming a +€1bn revenue business

Evolving the business to meet client needs

Track record of successfully transforming the business to add shareholder value

2013 Revenue Mix

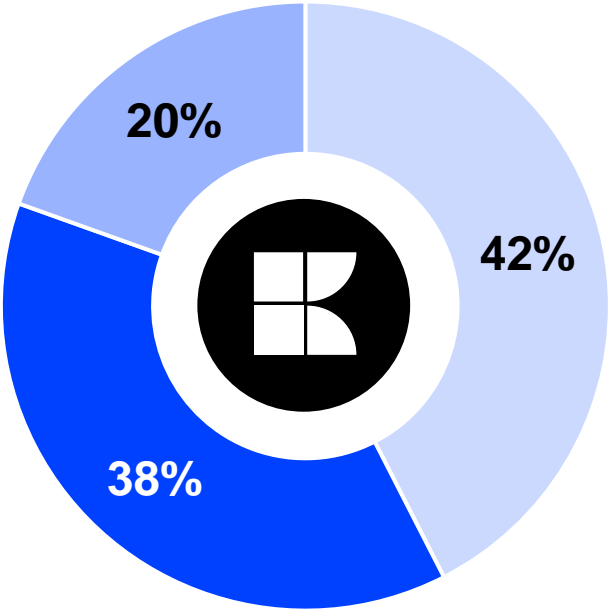


■ Create ■ Globalize ■ Engage



Transformed from 100% localization business to well balanced portfolio with >40% exposure to high-end Create services

H1 2023 Revenue Mix



■ Create ■ Globalize ■ Engage

Summary

Expect to further grow our platform and cement our position as the partner of choice for creative and technology-enabled solutions to a global client base

01

A good H1, in line with expectations

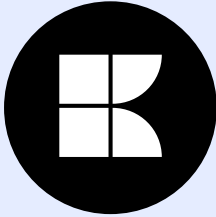
02

Continuing to deliver against our strategy, build our platform, and execute on healthy M&A pipeline

03

Well positioned to drive sustainable growth and potential acceleration of external service provision over the medium-term

Imagining More for the world's largest IPs



Questions?

05

Appendix

Create

Production focused services – combining Game Development and Art Services and representing over 4,000 people across 4 continents

	H1 23 €m	H1 22 €m	% change
Revenue	162.9	124.3	31.1%
Organic Revenue growth %	22.1%	23.3%	(1.2%)
Adjusted EBITDA	41.7	32.4	28.7%
Adjusted EBITDA margin %	25.6%	26.1%	(0.5%)

- Create performed strongly during the first half, with total revenues up by 31.1% to €162.9m
- Organic Revenue grew by 22.1%
- Performance was driven by growth in a number of regions and spread across both Art and Game Development
- Sperasoft completed its transition into four new operating hubs in Eastern Europe and began to take on new work
- Adjusted EBITDA grew 28.7% to €41.7m in H1 2023 (H1 2022: €32.4m)
 - Adjusted EBITDA margins slightly lower at 25.6% than previous period
- Extremely well positioned to capitalise on the strong demand for our high-end services and believe Gen AI will enable the production of more and higher quality content over time when the current barriers to adoption are overcome

Globalize

Post-production services – combining Audio, Testing and Localization with ~5,000 people across 5 continents

	H1 23 €m	H1 22 €m	% change
Revenue	145.7	141.5	3.0%
Organic Revenue growth %	4.7%	25.7%	(21.0%)
Adjusted EBITDA	27.7	29.6	(6.4%)
Adjusted EBITDA margin %	19.0%	20.9%	(1.9%)

- Globalize performed robustly in H1 2023 with total revenues up by 3.0% to €145.7m
- Organic Revenue grew by 4.7%
- Current industry backdrop, has impacted performance as the service line works across a large number of clients and titles
 - Functional testing continued to deliver robust results, with good growth in lower cost locations, but Localization and Localization QA experienced a tougher period
- Building out our technology offering to augment the service we offer, increasingly differentiated in the market
- Adjusted EBITDA of €27.7m was 6.4% lower than H1 2022
 - Adjusted EBITDA margins of 19.0% slightly lower than H1 2022 (20.9%)
- Well placed to benefit when the content cycle turns, and as publishers increasingly move from fixed to variable costs for their testing operations over time

