Keywords Studios

Interim results

Strengthening position in an attractive market

Software & comp services

Keywords has built an enviable position of strength, servicing a global games market expected to sustain 10% growth. Pockets of volatility, possibly related to the dramatic success of Fortnite create some near-term uncertainty, but we believe company's strength of model and customer diversity will continue to enable the group to outgrow the games market in the medium to long term. At 36x FY19e earnings, strong growth is priced in, but continued execution should drive positive shareholder returns.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (p)	P/E (x)	Yield (%)
12/16	96.6	14.9	20.3	1.3	105.7	0.07
12/17	151.4	23.0	29.9	1.5	71.6	0.08
12/18e	254.6	39.2	47.1	1.6	45.5	0.08
12/19e	300.2	46.8	57.7	1.8	37.2	0.09

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

Robust fundamentals, some near term uncertainty

Interim results were as flagged at the trading update, with revenues growing by 72% to €110m and PBT by 67% to €16m. Like-for-like revenue growth was 8.6% (constant currency) down from 17.2% last year, with pockets of volatility (possibly relating to the dramatic success of Fortnite) a potential dampening factor. Trading has been strong thus far in H2, but we implement a precautionary nudge down to our FY18 revenues to reflect this. Underlying earnings estimates are little changed, however, and we believe the company's model strength and customer diversity will continue to allow it to outgrow the games market in the medium to long term.

Good progress with acquisitions

The integration and rationalisation of VMC has been executed ahead of schedule and H2 should see the margin benefit. In Gobo, we believe Keywords acquired a good asset, growing revenues at a strong double-digit rate at a good price. A strengthened cross-selling platform and greater scale are now enabling the company to invest in earlier-stage, IP-based business (eg Yokozuna Data or through the new Ventures operation) or acquire teams (Sound Lab). Despite this, we see no significant inflation in the average multiples paid for deals. With €75m of the €105m facility undrawn and a robustly cash-generative model, we estimate that the group has c €95m of firepower for acquisitions over the remainder of FY18 and FY19, and believe organic growth and M&A could potentially expand EPS to an 85c run rate exiting FY19, 80% above our current FY18 forecast.

Valuation: Sustained execution should drive returns

Keywords' FY19e P/E of 37x is at a premium to peers. However, the business has established a strong leadership position in a highly attractive end-market, with a demonstrable model for generating strong EPS growth. Estimated CAGR sales, PBT and EPS growth figures for FY15–18 are 45%, 49% and 38%, respectively. Continued progress with organic growth and acquisitions could bring the P/E down to the mid-20s level exiting FY19 and with additional capital the company should continue on a similar trajectory after this. Continued execution should continue to drive positive returns for investors.

26 September 2018

Price	**1,930.0p**
Market cap	**£1,230m**
	€/£0.89; €/US$1.17
Net cash (€m) at end June 2018	0.1
Shares in issue	63.7m
Free float	87%
Code	KWS
Primary exchange	AIM
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	(3.5)	11.1	50.2
Rel (local)	(2.6)	11.4	45.7
52-week high/low		2065.0p	1330.0p

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

Trading update	December 2018

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Edison profile page

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Strengthening position in an attractive market

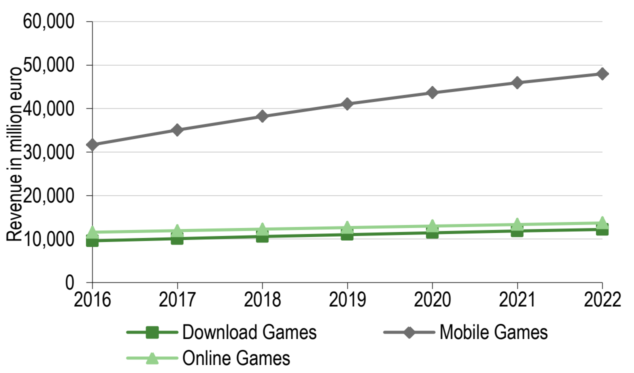
Keywords has established a strong leadership in a games industry where growth has accelerated to a double-digit rate. Driven by increased outsourcing, the market for services providers in this industry should grow more rapidly than this and Keywords has the potential to grow more rapidly again, driven by market share gains and cross-selling. The group's diversity across customers, geographies, games formats and service lines means it has a demonstrable ability to ride out the inevitable volatility, which regularly occurs in individual elements of this high growth, dynamic market.

