

Keywords Studios

Investing in higher value-added services

Keywords has taken a step into the games analytics market with the acquisition of Yokozuna Data (YD) for \$1.5m. This follows the recent engineering acquisition of Snowed In (for C\$4.5m) and the establishment of Keywords Ventures. We do not expect these developments to have a material effect on our forecasts in the near term, but they do highlight the company's investment in building higher value-added, IP-based business lines. Given Keyword's strong coverage of the gaming supply chain, we believe the business is well placed to gain leverage from these investments.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (p)	P/E (x)	Yield (%)
12/16	96.6	14.9	20.3	1.3	100.9	0.07
12/17	151.4	23.0	29.9	1.5	68.3	0.08
12/18e	252.3	37.3	47.7	1.6	42.9	0.09
12/19e	283.3	42.5	52.8	1.8	38.7	0.10

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

YD adds analytics capability

Keywords has made its long-mooted entry into games analytics with the acquisition of YD. Over the past three years YD has developed a range of self-learning, predictive analytic models drawing on AI and machine-learning technologies to improve the monetisation and the user experience of games. It does this through analysing large quantities of data and delivering real-time predictions to help developers reduce player attrition, maximise conversion, increase average spend and enhance the overall gaming experience. The business is pre-revenue but on the cusp of commercial roll-out. Keywords is paying \$1.5m cash to buy the business from Silicon Studio Corp, a Japanese games and middleware developer, which will collaborate with Keywords for commercialisation in the Japanese market and retain rights to deploy the technology outside of the games industry.

Investing into higher value-added services

While small, along with the recent establishment of Keywords Ventures this deal highlights Keyword's initiative to invest in higher value-added, IP-based businesses. The company has demonstrated its ability to leverage its platform to accelerate the growth of acquired companies and we believe this leverage should be equally strong for these earlier-stage businesses, although the commercialisation process is likely to take longer.

Valuation: Investing for the longer term

We do not expect these developments to have a material impact on our estimates and we leave them unchanged. The 38.7x FY19e P/E clearly prices in continued strong progress, but acquisitions and organic upside can bring this down substantially. Over the past five years, Keywords has generated revenue and EPS CAGR of 77% and 53% respectively. We believe that sustained execution should continue to deliver shareholder returns.

Acquisition and round up

Software & comp services

24 July 2018

Price 1,808p

Market cap £1,139m

£/€1.12

Net cash (£m) at end FY17 11.1

Shares in issue 63.0m

Free float 87%

Code KWS

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (2.3) 4.5 123.5

Rel (local) (2.8) 0.5 116.6

52-week high/low 1,878p 800p

Business description

Keywords Studios is now the largest and most diverse supplier of outsourced services to the games industry. Through regular acquisitions, the company is building its scale, geographic footprint and delivery capability. Its ambition is to become the 'go-to' supplier across the industry.

Next events

Interim trading update Early August

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**Keywords Studios is a
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Exhibit 1: Financial summary

	€'000s	2016	2017	2018e	2019e
31-December		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		96,585	151,430	252,254	283,276
Cost of Sales		(59,907)	(96,345)	(161,749)	(181,812)
Gross Profit (inc multimedia tax credits)		36,678	55,085	90,505	101,464
EBITDA		16,893	26,645	43,249	49,134
Operating Profit (before amort. and except.)		15,090	23,915	38,389	43,676
Intangible Amortisation		(1,629)	(3,038)	(4,000)	(4,400)
Exceptionals		(1,316)	(3,016)	(2,784)	0
Other		(686)	(1,426)	(1,854)	(2,410)
Operating Profit		11,459	16,435	29,751	36,866
Net Interest		(287)	(872)	(1,047)	(1,172)
FOREX		(1,737)	(3,569)	0	0
Profit Before Tax (norm)		14,864	23,043	37,342	42,504
Profit Before Tax (FRS 3)		9,435	11,994	28,704	35,694
Tax		(3,223)	(4,731)	(7,394)	(8,076)
Profit After Tax (norm)		11,641	18,312	29,948	34,428
Profit After Tax (FRS 3)		6,212	7,263	21,310	27,618
Average Number of Shares Outstanding (m)		55.9	58.7	62.4	63.9
EPS		20.9	31.2	48.0	53.9
EPS - normalised (c)		20.3	29.9	47.7	52.8
EPS - (IFRS) (c)		11.2	12.4	34.2	43.2
Dividend per share (p)		1.33	1.46	1.61	1.77
Gross Margin (%)		38.0%	36.4%	35.9%	35.8%
EBITDA Margin (%)		17.5%	17.6%	17.1%	17.3%
Operating Margin (before GW and except.) (%)		15.6%	15.8%	15.2%	15.4%
BALANCE SHEET					
Fixed Assets		61,873	143,872	153,084	153,047
Intangible Assets		55,495	132,555	140,061	139,119
Tangible Assets		5,498	10,111	11,817	12,722
Investments		880	1,206	1,206	1,206
Current Assets		38,677	80,182	96,823	120,231
Stocks		0	0	0	0
Debtors		13,879	27,473	36,053	39,659
Cash		17,020	30,374	38,435	58,237
Other		7,778	22,335	22,335	22,335
Current Liabilities		(27,830)	(52,503)	(47,466)	(43,515)
Creditors		(19,805)	(33,560)	(28,523)	(24,572)
Short term borrowings		(8,025)	(18,943)	(18,943)	(18,943)
Long Term Liabilities		(6,016)	(10,420)	(10,365)	(10,365)
Long term borrowings		(345)	(337)	(337)	(337)
Other long term liabilities		(5,671)	(10,083)	(10,028)	(10,028)
Net Assets		66,704	161,131	192,076	219,398
CASH FLOW					
Operating Cash Flow		17,168	18,373	36,434	40,390
Net Interest		(58)	(253)	(1,047)	(1,172)
Tax		(2,129)	(4,731)	(7,394)	(8,076)
Capex		(2,306)	(3,803)	(6,121)	(6,364)
Acquisitions/disposals		(21,104)	(87,074)	(12,784)	(3,842)
Financing		643	82,936	0	0
Dividends		(825)	(867)	(1,026)	(1,134)
Net Cash Flow		(8,611)	4,581	8,062	19,802
Opening net debt/(cash)		(17,284)	(8,650)	(11,094)	(19,155)
Forex gain on cash		1	(1)	0	0
Other		(24)	(2,136)	(1)	0
Closing net debt/(cash)		(8,650)	(11,094)	(19,155)	(38,957)

Source: Company data, Edison Investment Research

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