Engage

Launch services – combines Marketing and Player Engagement services with ~2,500 people across 3 continents

	H1 23 €m	H1 22 €m	% change
Revenue	74.9	55.3	35.4%
Organic Revenue growth %	-	9.8%	(9.8%)
Adjusted EBITDA	7.9	8.1	(2.5%)
Adjusted EBITDA margin %	10.5%	14.6%	(4.1%)

- Engage saw good overall growth during the year, with revenues up by 35.4% to €74.9m, driven by acquisitions
- Organic Revenue was flat
- Player engagement was impacted by the slowdown in the mobile market meaning clients reduced size of teams supporting games
- Marketing experienced a tougher period, as the macro-economic environment meant that publishers looked to reduce activity, and we saw a number of late notice delays of projects
- Brought two high quality studios into the Engage, with Digital Media Management and 47 Communications enhancing our social media and PR offering respectively
- Adjusted EBITDA fell 2.5% to €7.9m in H1 2023 (H1 2022: €8.1m)
 - Adjusted EBITDA margin of 10.5% behind H1 2022 of 14.6%
- Continue to scale Engage by building out its full-service marketing offering and by creating a holistic technology-enabled player engagement offer

Our Responsible Business priorities



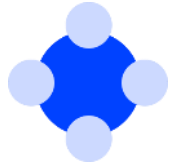
People

Our largest and most valuable asset



Planet

Minimising our impact on the planet



Community

Making a positive impact



Client

At the heart of everything



Governance

Setting the highest standards of behaviour, honesty and integrity underpins everything we do

- MSCI increased rating from A to AA, the joint highest rating in our category
- Made solid progress against our main priorities, including:
 - Holding our third Women’s Summit in Asia
 - Expanded the ambassador programme with Women in Games.
 - Continued to roll-out our Leadership Principles, which are designed to support the One Keywords culture across the group
 - Stepped up employee engagement ranging from group wide townhalls to small bespoke sessions with the CEO
 - Celebrated 25 years of Keywords by planting 25,000 trees across the world
 - Continued to win a range of Best Company to work for awards in a number of locations.

Servicing entire content development lifecycle

We Create

Game Development

Includes full & co-development, porting & remastering, tool development and consulting services

Art Services

Creation of video game graphical art, including concept, 2D and 3D asset production & animation

We Globalize

Audio Services

Multi-language voiceover recording, original language voice production, music management, sound effects

Functional Testing

Quality assurance, testing for defects, compliance with hardware/platform specifications, as well as test automation tools and services

Localization

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

Localization Testing

Testing for out of context translations, truncations, overlaps, spelling, grammar, geopolitical and cultural sensitivities and compliance requirements

We Engage

Player Support

365/24/7, multilingual support delivered in game, on digital community and social platforms and through proprietary tech platform, Helpshift

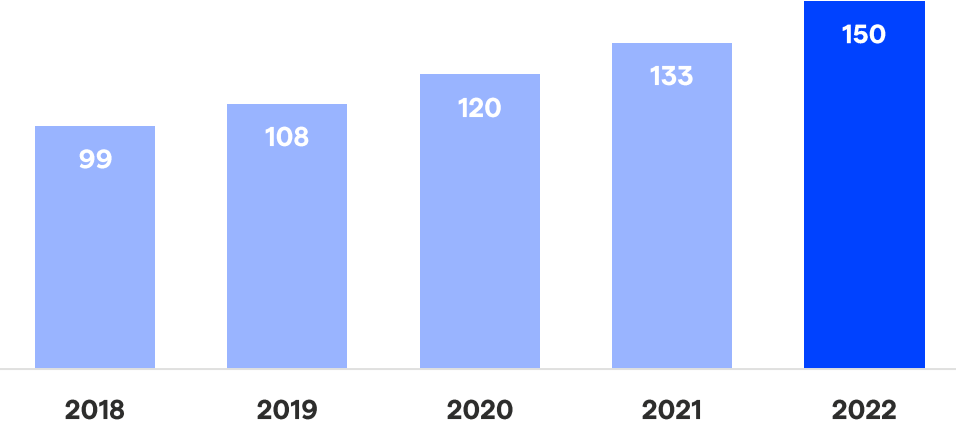
Marketing Services

Creation of game trailers, marketing art and materials, PR and full brand campaign strategies