The world's favourite pastime

To set the overall context, the games industry continues to go from strength to strength. Market analyst Newzoo recently upgraded its 2017–21 growth forecast for the games industry to 10.3% from 7.4% previously, estimating that 2.3 billion gamers across the globe will spend $137.9bn on games in 2018. It estimates that if all playing and viewing hours are added up, gaming is the world's favourite pastime.

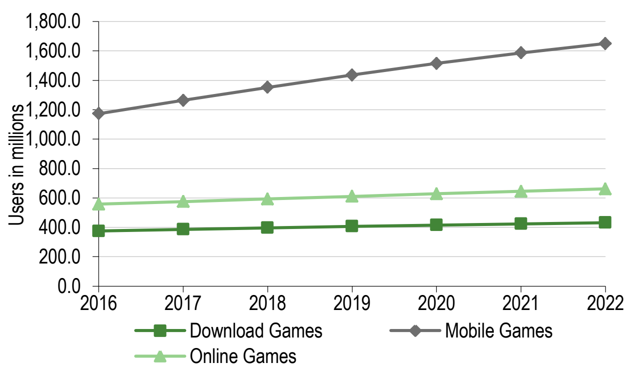
The pace of change and innovation far exceeds any other consumer media. The mobile gaming market has grown in 10 years from a nascent, pre-smartphone industry to one worth $70bn. The eSports market has growth from below $100m in 2011 to an estimated $700m in 2017, and is expected to reach more than $2bn by 2023.

Exhibit 1: Global video game revenues



Source: Statista, June 2018. Note: €/US$0.90554

Exhibit 2: Global video game users



Source: Statista, June 2018

Trend to outsourcing an additional driver for service providers

Keywords estimates that the total market for services in this industry is worth c $6bn, of which around 50% is currently outsourced. Over time management believes that the industry may trend towards the TV or film models, where c 90% of production in outsourced. It is difficult to put a timescale on this trend, but if the overall industry sustains its 10% growth rate, we believe a mid-teens growth rate should be sustainable for the outsourced services market. (This would imply that 60% of all work is outsourced by 2021.) The accelerating rate of innovation and improving production values should also be supportive trends, in that they increase the direct cost of carrying out work in house in an inherently unpredictable industry. Management also comments that outsourcing decisions are increasingly being made at a strategic level as developers move away from vertically integrated structures, rather than in response to a capacity crunch. The company has not yet succeeded in converting its first strategic outsourcing deal (whereby a developer essentially outsources its development team to Keywords), but industry dynamics appear increasingly supportive and deal sizes could be significant ($10m+).

Some near-term uncertainty – the Fortnite effect?

While the pace of development and innovation in the industry brings inevitable patches of volatility, Keywords has a demonstrable ability to ride these transitions relatively well, benefiting from the strength of its model and revenue diversity.

We are going through one of these patches now, with the phenomenal rise of *Fortnite Battle Royale*, which has attracted 125 million players within one year of release. This success has likely expanded the overall market by bringing in new players to gaming and is estimated to have generated several hundred million dollars of revenues for Epic Games, its developer. Total sales of the game are estimated to be over $1bn (Superdata). Equally, some of Epic's competitors will have inevitably felt the squeeze and we are seeing some signs of increased volatility in the market. Whilst not necessarily attributable to *Fortnite*'s success; Telltale games, developer of *The Walking Dead* abruptly ceased operations in late September, having reportedly failed to secure funding. Furthermore, Capcom, best known for the *Dead Rising* franchise has closed its Vancouver operation and is refocusing on developing games for Japan.

We understand that Keywords had limited revenue exposure to *Fortnite* in H1, meaning that the game's success was a moderate headwind as competitors scale back development activity and reassess their options. The group has since won more *Fortnite* business, which will support trading in H2, but the recent closures discussed above do add a level of uncertainty to the near-term outlook. It is also worth highlighting that the games release schedule is particularly congested for Q418, resulting in speculation that some high profile launches may be pushed back.

Shift to a subscription revenue model

The games industry's progression towards a recurring revenue model is expected to accelerate. Downloadable extensions and content have become important revenue generators for games publishers for some time. We are now seeing a more concerted shift towards a subscription pricing model, which some observers anticipate could have as fundamental an impact on the games industry as it did on the music industry.

Microsoft has taken a step in this direction by including the latest releases in the Xbox Game Pass and acquiring a number of development studios for exclusive rights on its latest titles, replicating Netflix's strategy in video.

