

Keywords Studios

Acquisition

Unlocking marketing budgets

Keywords (KWS) has acquired Fire Without Smoke (FWS) for up to £5.2m. FWS is a creative and marketing services provider to the video games industry. This is an incremental opportunity for KWS to work with games producers on marketing projects (eg trailers). At 7.4x trailing adjusted PBT, this was at the lower end of KWS's recent acquisition range, and further upside via cross-selling synergies with pre-existing studios is likely.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (p)	P/E (x)	Yield (%)
12/16	96.6	14.9	20.3	1.3	96.3	0.08
12/17	151.4	23.0	29.9	1.5	65.4	0.09
12/18e	248.5	36.7	46.8	1.6	41.8	0.09
12/19e	276.0	40.9	50.9	1.8	38.4	0.11

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

The acquisition expands KWS's marketing capabilities, particularly with regard to the creation of trailers and other marketing collateral. Tapping into marketing department expenditure contrasts significantly with the bulk of the company's pre-existing revenues, which are typically funded out of games producers' development budgets. The recent move towards [co-development](#) (eg the Sperasoft acquisition) could naturally lead to an improved pipeline of opportunities for FWS as a result of the strengthening relationships with games publishers.

Founded in 2013, FWS boasts clients including Sony, Riot Games and Ubisoft, which are serviced by c 40 staff from London and Montreal, who will remain with the business post acquisition. We would expect the growing footprint in the UK to lead to further cost synergies in the medium term (eg shared office space).

The £5.2m consideration comprises £3.85m in cash (of which £0.5m is deferred and contingent) and the issue of 77k new KWS shares, which vest on the first anniversary of the acquisition and are subject to lock-up provisions for a further 12 months. FWS is expected to have revenues of £2.8m and adjusted PBT of £0.7m for the year ending 31 May 2018. This equates to trailing multiples of c 1.9x sales and 7.4x PBT, which is at the lower end of KWS's recent acquisition multiple range (FY16/17 average of 7-10x), and is also substantially below its own adjusted PBT multiple (FY18e: 33x).

Software & comp services

31 May 2018

Price 1,700p

Market cap £1,073m

£/€1.15

Net cash (€m) at end FY17 11.1

Shares in issue 63.14

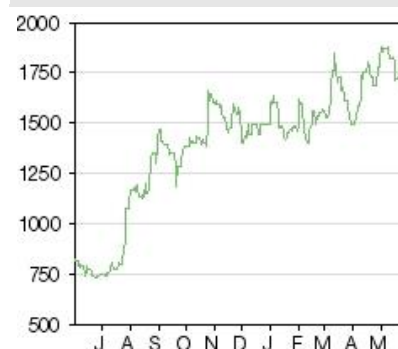
Free float 83%

Code KWS

Primary exchange AIM

Secondary exchange N/A

Share price performance



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.

Analyst

Dan Ridsdale +44 (0)20 3077 5729

Alasdair Young +44 (0)20 3077 5758

tech@edisongroup.com

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