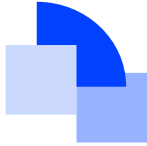
Long-standing relationships with the leading players in the market



No. of clients using 3 or more services



We work with 24 of the top 25 games companies by revenue and 10 of the top 10 mobile games publishers by revenue*



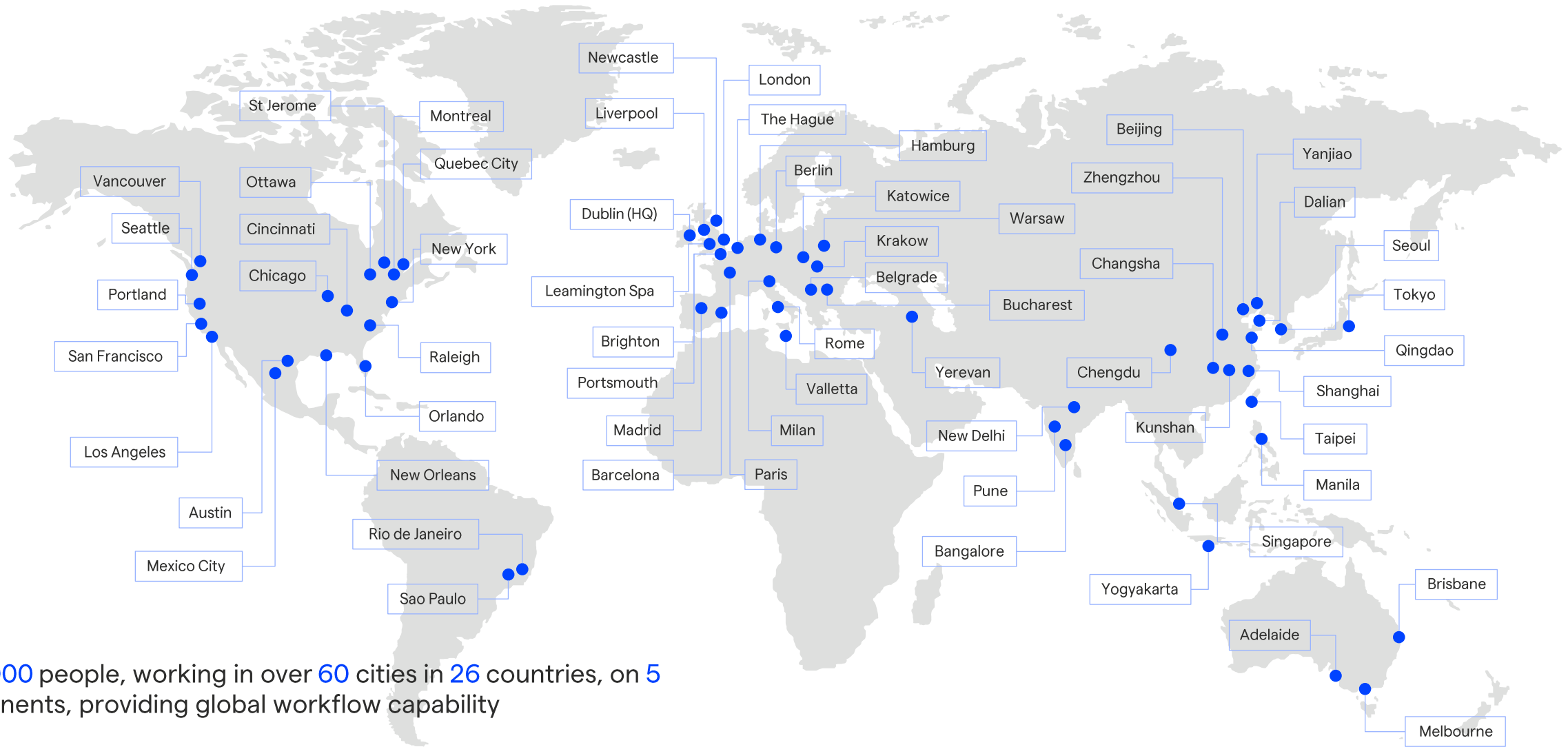
7
the average number of services taken by our Top 10 clients



21
of Top 25 clients take 5 of more services

* Newzoo, Top 25 public companies by game revenues in Q2 2022 and App Annie, Top publishers of 2022

Our global footprint



+12,000 people, working in over 60 cities in 26 countries, on 5 continents, providing global workflow capability