Games streaming becoming a reality: Opportunities for Keywords

Established players like Microsoft, NVidia (with GRID), and EA and start-ups (eg Parsec, GameStream) are developing cloud gaming/streaming solutions, which will allow games to be played over the internet with no or minimal client-side software. Improvements to technology, which reduce latency issues, and adoption of higher bandwidth, should support the roll-out of increasingly sophisticated games via this delivery mechanism.

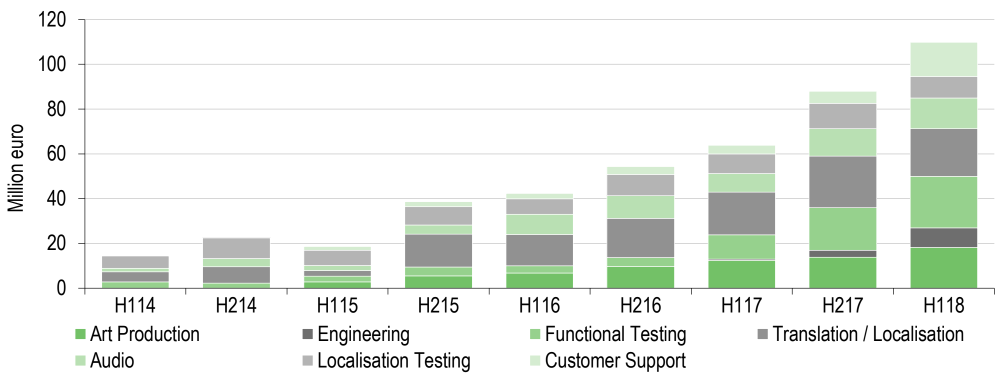
We see this as a positive development for Keywords. The company is already is already benefiting from publishers' increasing reliance on downloadable extensions and content, where outsourced suppliers are often used. Keywords is already working on interactive streaming content and porting games to upcoming streaming platforms, and the work involved in repurposing content for this new medium could provide an attractive new revenue stream for some time.

Acquisitions performing well

Keywords has made 21 acquisitions since the start of 2017, deploying c £120m of capital and close to 4m shares in doing so. This M&A activity has materially expanded the company's delivery, with the expansion of the group's engineering and customer support from start-up positions to established service lines the most notable development.

In customer support, the priority with VMC, the company's largest acquisition to-date ($66m in October 2017) has been on stabilising revenues and releasing cost synergies through both headcount reduction and office consolidation. Implementation of the integration and cost reduction programme has been more rapid than initially expected, and it is now largely complete. (Initial guidance was £2.5m of cost synergies over two years.) The focus for the operation is now on resetting the business on a growth trajectory, supported by cross-selling across the wider platform, although our initial forecast of achieving 5% y-o-y growth for VMC in 2018 may now look a touch optimistic.

Exhibit 3: Revenue build by service line



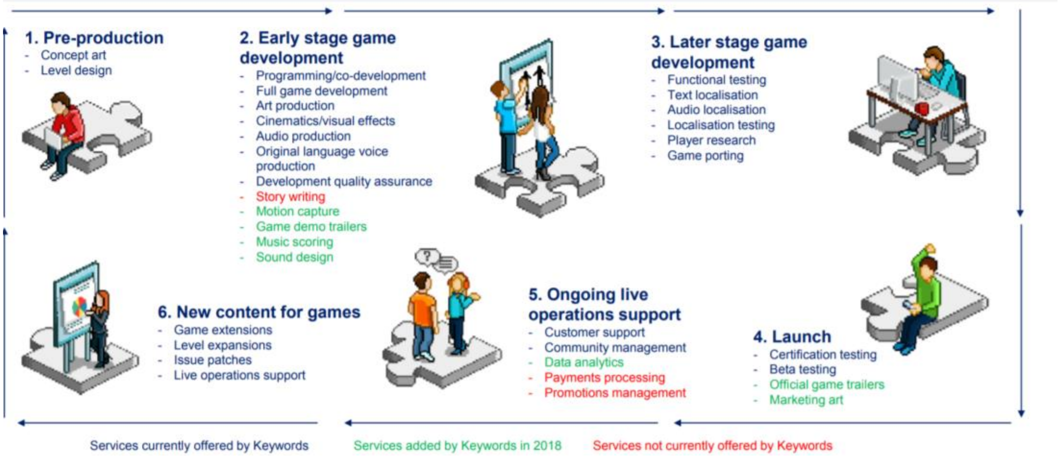
Source: Company data, Edison Investment Research

In engineering, the M&A programme has grown the service line to 8% of revenue in H118 from a standing start in May 2017, with the acquisition of GameSim, followed by d3t and Sperasoft, in 2017. The run rate contribution will likely rise to the low-teens level with the acquisitions of Yokozuna Data, Snowed In, Studio Gobo and Electric Square since period end. We see a strong engineering capability as a key component in securing large, multidisciplinary contracts.

Announced with the results, the company acquired Trailer Farm (for £1m with a further £1m contingent on profit expansion), a Brighton, UK-based production company focused on creating trailers for the marketing and support of video games. This acquisition will complement the company's recent Fire Without Smoke marketing services business.

The M&A programme means that Keywords now has a presence in most of the main service disciplines within the gaming supply chain, although with less than 5% of the total market, there remains plenty of scope for further consolidation. The market remains highly fragmented and Keywords is now the largest player by some margin. Management has highlighted art as a particular area of potential activity. It has focused on organic development of this service line in recent times following an acquisition spree in 2015/16 to establish the line, but now looks ready to resume acquisition activity.

Exhibit 4: Keywords service lines – across the development cycle



Source: Keywords Studios

Platform leverage key to team acquisitions and ventures

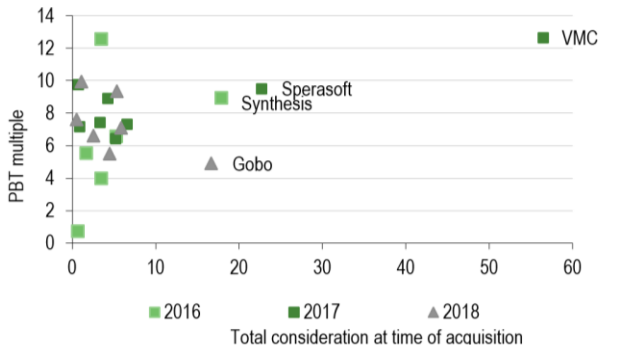
While historical acquisition activity has focused on acquiring relatively small but established businesses, the company's strong platform and greater scale are now supporting smaller transactions, whereby the company brings in teams or technology with little or no ongoing revenues, instead relying on the company's sales platform to drive revenues and a return on investment.

- **Sound Lab:** the recruitment of this high-end audio team recruited from Technicolor was announced with the results. The team is led by a renowned sound designer, Scott Gershin and has provided audio production services to a number of high-profile games titles, as well as movies and box sets.
- **Yokozuna Data:** in July the company made its long-mooted entry into games analytics with the acquisition of Yokozuna Data for $1.5m. Yokozuna 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. While pre-revenue, management believes there is the opportunity to generate scalable, operationally geared growth through cross-selling the solution into the group's customer base.
- **Ventures:** the company established Keywords Ventures in June to make modest investments in innovative companies or technologies that will benefit clients. The first investment, of up to €300, was in AppSecTest, creator of AS Analyser, a cloud-based testing solution for mobile apps, including games.

Larger, value acquisitions help absorb smaller technology ones

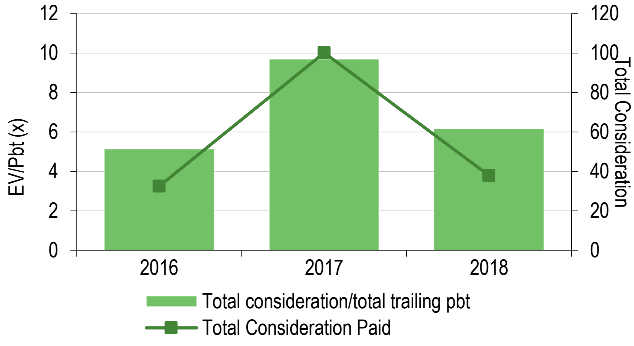
Keywords' ability to successfully acquire good businesses at attractive multiples and then generate sales or (less often) cost synergies is clearly key to the investment case. We see no evidence that this ability is waning. While the company has paid slightly higher multiples for some smaller businesses in recent times, this is averaged down by the lower multiples paid for larger ones. We were particularly encouraged by the acquisition of Gobo in August, where at a maximum 7.6x historical EBITDA, the group appears to be buying a good asset at a very reasonable multiple. While the trailing PBT multiple for VMC (the company's largest acquisition to date) was higher than average (11.3x), this was a turnaround situation and cost synergies will bring this in line with the group's 8–9x average within 12 months.

Exhibit 5: Acquisition multiples (EV/PBT) versus acquisition size



Source: Edison Investment Research. Note: Considerations include deferred consideration and share considerations converted at the time of acquisition.

Exhibit 6: Blended EV/PBT multiple of acquisitions by year



Source: Edison Investment Research. Note: Considerations include deferred consideration and share considerations converted at the time of acquisition.

Financial review: A year of two halves

Some uncertainty but pick up expected in H2

Interim results were as flagged at the trading update, with revenues growing by 72% to €110m and adjusted PBT growing by 67% to €16m. Like-for-like revenue growth was 8.6% on a constant currency basis, but the US$ weakness suppressed this to 2%. The drop in like-for-like growth rate from 17.2% for H117 can be attributed to a number of factors.

- The company had limited exposure to Fortnite in H1, whereas some competitors appear to have felt the pinch. We understand that the company is working on Fortnite projects in H2.
- The H118 figures included VMC, where the focus has been on integration and cost savings, with a return to growth anticipated in the near future. Excluding VMC, the like-for-like constant currency growth rate was 10%.
- The peak trading period for a number of the ancillary service lines such as audio and localisation is in the summer. This year a more significant proportion of revenues fell into H2 than H1 versus previous years.
- Trading in the art service line started slowly, but has since picked up markedly and current trading is described as strong.

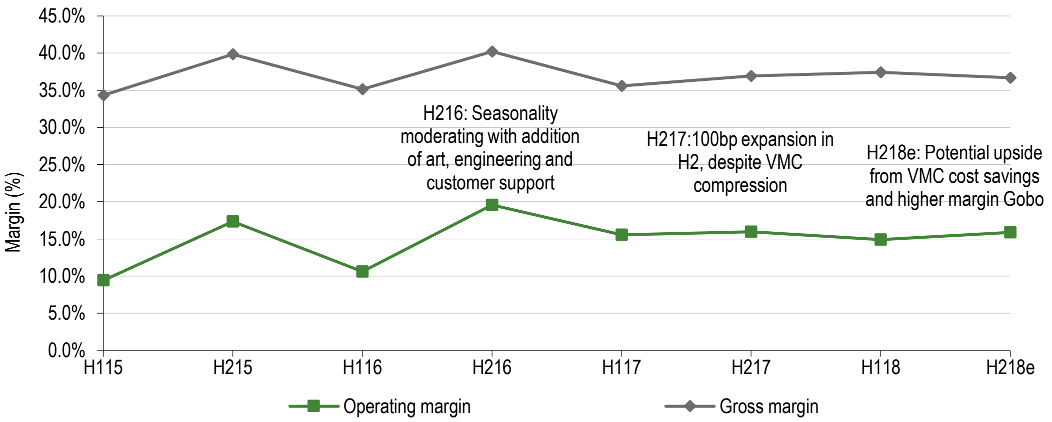
There remains some uncertainty in the market, particularly with the recent high profile closures of Capcom Vancouver and Telltale Games. While not specific to Keywords, we nudge down our FY revenue estimate by €3m to factor in the potential for headwinds faced by the sector in the short term. Nevertheless, we still expect a pick-up in like-for-like growth in H2. Keywords will have already traded through the peak season for the seasonal ancillary lines and will have good visibility on the projects to be delivered in the final quarter of the year. Returning VMC to growth will clearly help, while Studio Gobo (acquired in August and therefore not included in the H1 l-f-l figure) is also said to be trading strongly. The c 5% strengthening of the dollar versus the euro will also help headline numbers if rates remain similar from here (47% of FY17 revenues were US$ denominated, which will increase with the full-year contribution from VMC and Sperasoft).

Margin: Scope for upside

Operating margins of 14.9% dropped from 15.6% in H2 last year, reflecting the muted sales performance and lower margins of VMC. A higher depreciation charge was also a factor, up by €1m to €2.47m, as a result of the VMC acquisition and facilities investment.

Our full year estimate implies a 15.9% operating margin in H2. Historically, H2 operating margins have been significantly higher in the seasonally stronger period (see Exhibit 7 and this year, H2 should benefit from the full period of cost savings at VMC and the contribution from Gobo (30% EBITDA margins pre-acquisition). This contrasts with an H217 in which operating margins absorbed VMC and still expanded by 40bp sequentially in H2.

Exhibit 7: Margin seasonality



Source: Company accounts, Edison Investment Research

Balance sheet/cash flow

Net cash stood at €0.1m at 30 June (€32.2m cash, €31.1m debt), down from €11.1m at year end. Cash outflows from acquisitions were €10.6m, while net cash inflow from operations was €4.0m (H117: £2.3m). The interim period is typically the trough for cash, with cash generation improving markedly in H2. This year we understand that a number of outstanding receivables came in shortly after period end, while Keywords should also benefit from the collection of accrued multimedia tax credits from previous years relating to the VMC acquisition (€14.7m on the balance sheet). With a revolving credit facility of €105 (at 1.5% above Euribor), Keywords retains plenty of firepower for future acquisitions.

Estimates

We implement a precautionary £3.2m nudge down to our FY18 revenues, reflecting the muted revenue growth in H1 and recent closures. This is offset slightly by the small Trailer Farm acquisition with trailing revenues of £1.0m (€0.9m) and adjusted EBITDA of £165k (€150k). Our underlying earnings estimates are not significantly changed, offset by higher H2 margins. (VMC rationalisation and Gobo).

Looking longer term, if the games industry continues growing at a 10%+ rate, as forecast, we see no reason why Keywords should not be able to sustain a low to mid-teens organic growth rate, boosted by the trend towards outsourcing and market share gains/cross-selling.

Exhibit 8: Estimate changes

€000s	2017	2018e			2019e		
		Old	New	Change (%)	Old	New	Change (%)
Revenue	151,430	257,610	254,570	(1)	299,177	300,212	0
Cost of Sales	(96,345)	(165,311)	(160,361)	(3)	(192,355)	(190,439)	(1)
Gross Profit	55,085	92,300	94,208	2	106,823	109,772	3
EBITDA	26,645	44,210	44,539	1	53,545	53,911	1
Operating Profit (before amort. and except.)	23,915	39,246	39,339	0	47,780	47,778	0
Profit Before Tax (norm)	23,043	37,849	39,196	4	45,509	46,843	3
Profit After Tax (norm)	18,312	30,355	31,435	4	36,862	37,943	3
EPS - normalised fully diluted (c)	29.9	49	47.1	(3)	56.0	57.7	3
EPS - (IFRS) (c)	12.4	33	33.0	(0)	44.9	46.6	4
Dividend per share (pence)	1.5	1.61	1.61	0	1.8	1.8	0
Closing net debt/(cash)	(11,094)	(4,840)	(3,742)	(23)	(14,823)	(9,774)	(34)

Source: Company data, Edison Investment Research

Exhibit 9: P&L model

	FY15	FY16	FY17	FY18e	FY19e
Y/e revenue run rate					
Annual run rate of in-year acquisitions	12.0	39.4	92.3	31.1	0.0
Group YE revenue run rate	62.6	111.7	224.5	269.7	300.2
Reported Revenues					
Contribution from acquisitions in year	7.3	24.2	19.6	15.9	0.0
Revenues excl in year acquisitions	50.7	72.4	131.8	238.6	0.0
Reported revenues	58.0	96.6	151.4	254.6	300.2
Annual run rate of in year acquisitions	12.0	39.4	92.3	31.1	0.0
Group YE revenue run rate	62.6	111.7	224.5	269.7	300.2
Gross margin	37.6%	38.0%	36.4%	37.0%	36.6%
Total operating expenses	(13.6)	(21.6)	(31.2)	(54.9)	(62.0)
Operating expenses as a % of sales	23.5%	22.4%	20.6%	21.6%	20.7%
Adj operating income	8.2	15.1	23.9	39.3	47.8
Operating margin	14.1%	15.6%	15.8%	15.5%	15.9%
Interest	(0.3)	(0.3)	(0.9)	(0.1)	(0.9)
PBT	8.0	14.9	23.0	39.2	46.8
Tax	(1.8)	(3.2)	(4.7)	(7.8)	(8.9)
Tax rate	-22.9%	-21.7%	-20.5%	-19.8%	-19.0%
Adj net income	6.2	11.6	18.3	31.4	37.9
Ave diluted number of shares (m)	49.0	57.7	61.2	66.8	65.8
EPS FD	12.6	20.2	29.9	47.1	57.7

Source: Company data, Edison Investment Research

Acquisitions could nearly double EPS over the next 12 months

The figures above clearly only incorporate acquisitions made so far. While it is impossible to forecast future acquisitions with any accuracy, the earnings accretion driven by future acquisitions is clearly core to Keywords' investment case.

In Exhibit 10 we examine the potential impact that further acquisition activity could make to EPS over the course of the next 12 months. We assume that the company deploys €95m of cash in acquisitions between now and the end of FY19 and that these acquisitions are two-thirds funded by cash and one-third by equity at 1,800p.

We point out that this analysis is for illustrative purposes and not a forecast. However, it does suggest that if Keywords can maintain a low double-digit organic revenue growth rate and continue making acquisitions at a similar scale to FY16/17 at a 7–10x PBT level, the group's EPS exiting FY19 could reasonably reach 85c+, 45% above our current FY19 EPS estimate. With additional capital from equity and in line with the company's acquisitive strategy, the cycle could then repeat into FY20 and beyond.

Exhibit 10: Scenario analysis – EPS run rate exiting FY19based on varying organic growth and average acquisition multiples (cents)

€ cents		Average EV/PBT (x) paid for future acquisitions in H2 18 and FY19				
		7.0	8.0	9.0	10.0	11.0
Organic growth H217 & FY18	5.0%	80.8	77.2	74.4	72.1	70.3
	10.0%	86.6	82.9	80.1	77.9	76.0
	15.0%	92.6	89.0	86.1	83.9	82.0
	20.0%	98.9	95.2	92.4	90.2	88.3
	25.0%	105.4	101.8	99.0	96.7	94.9

Source: Edison Investment Research

Valuation

Sustained execution should drive positive returns

The key attraction of Keywords' business model and investment case is the fact that the company can continue generating robust, double-digit earnings growth without deviating from its current strategy or expanding beyond its core games developer customer base.

The company's rating of 46x FY18e earnings, dropping to 37x in FY19e, is a substantial premium to peers (average c 23.4x for FY19e). We believe that a substantial premium is justified – Keywords has established a strong leadership position in an-end market with very attractive structural growth characteristics. Acquisitions should bring these multiples down substantially and there remains scope for organic upside to our estimates.

Exhibit 11: Peer valuation

Name	Current price	Quoted ccy	Market cap ($m)	EV/Sales 1FY (x)	EV/Sales 2FY (x)	EV/EBITDA 1FY (x)	EV/EBITDA 2FY (x)	P/E 1FY (x)	P/E 2FY (x)
Outsourcing									
Keywords Studios	1886.0	GBP	1,164	4.4	3.8	25.4	21.0	44.5	36.3
Hearts United Group	1,607	JPY	342	1.8	1.6			25.0	18.0
Learning Technologies Group	125	GBP	1,096	8.2	6.2	39.4	27.2	52.1	35.7
RWS Holdings	494	GBP	1,779	4.8	4.3	21.5	18.6	28.5	24.6
Poletowin Pitcrew	2,964	JPY	503	2.0	1.8			27.6	25.1
SDL	455	GBP	543	1.2	1.1	12.3	9.8	20.1	16.7
Sumo Group	156	GBP	308	6.0	4.7	21.7	16.5	31.8	24.4
Wipro	5	US$	24,068	2.6	2.4	13.5	12.4	19.9	18.3
Zoo Digital Group	150	GBP	146	4.5	3.8	44.3	36.6	103.7	70.4
Average (median)				**3.5**	**3.1**	**21.6**	**17.6**	**28.1**	**24.5**
Games Developers									
Activision Blizzard	80	US$	60,672	8.0	7.4	22.0	18.9	30.4	26.5
Bandai Namco Holdings	4,440	JPY	8,783	1.2	1.1	7.8	7.4	17.4	16.2
Electronic Arts	113	US$	34,420	5.8	5.3	16.1	14.0	24.4	21.0
Frontier Developments	1,180	GBP	602	5.4	6.6	15.5	20.7	28.4	49.0
Konami Holdings	4,235	JPY	5,415	1.9	1.8	7.2	6.6	15.9	14.7
Square Enix Holdings	4,535	JPY	4,950	1.6	1.5	9.2	7.4	20.3	16.2
Take-Two Interactive Software	131	US$	14,863	4.8	4.8	19.0	16.9	28.9	26.1
Ubisoft Entertainment	93	€	12,395	5.3	4.7	11.9	10.4	31.7	25.9
Average (median)				**5.1**	**4.8**	**13.7**	**12.2**	**26.4**	**23.4**

Source: Bloomberg, Edison Investment Research. Note: Prices as at 20 September 2018.

If we consider the scenarios portrayed in Exhibits 10 and 12, using in our opinion reasonable assumptions (similar organic growth trajectory and acquisition multiples), the company could expend its EPS to the 85c level exiting FY19, in which case the shares would be rated at a mid-20s multiple, in line with peers. With plenty of financial headroom to continue executing its current strategy, Keywords' earnings growth potential should look equally strong into 2020 and beyond.

Consequently, we would expect the company to continue to trade at a very healthy growth multiple. We believe that sustained execution should continue to drive robust returns for shareholders.

Exhibit 12: Scenario analysis – P/E (x) at 1,930p share price based on estimated EPS run rate exiting FY19 under varying organic growth and average EV/PBT acquisition multiples

€ cents		Average EV/PBT (x) paid for future acquisitions in FY18 and FY19				
		7.0	8.0	9.0	10.0	11.0
Organic growth FY18	5%	25.9	30.1	31.2	32.2	33.0
	10%	24.1	28.0	29.0	29.8	30.5
	15%	22.6	26.1	26.9	27.7	28.3
	20%	21.1	24.4	25.1	25.7	26.3
	25%	19.8	22.8	23.4	24.0	24.5

Source: Edison Investment Research

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Exhibit 13: Financial summary

€000s	2016	2017	2018e	2019e
31-December	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS				
Revenue	96,585	151,430	254,570	300,212
Cost of Sales	(59,907)	(96,345)	(160,361)	(190,439)
Gross Profit (inc multimedia tax credits)	36,678	55,085	94,208	109,772
EBITDA	16,893	26,645	44,539	53,911
Operating Profit (before amort. and except.)	15,090	23,915	39,339	47,778
Intangible Amortisation	(1,629)	(3,038)	(5,000)	(5,500)
Exceptionals	(1,316)	(3,016)	(3,400)	0
Other	(686)	(1,426)	(1,854)	(2,410)
Operating Profit	11,459	16,435	29,085	39,869
Net Interest	(287)	(872)	(143)	(935)
FOREX	(1,737)	(3,569)	0	0
Profit Before Tax (norm)	14,864	23,043	39,196	46,843
Profit Before Tax (FRS 3)	9,435	11,994	28,942	38,933
Tax	(3,223)	(4,731)	(7,761)	(8,900)
Profit After Tax (norm)	11,641	18,312	31,435	37,943
Profit After Tax (FRS 3)	6,212	7,263	21,181	30,033
Average Number of Shares Outstanding (m)	55.9	58.7	64.1	64.5
EPS	20.9	31.2	49.0	58.8
EPS - normalised (c)	20.3	29.9	47.1	57.7
EPS - (IFRS) (c)	11.2	12.4	33.0	46.6
Dividend per share (p)	1.33	1.46	1.61	1.77
Gross Margin (%)	38.0%	36.4%	37.0%	36.6%
EBITDA Margin (%)	17.5%	17.6%	17.5%	18.0%
Operating Margin (before GW and except.) (%)	15.6%	15.8%	15.5%	15.9%
BALANCE SHEET				
Fixed Assets	61,873	143,872	165,786	176,162
Intangible Assets	55,495	132,555	153,103	163,249
Tangible Assets	5,498	10,111	11,477	11,707
Investments	880	1,206	1,206	1,206
Current Assets	38,677	80,182	76,120	89,168
Stocks	0	0	0	0
Debtors	13,879	27,473	37,762	42,030
Cash	17,020	30,374	23,022	29,054
Other	7,778	22,335	15,335	18,084
Current Liabilities	(27,830)	(52,503)	(48,038)	(44,257)
Creditors	(19,805)	(33,560)	(29,095)	(25,314)
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	183,503	210,708
CASH FLOW				
Operating Cash Flow	17,168	18,373	36,895	40,761
Net Interest	(58)	(253)	(143)	(935)
Tax	(2,129)	(4,731)	(7,761)	(8,900)
Capex	(2,306)	(3,803)	(6,121)	(6,363)
Acquisitions/disposals	(21,104)	(87,074)	(28,387)	(17,384)
Financing	643	82,936	0	0
Dividends	(825)	(867)	(1,034)	(1,148)
Net Cash Flow	(8,611)	4,581	(6,551)	6,031
Opening net debt/(cash)	(17,284)	(8,650)	(11,094)	(3,742)
Forex gain on cash	1	(891)	(500)	0
Other	(24)	(1,246)	(301)	0
Closing net debt/(cash)	(8,650)	(11,094)	(3,742)	(9,774)

Source: Company accounts, Edison Investment Research

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